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REGIONAL TRANSPORTATION ADVISORY COUNCIL

Summary of the December 14, 2011 Meeting

This meeting was held in Conference Room 4 of the State Transportation Building, 10 Park Plaza, in Boston, MA.

1. Introductions – *Steve Olanoff, Chair*

Steve Olanoff, Chair (Westwood) called the meeting to order at 3:05 PM. Members and guests attending the meeting introduced themselves. (For attendance list, see page 8)

2. Chair's Report – *Steve Olanoff, Chair*

S. Olanoff announced that at the last MPO meeting held December 1, 2011, four work scopes dealing with the MBTA were approved. The topics of the studies included: Improving transit reliability to increase ridership; a study to look at strategies and tools to more finely tune responses to service interruptions on rapid transit; taking commuter rail passenger counts; and a transit delay study that would lead to the development of a model for MBTA planning.

In addition, Eric Bourassa of MAPC gave a presentation on the Route 9 Land Use Study Update. CTPS Director, Karl Quackenbush presented a proposed work scope for the purpose of conducting a Transportation Improvement Plan (TIP) Project Impacts: Before-After Evaluation. This was followed by the presentation and review of the Boston Region MPO Draft Federal Fiscal Year 2012 (FFY2012) Schedule for Certification Activities.

Chair S. Olanoff reminded Council members that MassDOT Secretary Richard Davey will be the featured speaker at the Advisory Council meeting for January 11, 2012.

The MPO sent the Advisory Council a letter which addressed the concerns the Council had to several projects in the TIP project selection process. Another letter from the MPO related to the comments the Advisory Council made regarding the Unified Planning Work Program (UPWP) for FFY2012.

3. Approval of the Meeting Minutes of November 9, 2011 – *Steve Olanoff, Chair*

A motion to adopt the November 9, 2011 meeting minutes was made and seconded. The minutes of November 9, 2011 were unanimously approved.

4. Public Policy Considerations in Financing the MBTA – *Stephanie Pollack, Associate Director, Kitty and Michael Dukakis Center for Urban and Regional Policy, Northeastern University.*

Following a brief introduction by Chair Olanoff, S. Pollack outlined the general topics to be covered. The MBTA's current financial status and knowledge about its ridership will be issues that are most relevant today.

Transportation finance is complicated in Massachusetts. One valuable reference for furthering discussion of the topic is a primer; “Maxed Out: Massachusetts Transportation at a Financing Crossroad” published by Transportation for Massachusetts (T4MA), a coalition of organizations promoting better transportation and regional planning.

The MBTA has multiple budget challenges because it is an independent authority; having its own board with the ability to issue its own bonds backed by a revenue source of one cent of the state sales tax. Each year the MBTA must balance its budget and it must account for the payment of operations, debt service, maintenance; as well as bringing the system into a state of good repair, and overall system expansion.

The MBTA is also a part of the Massachusetts Department of Transportation (MassDOT), which results in a tension regarding which agency is responsible for solving the financing issues. There is a need to simultaneously find the resources for operations, debt service, maintenance, and strategic investment. Currently, the MBTA is in trouble in all four of these categories; the discussion of service reduction and fare increases will only address the situation for the next year, which will leave the mounting systemic funds problem to continue unsolved.

The majority of the operating budget comes from taxpayers throughout the Commonwealth, not just from MBTA users. Sixty percent of the revenue comes from sales tax revenues, 28% comes from fares, with the balance from other sources, including local assessments. The revenue recovery ratio is 45%. The biggest cost for the operating budget is the Commuter Rail subsidy (25%). Wages, fringes, pensions, healthcare and other personnel operating expenses consume nearly 60% of the operating budget which leaves few options. Another large amount of the expenses go to debt service.

The operating expenses of passenger trips vary significantly by transit mode. Demand response subsidies cost $33 per trip while the light rail subsidy is $1.99. The operating deficits are structural deficits. Paying back the debt of this year will not diminish the amount owed in future years. When forward funding was introduced, $160 million was obtained from the legislature to fund the deficit for that year, but without tackling the issue of recurring structural debt growth.

The operating budgets on the capital side are inextricably linked. Debt is an appropriate way to pay for assets that have a 30–50 year life cycle and is a common form of financing worldwide. The problem in Massachusetts is we have no dedicated source of funding to pay back debt. We pay our debt service out of the same funds which go to paying for operations and maintenance. So, every time we issue bonds, we reduce future funds that will be available to invest in the system; we increase the size of the operating deficit—this is the only way we pay down debt. This is true of not only the T, but also of the way we finance our highways. At this point, about a quarter of the MBTA’s budget is debt service; debt service is about 20% of MassDOT’s budget. Out of nearly $1.5 billion in the Commonwealth Transportation Fund (comprised of monies from the gas tax, registry fees and extra sales tax) about $1 billion is needed to pay for debt service alone.

At the inception of forward-funding of the MBTA the assumption was that an operating surplus would be produced on a regular basis which would pay for part of the capital program on a pay-as-you-go basis. In addition, some of the maintenance costs would be covered by the funding plan leaving the borrowing for strategic investment. The revenue generation has not been sufficient to handle all of these demands. Due to the dedication of a portion of the sales tax for the MBTA, the agency has a stellar bond rating, which makes borrowing at a low interest rate very attractive. A finance plan should be devised which would allow us to determine not only how we will pay back what is already owed, but also, how to finance legitimate long-term borrowing requirements for capital improvements. The highway side is particularly noted for borrowing for operations. The MassDOT Transportation Advisory Committee was told in November, 2011, that there are capitalized rent payments, so decades of interest will be paid on people's salaries. As an example, the MassDOT mowing program is being paid for by financed debt.

The level of borrowing is such that we are tapped out, thus the title of the report – "Maxed Out". We have borrowed to the limit and cannot pay it back anymore without undermining the ability to operate our system; nor can we maintain state of good repair. The MBTA is the most debt-ridden transit agency in the United States. The amount varies from year to year because we keep refinancing, but in total, there is an outstanding balance due of between $5 and $6 billion. An immediate payoff of the balance with interest would be between $8 and $9 billion. The debt has three sources:

1. Prior Obligations – MBTA inherited this debt on July 1, 2000, when forward-funding was inaugurated. The Legislature passed-on the previous long-term commitments to the MBTA
2. Legal Commitments – associated with the Central Artery Project (already borrowed, i.e., does not include Green Line Expansion)
3. Capital Investment Program Revenue Bonds (non-legal commitments) including maintenance and capital investments

From now until 2022, the MBTA will owe at least $400 million per year in debt service. However, the five-year Capital Investment Plan (CIP) of the MBTA calls for borrowing an additional $700 million to maintain the system. There appears to be no light at the end of the tunnel.

The Legislature told the MBTA to balance their budget every year. However, there is no dedicated revenue source to absorb this debt. They have tried to avoid fare increases, especially in the recent recession.

Even if we stopped issuing bonds, we would still have maintenance issues. The MBTA is over 100 years old. The rolling stock needs to be replaced; we recently purchased a locomotive from Maryland which had outlived its useful life for their commuter rail system. This locomotive became the fourth newest locomotive in the MBTA commuter rail fleet. Billions of dollars must be spent to replace aging rolling stock in all lines of rapid transit service.

The maintenance backlog is hard to estimate. The D'Alessandro Report ("MBTA Review – November 2009") cites a $470 million annual expenditure against a $3 billion backlog. The finance chapter of the just-adopted Long-Range Transportation Plan of the Boston Region MPO, states that the MBTA must spend $750 million per year to maintain state of good repair. The MBTA's current CIP calls for $470 million for maintenance spending.

The MBTA may need to spend closer to $5–6 billion than the 3 billion suggested by the MBTA, just to close the spending gap. However, the CIP proposes spending $400 million and borrowing most of it. These expenditures, the MBTA plans, would keep the debt from becoming bigger; in order to close it in 20 years, spending would have to be closer to $1 billion per year.

State of good repair does not mean that the MBTA's assets are in good repair. It means that given the proposed investment commitment, the assets will not get any worse than they are now. To actually invest in order to meet performance measures, the expenditure would be closer to $1billion per year – and this is for MBTA maintenance only. It does not take into account the $400 - $500 million operating deficit, capital improvement, and expansion projects. In addition, there is a comparable total shortfall on the highway side. So, the policy debate on a fare increase would amount to talking about $150 million–a drop in the bucket relative to the problem we face.

None of the previously discussed numbers considers expansion. CIP FY2012-2016 calls for $3.8 billion in revenue. It assumes $1.86 billion, 46% of its funds from the FTA. It assumes the state is going to bond $1.2 billion for transit. But paying the debt service on the state transit bond comes from the Commonwealth Transportation Fund, not new MBTA funds. On top of these funds, the T needs to borrow $757 million through revenue bonds. Over five years this level of commitment will add up to $2.3 billion for use in maintaining state of good repair. Unfortunately, this falls short of the $3 to 5 billion backlog. So assuming this funding scenario, in five years we will be further behind in maintenance and further in debt, leaving only a small amount for expansion, contingent on finding money.

In comparing operating funds of the MBTA to the other 10 largest transit agencies, the MBTA gets about the same money from fare revenues (31% for MBTA vs. 33% for others), but other agencies garner about 24% of their budgets from local assessments whereas the MBTA gets 9%. The MBTA gets 54% of its funding from state funds whereas other transit agencies rely on state sources for 29% of their funds. For capital improvements in the other transit agencies local funds pay for one-fifth of these improvements, but the MBTA gets only 7% of its capital funds from the State. We do not use local funding for such investments typically.

Massachusetts has the second highest per capita general tax subsidy (sales tax) in the country. We pay $194 per capita for the transit subsidy. Only five other states pay over $50.

Fare recovery ratio should be 50% of operating costs according to a "Blue Ribbon Commission" goal. We are at 43%, which always changes as fare hikes do not occur every year resulting in a diminishing fare recovery rate. There has not been a fare increase for five years which has contributed to the funding crisis. The MBTA has actually managed its resources well in light of no increased funding. This can no longer be avoided.

Since the last fare increase, the cost of gas has increased by 46% while the Consumer Price Index is up 12%. The unemployment rate is now up by 59% compared to that time. Keeping fares low has helped keep costs low for job-hunters. Ridership has generally been up every month for the last eight months, but when compared to the last fare increase, commuter rail ridership has been flat. Increased ridership has come on bus, heavy and light rail service.

In evaluating a fare increase, elasticity of demand and sensitivity to taking alternative means must be considered. MBTA uses the regional transportation ridership model and a less complex spreadsheet model to determine fare increase impacts on ridership. For example, an elasticity of -0.3 means that every time a fare goes up 10%, you lose 3% of your riders. This rule of thumb was commonly used in the past but is not particularly accurate, so research is being conducted to find better elasticity values.

Economists view passenger demand for transit service as either elastic or inelastic relative to price–which transit users will be price sensitive, and respond to a price increase by discontinuing riding transit (elastic); and which ones will simply continue to pay the price (inelastic). But, the same demographic factors that transportation economists have traditionally believed make riders more price sensitive do not work if the concern is equity. If the focus is on minimizing ridership loss, most transportation economists say that high income people who own cars, referred to as "choice riders," may be quick to jump off the system. Low income riders who do not own cars may not like fare increases, but data says they are likely to continue riding the system because they have no other choice. From a pure economist's perspective, the data bears that out. But from an equity perspective, it means you are charging more to the people who can afford it least; disregarding riders who are in tough shape and cannot afford a car.

One of the policy conversations needed this winter is how to balance the minimization of ridership loss and equity. In most cities, the elasticity of demand is closer to -0.1 or -0.2 rather than the often cited -0.3 rate. Washington, D.C. noted a lower number than they had expected with fare increases in the 20% range in 2011.

In 2008-09, CTPS conducted a passenger survey consisting of 50,000 on-board surveys of riders on bus, subway and commuter rail routes. The data show that MBTA riders are five day a week riders. These riders use stored-value cards and percentages are about the same for bus and subway riders. The survey gives us the demographics that will enhance the discussion of the elasticity/equity conversation. The survey accurately reflects other surveys and studies that measure the income and race components of the Boston population.

Trip purpose is also a key factor in thinking about fare increases and how it affects elasticity. In transit, commuting is a big issue, but non-work related travel is growing. Commuter Rail is 91% work-related. Work-related trips are the purpose of 76% of the subway riders compared to 64% of bus riders. The impact of a fare increase on the non-work trips is important as people may be more inclined to reduce the number of discretionary non-work related trips. Historically, the MBTA has raised the fare on all riders uniformly. The data does suggest that a mix of increases might at least be discussed based on the elasticity impacts.

In January, 2012, the Dukakis Center will issue two reports. One is a profile of the MBTA ridership based on demographic data; the other a discussion of the elasticity of rider demand and fares. Fare increase policy should be sensitive to the different rider groups. From an elasticity point of view, the commuter rail riders who own two or more vehicles (66%) might opt out of using rapid transit more readily than the 80% of bus riders who own just one or no vehicles. In minimizing ridership loss, an economist would exercise caution over losing the commuter rail rider group (multiple care owners) since they have easy options to change how they get to work. From an equity perspective, bus riders have a lower income, they are using the bus for a wider variety of trip purposes, and they are more likely to be people of color. These considerations may have an impact on the policy choice.

Responses to Questions:
In response to members' questions, S. Pollack made the following additional comments:

- The MBTA is paying $100 million in principal on its $6 billion debt.
- There is no good way to tell if riders are okay with occasional fare increases instead of regular, annual increases as there is no good data to back this up.
- We are looking at pass riders to determine if they behave differently, but there is no pass program data available. Boston has not raised fares since the introduction of stored-value cards. It is unlikely that automatic-paycheck-withdrawal-riders will leave the system.
- There are some imposed social mandates on the MBTA. A policy debate should include a discussion of these issues. If you are 65+ you get a Senior Pass without consideration of income. An 18 year old who is unemployed must pay full fare in order to make it to a job interview. By law in Massachusetts, a senior pass must cost no more than 50% of the base pass. Every senior is subsidized. The MBTA spends $32 per trip on THE RIDE. Providing transportation to the disabled is a policy decision made by the Federal government which is then imposed on the MBTA. In London, when you get your unemployment check in the mail, you get a monthly transit pass. It is not paid by the London Underground; it is paid as part of your unemployment compensation to encourage job hunting. This is social policy. If the Massachusetts legislature is going to be expected to help with the social policy demands placed on the MBTA, then they should be brought into the policy conversation.
- We could raise fares by $160 million and we would still not solve the problem. It would solve only one year of the deficit. If we want to fix the long-term financial problem, we must have a broader conversation, which needs to include the legislature to figure out what the MBTA really needs. The system needs HELP!
- It takes a long time to convince policy makers to take action.
- There are some problems with the multi-ride tickets issued by Commuter Rail, namely, it is often not collected. This is like getting on the back of the bus and not paying the fare. Often the tickets can be used for more trips than are paid for due to the failure to punch the tickets or punching over previous marks. The first rule should always be: "Everybody Must Pay the Fare".
- It should be noted that the financial problem is so vast that it will take more than just one funding source to fix the problem. We need different revenue sources other than the sales

tax. There will be a need for different forms of general and user fee taxation to fund transportation, both transit and highway. We need a multi-year/multi-source plan.

- Distance-based fares are not possible due to the turnstile machinery. Passes would be a better way to price the fare as we have a high pass-use system. Time-based fares and passes pose different fare collection issues; any changes would have to consider elasticity and equity issues.
- The upcoming Commuter Rail contract may be the logical place to start considering the possibilities of public/private partnerships. Public/private partnership used to be considered only to finance expansion, but there are a few examples of where they are operating the system as well. The tension in this discussion will be between those who feel the MBTA should bring the contract back inside the system and have the T run its own system and those who would see an expansion in a public/private arrangement.

5. **Red Line–Blue Line Connector Design Recommendation–** *Steve Olanoff, Chair*
A letter on the design of the Red-Blue Line Connector was distributed regarding the SIP commitment which is still in the TIP. MassDOT has requested the Department of Environmental Protection to drop the project completely. Chair Olanoff declared that the Advisory Council should relay an advisory opinion on the pending action.

Members supporting the letter stated that this would be a "shovel-ready" project that could receive future funding should it become available. However, it was noted that there is no money to construct the project, so money spent on an engineering design would be wasted. If there were ever funding for construction, any design completed now would likely be out of date by the time that financing is available. The goal of having the engineering design ready to compete for 'shovel-ready' types of funding is not a realistic goal for this project.

Members were concerned that funding would be wasted. Even with potential but doubtful funding in the future, this project may not rank well with other projects that are far ahead of it in terms of need and benefit. It addition, members questioned whether this project would be an Advisory Council priority even if funding were available

With the meeting running overtime and attendance dwindling, the members chose not to send the draft letter supporting the Red-Blue Connector to the MPO.

6. **Committee Reports –** There were none.
7. **Member Announcements –** Program Committee will meet before the next Advisory Council meeting on January 11, 2012. The Freight Committee will meet at 1:00 p.m., January 11, 2012, prior to the Advisory Council Meeting.

8. Adjourn

The meeting was adjourned at 4:40 PM.

<u>ATTACHMENT 1:</u> ***Attendance List for December 14, 2011***

<u>Cities and Towns</u>:
Laura Wiener, Arlington
Tom Kadzis, Boston
Jeff Rosenblum, Cambridge
Dom D'Eramo, Millis
Frank DeMasi, Wellesley
Steve Olanoff, Westwood

<u>Agencies</u>:
Calli Cenizal, MassDOT
Brian Kane, MBTA Advisory Board
Jessica Robertson, MAPC
Kristina Johnson, Inner Core
Bruce Leish, Metrowest Regional Collaborative
Tod Read, Boston Redevelopment Authority
Catherine Paquette, Mass*RIDES*

<u>Citizen Groups</u>:
Tom Daly, American Council of Engineering Companies
Richard Arena, Association for Public Transportation
Barry Steinberg, Association for Public Transportation
Malek Al-Khatib, Boston Society of Civil Engineers
Chris Anzuoni, Massachusetts Bus Association
Jillian Zywien, Massachusetts Motor Transportation Association
Jon Seward, MoveMassachusetts
John Businger, National Corridors Initiative
Marilyn Wellons, Riverside Neighborhood Association
John McQueen, *Walk*Boston

<u>Guests and Visitors</u>:
Stephanie Pollack, The Dukakis Center for Urban and Regional Policy (Speaker)
Amanda Richard, for Senator McGee
Ed Lowney

<u>MPO Staff</u>:

Pam Wolfe	Mary Ellen Sullivan	Sean Pfalzer
Anne McGahan	David Fargen	Mike Callahan
Walter Bennett		