CITY OF CAMBRIDGE
COMMUNITY DEVELOPMENT DEPARTMENT

BRIAN MURPHY
Assistant
City Manager for
Community Development

To: Robert W. Healy, City Manager

From: Brian P. Murphy, Assistant City Manager for Community Development Department

Date: February 22, 2012

Re: Council Order O-20 dated February 15, 2012 regarding City Council policy statement to be delivered at the Feb. 29 public meeting on the proposed MBTA fare increases/ service cuts.

Public transit is critical to maintaining the City of Cambridge as a livable city. The ability of our region's economy to grow depends largely on the efficiency and effectiveness of our transportation system. Strong multi-modal transportation networks concentrate employment, making jobs more accessible and labor markets more flexible for companies seeking workers with specialized skills.

Regional projections for mobility needs by the year 2035 indicate that there will be a 7% increase in demand for our roadways and a 30% increase in demand for transit service. While public focus is currently on funding our current transit system, it is critical to recognize that the future of Cambridge relies on new and expanded transit options. $7 billion in investment is currently planned for transit-connected areas in Greater Boston's urban core, $2 billion of which is planned for Northpoint.

The MBTA faces a $161 million deficit in FY13, a problem not the fault of the MBTA but part of a larger structural problem with transportation financing – not just transit funding - across the Commonwealth. Without enough revenue from the legislature, the MBTA can only balance the projected deficit with drastic fare increases and service cuts. The deficit FY14 deficit is projected to be $40 million higher than FY13.

Public transit benefits riders and non-riders alike both by increasing economic potential, reducing the number of cars on our congested roadways. Drastic measures will disproportionately harm our most vulnerable citizens who depend on public transit as their major or sole means of transportation: the young, the old, people with disabilities, and families of modest means.

INTERIM RECOMMENDATIONS FOR FY13

The City of Cambridge should not support burdening riders with the full $160 million in FY13 deficit, which is a problem not of their making. Cambridge should not support the proposed service cuts, including elimination of the E-line weekend service and elimination of late evening / weekend commuter rail service.

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We should acknowledge that the Commuter Rail is much more highly subsidized than bus and subway service. In addition, we recommend that the lowest performing bus routes be scrutinized and the MBTA develop a plan to improve or phase out some of these services.

Cambridge should support a fare policy based on a Fare Recovery Ratio, a metric that allows the MBTA to fairly compare itself to other similar transit agencies. The Fare Recovery Ratio is the percent of total operating costs, minus debt payment and capital investment, covered by fare revenue. A Fare Recovery Ratio 40 to 45% would bring the MBTA on par with its peer agencies, up from a current 36%. It is unreasonable to expect that a Fare Recovery Ratio of 40-45% be achieved with only one fare increase. An FY13 increase in fares by 25% -- a meaningful increase -- would raise about $80 million in annual revenue and bring the Fare Recovery Ratio to about 39%. This 25% increase is lower than the 35% presented in Scenario 2 and the 43% presented in Scenario 1. Cambridge should support regular but small fare increases every two years in order to maintain a Fare Recovery Ratio of 40-45%. In addition, Cambridge should support a discount off-peak pass program for seniors proposed by the MassDOT Transportation Advisory Committee.

The 25% fare increase proposed above would still leave a FY13 deficit of about $80 million. The City of Cambridge should advocate for the balance of the FY13 deficit to be covered through revenue from outside of the MBTA. When the Fiscal 2013 state budget is adopted this spring, the legislature should identify a short term source of funding to cover the remaining FY13 deficit. For example, MassPort, one of the biggest beneficiaries of the Central Artery Tunnel project, should help support transit services that bring customers to Logan Airport. Part of the MBTA costs for operating the ferries and Silver Line services to Logan Airport should be supported by Massport.

The recommendations above are consistent with those being espoused by MassDOT's Transportation Advisory Committee.

LONG TERM RECOMMENDATIONS FOR FINANCING TRANSPORTATION

The legislature enacted and the Governor signed an important set of transportation reforms in 2007 along with new revenues from an increase in the sales tax. Reform has realized cost savings, improved public confidence in transportation spending, and addressed some immediate shortfalls. Additional actions are needed to create a long-term sustainable transportation system.

Although the discussion before us focuses only on the MBTA, the transportation financing problem is equally problematic on the highway side. MassDOT's Highway Division borrows $145 million a year to cover operating costs. The Commonwealth has a backlog of about $20 billion for state of good repair for our roads and transit systems.

A conversation about long-term strategies for financing transportation across the Commonwealth will begin in earnest in early 2013. The issue of an underfunded Chapter 90 program will need to be addressed as part of this process, along with the need to better support Regional Transit Authorities across the Commonwealth.

Various organizations have proposed revenue streams for consideration. These options are summarized in the attachment to this memo. It is not intended that all recommendations be implemented simultaneously, instead they represent a menu of options to choose from to achieve the goal of adequate funding for transportation.

BRIAN MURPHY
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ATTACHMENT: SUMMARY OF RECOMMENDATIONS FROM OTHER ORGANIZATIONS

MassDOT Transportation Advisory Committee: Short term recommendations to cover the FY13 $161 million deficit.

The MassDOT Transportation Advisory Committee convened on Friday February 17 to discuss recommendations to be provided to Transportation Secretary Davey.

1. Does not approve of either Scenario presented by the MBTA.

2. Raise fares no more than 25 percent. A 25% fare increase would generate about $80 million.

3. Recommends regular, predictable fare increases in the future to meet and maintain a target Fare Recovery Ratio of 45 percent

4. Recommends eliminating only 10 or so low-ridership bus routes for a savings of about $3 million. Does not recommend reducing E-Line or Commuter Rail service. Recommends transitioning off Commuter Boat subsidies over a 2-year period.

5. The balance needed to cover the deficit would have to come from sources outside the MBTA, including the Legislature and government agencies.

See: Top official favors fare hike over service cut, February 19, 2012, By Eric Moskowitz
http://articles.boston.com/2012-02-19/metro/31075244_1_fare-increases-bus-routes-service-reductions

Metropolitan Area Planning Council: Transportation Finance Recommendations, Adopted by MAPC Executive Committee (11/16/11)
http://mapc.org/sites/default/files/MAPC_Transportation_Finance_Recommendations.pdf

1. **Fare increase.** MBTA fare revenues should cover approximately 50% of operating expenses (Revenue Recovery Ratio).

2. **Gas tax.** The gas tax could be raised to reflect the increase in inflation over the past 20 years and it could then be indexed to inflation. The gas tax in Massachusetts has not been raised since 1991. It now represents 6% of the cost of a gallon of gas, compared to the 19% it did in 1991.

3. **Per-mile usage fee.** Drivers could be charged a per-mile usage fee at the time of their annual vehicle inspection, and municipalities could receive a portion of

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that fee. Charging drivers a per-mile fee at their annual vehicle inspection would allow the Commonwealth to begin generating mileage-based revenue without having to make a significant investment in new tolling infrastructure.

4. Fuel efficiency index tax. Vehicle registration fees could be indexed to inflation, and could vary based on vehicle fuel efficiency.

5. Underground Storage Tank Program. Unused revenue from the Underground Storage Tank program could be dedicated to transportation. While approximately $75 million per year is collected from the Underground Storage Tank program, only about $30-35 million is needed for the program itself, the remainder going to the General Fund.

6. Development impact fees. Fees based on transportation impacts from development could be used to provide revenues for transportation. The state could establish clear rules for assessing impact fees, and these fees should be assessed to address both the local and regional impacts of development on transportation infrastructure.

7. District Improvement Financing. Fund a modest portion of transportation expansion costs through District Improvement Financing (DIF) which pledge a portion of incremental property tax collections to cover debt service costs for major capital projects favored by the municipality.

8. Municipal projects. Allow municipalities or regions to raise funds for specific projects or lists of projects. Allow single municipalities or regional groups of municipalities to hold votes to raise funds for specific projects or lists of projects, through increases in the property tax, sales tax, parking fees, real estate transfer tax, or other sources.

9. Increase Chapter 90 funding to $300 million. The State should increase annual allocation amounts to $300 million, as the Massachusetts Municipal Association recommends, ensuring that cities and towns have the means to adequately maintain and repair our local transportation infrastructure.

10. Complete Streets funding. Create a new funding allocation in the transportation bond bill for Complete Streets activities on local roads to ensure that transportation planners and engineers consistently design and operate the entire roadway with all users in mind, including bicyclists, public transit vehicles and riders, and pedestrians of all ages and abilities.

11. Broad-based tax. Devote a portion of a broad-based tax toward transportation. Because an effective transportation system is essential to economic development and quality of life for all residents of the Commonwealth, whether or not they are direct users of each mode, revenue from non-transportation sources should contribute to building and maintaining the transportation system that Massachusetts needs.

12. Turnpike tolls. On the Massachusetts Turnpike, reinstate tolls between exits 1-6 for passenger vehicles and retain all tolls past 2017. MAPC advocates a balanced tolling system with the burden shared more equitably across regions but in the meantime it is crucial not to forfeit revenue for our already-underfunded transportation system.

In addition, MAPC recommends the following reforms:

1. Cease bonding operating costs. The Commonwealth should cease to utilize bond funds to pay for annual operating expenses. The annual appropriation to MassDOT should be sufficient for it to discharge its operational duties – without borrowing and thus burdening future generations.

2. MBTA debt relief. The Commonwealth should assume a significant portion of the debt of all transit agencies. The debt burden is $5.5 billion—actually $8.5 billion when interest is included—much of it from transit commitments required to offset air pollution related to the Central Artery/Tunnel Project.

3. Transit expansion. The Commonwealth should pay for all MBTA capital expansions that are consistent with reasonable capital plans and/or required by court settlements or agreements with federal agencies.

4. Public/private partnerships. In certain cases private companies are willing to contribute to the cost of a transportation project that will benefit their business, and this should be encouraged by seeking out opportunities for public/private partnerships, and prioritizing projects that leverage private funds. However, MAPC does not support the sale or long-term lease of major transportation assets. Sale or lease of truly surplus assets can be beneficial, but long-term revenue or service provision must not be compromised in favor of short-term financial gains.

5. Massachusetts Transportation Infrastructure Bank. There are currently 33 states with infrastructure banks, while in Massachusetts legislation to create a Transportation Infrastructure Bank has been repeatedly filed, but no action has been taken.

6. RTAs should be forward funded.

7. Toll use flexibility. The 2009 Transportation Reform law restricted the use of toll revenues to the maintenance and operations of the assets on which a given toll was collected. Flexibility should be permitted as long as the monies raised are in excess of what is needed to operate and maintain the originating asset in a state of good repair.

MassINC: **Moving Forward with Funding: New strategies to support transportation and balanced regional economic growth** **(October 2011)**
http://www.massinc.org/Research/Moving-Forward-with-Funding.aspx

This report suggests that the current practice of paying for transit with taxes collected statewide (i.e., sales tax) weakens support for efforts to increase spending on this vital infrastructure. They suggest regional financing strategies that could be equitably distributed to transit services provided in that region. MassINC focuses on the Regional Transit Authorities noting that they are not able to provide adequate service, which reduces ridership and causes many to overlook their role in regional economies and their ability to contribute to future economic growth.

Two regional revenue streams are discussed: A payroll tax and a tax on vehicles per mile traveled. These taxes can be collected at varying rates within discrete geographic areas and they have the potential to generate signifi cant resources at a relatively low cost to the average taxpayer.

1. Payroll tax. Non-profit institutions, including hospitals and universities, do not pay sales tax on their purchases, yet the majority of revenue for the MBTA comes through sales tax revenues. A 0.16 percent payroll tax, for example, would provide revenue in the range needed to close the MBTA's annual operating deficit ($140 million to $207, million depending on how the tax is levied in overlapping RTA districts). This 0.16 percent payroll tax would cost the median full-time worker in the MBTA service area just $1.77 per week. In RTA service districts, a payroll tax at this rate would generate nearly $100 million in revenue (more than one and a half times what RTAs currently receive from the state) at a cost of approximately $1.50 per week to the median full-time worker in RTA districts.

2. Vehicle miles travelled tax. Alternatively, RTAs could generate a similar revenue stream with a 0.5¢/mile tax on vehicle travel at a cost of $1.53 per week per registered vehicle. The MBTA shortfall could be closed with a tax ranging from 0.5¢/mile to 0.75¢/mile (depending on how the tax is levied in overlapping RTA districts). This would cost between $1.03 and $1.54 per week per registered vehicle in the MBTA service area.

MBTA Advisory Board: **Review of MassDOT Fare Increase and Service Cut Proposals,** **February 2012.**
http://www.box.com/s/rb9ox1x7gqtz5ht3o5yd

The MBTA Advisory Board is an independent statutory organization which represents the interests of the 175 cities and towns in the MBTA service district. The Advisory Board's proposes the following short term measures to close the FY13 $161 million budget deficit:

1. 25% fare increase. Recommends more equitable 25% fare and targeted parking fee increase will yield $75 million. Agrees with the following MBTA proposals: (a) $10 minimum to reload CharlieCards on-board vehicles to reduce dwell time; (b) Eliminate tokens; (c) Introduce 7-day Student Pass and price accordingly; (d) Reduce validity of commuter rail tickets from 180 days to 14 days; (e) Increase surcharge for on-board cash transactions on commuter rail to $3.00; (f) Eliminate 12-ride ticket on commuter rail, and 10 and 60-ride tickets on ferry boats. The Advisory Board does not support the proposed 25% discount off the single-ride fare for all midday and reverse commute commuter rail trips.

2. Transfer security costs to State. The State should assume responsibility for security provided by the MBTA Transit Police, a savings of about $36 million.

3. Transfer ferry service and assets to MassPort. Water transport is already part of Massport's mission, Massport should have the needed expertise to oversee a ferry operation, and its finances are in better shape. This would save $30 million.

4. MBTA Silver Line to the Airport. Each year MassPort pays the MBTA $2 million towards the operation and maintenance of 8 vehicles and in return the MBTA remits all fare revenue received from passengers boarding at Logan Airport to MassPort. In FY13 the MBTA expects to pay about $1.1 million to MassPort under this deal. Given the disproportionate benefit MassPort and Logan Airport receive from the MBTA the Advisory Board believes this practice should be discontinued and the MBTA should retain all revenue it collects at the airport for its own use.

5. Private Carrier/Suburban Bus subsidy reallocation. Private operators are currently contracted to run bus routes in Medford (710), Winthrop (712/713), Hull (714), and from Canton to Mattapan Station (716). MBTA's suburban bus program partially subsidizes shuttle bus service in Beverly, Burlington, Dedham, Lexington, and the Mission Hill neighborhood of Boston. These routes should be taken over by other MassDOT entities to allow the MBTA to focus on its core mission of operating its own buses and trains to serve commuters. MassPort could fund the Winthrop and Hull routes, and MassRIDES could use its leverage with the local Transportation Management Associations it subsidizes to operate the remaining routes and shuttle services. This will save the MBTA $2.1 million in FY13 and is a better option than simply eliminating these routes all together.

6. Assistance with homeless transportation costs. The MBTA operates 3 bus routes that provide free access the City of Boston's homeless shelter on Long Island and to the Shattuck Hospital providing a social service benefit for a vulnerable population in need of transportation. The Advisory Board recommends that the Massachusetts Executive Office of Health and Human Services pay about $1.3 million to provide such transportation rather than the MBTA.

7. 0% FY13 wage increase for all MBTA employees. Since 2008, cities and towns across eastern Massachusetts, Mayors, Boards of Selectmen, and other leaders have made difficult choices to freeze wages for all employees, including unionized fire, police, teachers, public works, and other workers. While it is true that all MBTA employees have or are joining the State's Group Insurance Commission which charges higher co-pays and premiums than were charged in the past; it is also true that thousands of municipal employees have also joined the GIC and seen out-of-pocket expenses increase. It seems only fair that unionized MBTA employees now stand with their municipal colleagues by accepting a wage freeze in FY13.

8. MBTA Abutter Program. There are at least 48 examples of MBTA property being leased or otherwise conveyed to communities or other state agencies for bike path uses alone, amounting to well over 50 miles of rail-right-of-way for use for recreational purposes with little recompense to the MBTA and no opportunity for the MBTA to enter into leases that could help defer the revenue raising options currently before the public. The Advisory Board proposes that the MBTA or its agents survey the remaining property owned by the Authority but not currently used for transportation purposes with an eye towards entering into short term land leasing arrangement with abutters. This is estimated to raise $2 million.

9. Alcohol Advertising Program Reinstatement. MassDOT announced plans to stop accepting advertisements for alcohol, which generate $1.5 million annually in non-fare revenue for the MBTA. The Advisory Board believes that a better idea is to MBTA Advisory Board February 2012 continue to accept alcohol advertisements and find new space to sell to advertisers clamoring to be seen by MBTA passengers.

10. Station Name Value Payments. MassDOT has discussed implementing a station naming program for years, yet dozens of institutions already have rapid transit stations named after them for free. For instance Charles/MGH, BU East, Tufts Medical Center, and Airport are all named after viable institutions that surely benefit from having their name attached to a station, and should pay for this privilege, providing about $2 million in revenue.

11. Inner Core Student Fee. A $10 student-ID fee would generate at least $2 million annually without imposing a hardship on any individual student. $10 per year is less than 3 pennies per day. These payments will directly contribute to the continued operation of the MBTA at existing service levels. Going forward any discussion of off-peak discounts for students or "night owl" service should be within the context of increasing this fee, or converting all campuses to UPass plans to pay for them.

12. Light Rail Elimination Mitigation Payments. Institutions such as the Longwood health care and academic cluster, Museum of Fine Arts, Isabella Stuart Gardner Museum, Mass. Art, Wentworth, Mass. College of Pharmacy, Northeastern University, the Boston Symphony Orchestra and others whose students, professors, doctors, nurses, and employees use weekend light rail service should contribute the $1.5 million needed to keep weekend light rail service running on these lines.

13. Special event surcharge. Hundreds of times each year it also moves thousands and thousands of citizens to and from special events such as Red Sox, Bruins and Celtics games, as well as public performances at venues such as the Opera House, Citi Performing Arts Center, Symphony Hall, and numerous other large venues. A $0.50 surcharge on all tickets at venues with capacities over 1,000 persons should be implemented, expected to raise $5 million in annual revenue. The average cost of a Red Sox ticket in 2011, for example, was about $53.00 suggesting that a $0.50 surcharge would increase prices by less than 1%.

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COMMUNITY DEVELOPMENT DEPARTMENT

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SUMMARY OF VARIOUS REPORTS PERTAINING TO THE FY13 MBTA FARE INCREASE/ SERVICE CUT PROPOSALS

February 22, 2012

MassDOT Transportation Advisory Committee: Short term recommendations to cover the FY13 $161 million deficit.
See: Top official favors fare hike over service cut, February 19, 2012, By Eric Moskowitz
http://articles.boston.com/2012-02-19/metro/31075244_1_fare-increases-bus-routes-service-reductions

Metropolitan Area Planning Council: Transportation Finance Recommendations, Adopted by MAPC Executive Committee (11/16/11)
http://mapc.org/sites/default/files/MAPC_Transportation_Finance_Recommendations.pdf

MassINC: Moving Forward with Funding: New strategies to support transportation and balanced regional economic growth (October 2011)
http://www.massinc.org/Research/Moving-Forward-with-Funding.aspx

MBTA Advisory Board: Review of MassDOT Fare Increase and Service Cut Proposals, February 2012.
http://www.box.com/s/rb9ox1x7gqtz5ht3o5yd

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THIS STORY APPEARED IN The Boston Globe

Top official favors fare hike over service cut

February 19, 2012 | By Eric Moskowitz

Riders on subways, buses, and commuter trains should brace for steep fare increases, but extensive cuts in MBTA service now appear less likely as leaders of the state's transportation system near a deadline to erase a projected deficit.

Secretary of Transportation Richard A. Davey, who has faced customers in a series of charged public hearings, said in an interview that his agency is in a desperate search to find revenue from other sources so that drastic service reductions can be averted.

"From many customers that I've heard from, they would rather pay a little more than see service cut," Davey said. During the hearings, aggrieved passengers have blasted cuts that would eliminate bus routes and weekend and late-night commuter rail service, losses that "in some instances are going to be devastating to their livelihood," he said.

The appearance of thousands of riders at 20 hearings so far has caught the attention of Boston-area lawmakers, some of whom are calling on Beacon Hill to come to the Massachusetts Bay Transportation Authority's rescue by helping close an expected $161 million budget gap for the coming fiscal year.

While help from legislators is far from guaranteed, some lawmakers said a transit system that provides 1.3 million rides each weekday is too vital to the state's economic health to saddle with unreasonable fare increases or Draconian service reductions.

"What's been put on the table can't be executed. We can't do it to the residents, we can't do it to the businesses, and furthermore, as we all know, it's just a one-year fix," said Representative Alice K. Wolf, a Cambridge Democrat helping to organize lawmakers in support of the T. "We're still a long way from being able to say help is on the way, but that's what we're working on."

The MBTA is legally required to balance its budget, prompting the agency earlier this year to present two stark plans to close the gap for the fiscal year that starts in July.

One plan would raise the cost of fares and passes an average of 43 percent while eliminating a few dozen bus routes, halting E line and Mattapan trolleys on weekends, reducing commuter rail service, cutting all ferries, and shearing discounts for students, seniors, and the disabled. The other would cut even more bus routes, to allow for a less painful fare increase, at 35 percent.

The proposed increases - a one-way subway ride, now $1.70 with the reloadable CharlieCard and $2 with paper CharlieTicket, could rise to as much as $2.40 and $3, respectively - would be the largest by percentage since 1949, according to transit historian Bradley H. Clarke of the Boston Street Railway Association.

The MBTA will present a revised plan after the hearings end in March, with a board vote scheduled for early April. Fare increases would take effect July 1.

So far, the public hearings have drawn at least 4,300 people, with more than 1,200 rising to speak and an additional 4,600 commenting by e-mail. The message is clear, Davey said.

"Customers want more of us. In fact, customers are saying not only 'don't cut our service' but 'increase our service.' There isn't a company in America that wouldn't love that problem," he said. "We just can't pay for it."

A broadly representative panel of more than two dozen transportation advocates, planners, and business leaders that advises Davey recommended on Friday that the MBTA avoid both of the options proposed. Instead, the advisory group said fares should rise no more than 25 percent, acknowledging the need for more money but wary of pricing people off the system.

Such a fare increase would generate about $80 million, while eliminating 10 or so low-ridership bus routes and instituting a smattering of other measures would yield $20 million more. The balance needed to cover the deficit would have to come from sources outside the MBTA, including the Legislature and government agencies.

"That's as far as we think we can go without the downside - the pain - for customers and the economy really outweighing the benefits," said Stephen J. Silveira, a Republican lobbyist and influential voice on transportation who helped develop the recommendations.

The group also proposed that the T implement regular, predictable fare increases in the future to avoid shocking the public and to try to meet and maintain a target of covering 45 percent of T operating expenses through fares, 50 percent when counting advertising and other T-generated sources. The rest of the T's budget comes from sales tax revenue and contributions from cities and towns.

Davey agreed in the interview that predictable fare increases - 5 or 10 percent every other year - are advisable.

The MBTA is trying to pursue settlements in outstanding lawsuits, scour its real estate portfolio for surplus holdings, and find other ways to avoid leaning so heavily on customers, Davey said.

The Patrick administration is looking seriously at asking the Massachusetts Port Authority to subsidize Silver Line and ferry service to Logan International Airport, while exploring whether that agency could run commuter ferries as well, he said. And if the winter remains mild, $10 million or more budgeted for snow removal could be transferred to the MBTA.

Davey said he had no expectation of a cash infusion from Beacon Hill. But Silveira predicted legislative help, saying he doubted lawmakers would watch the T take the drastic steps threatened and say, "We're going to live with the consequences."

The House speaker and Senate president have said they will refrain from weighing in until after the T concludes its hearings and the MBTA board casts its budget vote in April.

"We're going to wait until the public hearings are over and hear what recommendations come from the MBTA board of directors. The board needs to come up with a plan and implement it," Senate President Therese Murray said Friday, in an e-mailed statement.

The cochairmen of the Joint Transportation Committee said some members are discussing ways to help the T this year, but they do not expect broad support for added financial help, given that the state already covers more than half the T's budget.

"If there is a time when the Legislature does act, it will not [just] be on the T but will have to be in order to address every mode of transportation which people throughout Massachusetts depend on," said House chairman William M. Straus, a Democrat from Mattapoisett.

The Senate chairman, Thomas M. McGee of Lynn, said the T's plight has resonated at the State House as well as among the public. Lawmakers see it as an opportunity to discuss the broader transportation-finance crisis, but that will not be resolved quickly, he warned.

Potential fixes could include an increase in the gas tax, raising road tolls, or a new payroll tax, which would aid not just the T but a badly indebted highway system and financially starved bus systems outside of Greater Boston. The state has been paying road-striping and highway mowing crews with borrowed funds.

"That's what's really crazy," said Stephanie Pollack, associate director of Northeastern University's Dukakis Center for Urban & Regional Policy, who is part of the panel advising Davey. "Over the last two months, everyone has learned how awful the T's finances are, but they're better than the highway system."

MAPC
METROPOLITAN AREA PLANNING COUNCIL

Smart Growth & Regional Collaboration

Transportation Finance Recommendations

Adopted by MAPC Executive Committee 11/16/11

Introduction

Transportation is crucial to every aspect of life in Massachusetts, connecting workers to jobs, businesses to markets, students to schools, and residents and visitors to the state's cultural and recreational resources. Yet decades of over-borrowing and underinvestment have left the Commonwealth's transportation system buried in debt and facing an overwhelming maintenance backlog. Action is needed now to put our transportation system on a sound financial footing and build the 21st century transportation system that will enable us to meet our economic and environmental goals.

The Metropolitan Area Planning Council, the regional planning agency serving the people who live and work in 101 cities and towns in Metro Boston, has prepared the following recommendations to address the current crisis in transportation financing. The proposals outlined below are not an exhaustive list of the actions that MAPC would support, nor does an item's absence from the list indicate that it is opposed by MAPC. These recommendations are intended as a "menu of options" from which more than one will be needed to solve this financial crisis.

The recommendations are drawn from the 28 reform and revenue proposals generated by the Transportation Finance Commission (TFC), from the TEDRA legislation filed by Transportation for Massachusetts (T4MA), from other reports and pieces of legislation, and from ideas generated by MAPC staff based on feedback from officers, committee members, Council members, and allies. A previous version of these recommendations was released in April 2009. Revisions have been made in response to a variety of changes in circumstances and the economy, and also in response to passage of the Transportation Reform Legislation enacted in Massachusetts in late 2009.

In 2007, the TFC conservatively estimated the deficit facing transportation in Massachusetts at between $15 and $19 billion over a period of 20 years – a deficit in the funds needed merely to maintain our current system in a "state of good repair". In September 2011, the Finance Subcommittee of MassDOT Transportation Advisory Committee updated the TFC's findings, concluding that despite successful reforms and additional investments, the gap had increased. This is due to a number of factors, including better asset management (we know better the state of the system); the failure to adopt toll and fare increases that were anticipated by the original TFC report; and a more rapid than expected deterioration of certain assets.

The MBTA's backlog of needed maintenance has increased from $3 billion to $4.5 billion; the numbers are even greater for highways and bridges. Forty-five cents of every dollar spent on transportation in the Commonwealth is going to service debt, while MassDOT is funding $145 million in operating expenses from new debt. Without a new source of revenue, debt payments will consume an increasing share of transportation spending, crowding out funds for needed repairs and expansion.

The conversation around the future of transportation finance in the Commonwealth is unavoidably complex. The current issues have been the subject of various discussions for years and these discussions could conceivably go on forever. Yet action is required now. Ideally, this action should include a comprehensive and long-term set of solutions. Substantial progress was made with the transportation reforms passed in 2009, but there are still areas where reform is needed, and revenues will also be required – likely, quite a lot of revenue. We urge the Legislature and the Patrick Administration to "fix it once, and fix it right."

Principles

MAPC developed the recommendations contained in this document based on a number of principles:

- **Reform and revenues are both important.** Reform has been essential to ensure that the process of selecting and implementing transportation maintenance and expansion projects is fair, efficient, and transparent. Reform is also critical to achieve public buy-in and confidence. The stewards of the public transportation system must constantly assess and adjust service delivery to ensure that it is done in a cost-efficient manner. While recent reforms have been successful in creating operational and cost efficiencies, the savings generated are only a small percentage of what is needed to develop and maintain a transportation system that is safe, high-quality, and competitive with other regions in the nation and the world. Substantial new revenues – mainly in the form of taxes, tolls, and fees – are unavoidable.
- **We believe in "fix it first," but not "fix it only."** Our transportation challenges cannot be solved by fixing potholes alone. Capital improvements and expansions are essential to our competitive advantage and quality of life.
- **The burden of paying for our transportation system must be shared equitably.** This means:
    - Special attention must be paid to the needs of low and moderate-income residents and Environmental Justice populations.
    - No one region of the Commonwealth should pay an unfair share.
    - The users of roads, bridges, transit, and other forms of transportation should all contribute reasonably. No one mode should be exempt.
    - Each particular type of toll or fee for roadway use can benefit or penalize certain segments of the population. For example, mileage-based tolls may not take into account the size of the vehicle (which affects the level of wear and tear on the roads), or its fuel-efficiency (and the resulting pollution and greenhouse gas emissions); the gas tax can encourage people who live or work near state boundaries to buy gas in other states; highway tolls are not paid by people who use mainly local roads; annual fees applied at inspection are not paid by people who commute in from other states. Since each of these techniques has pros and cons, a fair transportation finance system will include a variety of methods to raise funds. Therefore, we recommend a series of roadway usage fees, each set at a relatively low level, to encourage an equitable sharing of the burden.
- **Funds raised via the transportation system should pay for the transportation system.** They should not go into the General Fund. In addition, MassDOT should have the flexibility to use revenues at its discretion, rather than restricting the use of revenue to the asset on which it was collected.
- **Local government should also receive new revenues** to cover the costs of local transportation projects, since local systems face many of the same stresses as state and regional systems. These funds should be available for local or regional transit projects, local roads, and bike and pedestrian improvements.

Recommendations

Since the initial publication of this document, the Legislature enacted and the Governor signed an important set of transportation reforms and new revenues from an increase in the sales tax. These steps have been important, for realizing cost savings, improving public confidence in transportation spending, and addressing immediate shortfalls. But they are not sufficient. Additional actions are needed to create a sustainable transportation system. A range of options recommended by MAPC are outlined below. MAPC is not suggesting the simultaneous adoption of all of the revenue enhancing recommendations that follow; rather, the list below is a menu of options to choose from to achieve the same goal – adequate funding for transportation.

Revenue Recommendations

As deficits continue to increase, additional sources of revenue need to be considered that will increase funding to support our transportation system and decrease the need to utilize borrowed money.

1. **The gas tax should be raised to reflect the increase in inflation over the past 20 years and it should then be indexed to inflation.** The gas tax in Massachusetts has not been raised since 1991. It now represents 6% of the cost of a gallon of gas, compared to the 19% it did in 1991.

   The gas tax is the most effective way to finance our transportation system, at least in the short term. The gas tax should also be indexed to inflation so that it can keep pace with the growing needs for transportation funding over time. In this way, the tax could be adjusted by administrative rather than legislative action, perhaps every two or three years. Alternatively, if the gas tax were based on a percentage of the total cost (like the sales tax), rather than a fixed amount per gallon, the gas tax would not need to be raised repeatedly.

2. **Fares should remain a meaningful source of revenue for the MBTA and RTAs through regular and predictable fare increases.** MBTA fare revenues cover approximately 50% of operating expenses. By having regular fare increases of approximately 10% every three years, fares would keep pace with inflation and the MBTA would be able to maintain this 50% fare recovery ratio. MBTA fares have not been raised since 2007, and current fares are the lowest of any major US transit system. In addition, the monthly Link Pass offers a very steep discount (21% off already-discounted CharlieCard rates if used for commute trips only), and should be raised to be more in line with regular fares. Commuter rail fares should be raised along with bus and subway fares, as commuter rail passes also offer a very steep discount that should be brought more in line with regular fares.

   In addition, the MBTA should move to an electronic system of fare collection, including parking lot fares and commuter rail fares, to cut costs and reduce fare evasion. Currently, MBTA parking lots heavily rely on cash-based transactions. Switching to an electronic system of fare collection in parking lots would prevent most revenue leakage due to cash-based transactions. There are also a number of parking lots that utilize staff members to collect fares. A switch to an electronic fare collection would decrease the need for staff members to collect fares, reducing the overall operating expenses of the MBTA.

Switching to an electronic fare collection system could also generate revenue for commuter rail fare collection. Currently, commuter rail fare collection utilizes a paper-based ticketing system. Switching to an electronic card system such as the Charlie Card would save money and create a stricter fare collection system, minimizing the revenue leakage due to the current ticket-based system.

3. **Drivers should be charged a per-mile usage fee at the time of their annual vehicle inspection, and municipalities should receive a portion of that fee.** Charging drivers a per-mile fee at their annual vehicle inspection would allow the Commonwealth to begin generating mileage-based revenue without having to make a significant investment in new tolling infrastructure. This system could either charge drivers for every mile driven, or for every mile driven above a base number of miles. An additional possibility is to charge a differential fee based on the fuel efficiency of the vehicle. Furthermore, municipalities should receive a share of these fees, as they are responsible for maintaining the local roads that bear a significant portion of the state's vehicular traffic. This strategy could be implemented with minimal investment in new technology, and is an equitable way of charging drivers based on total miles driven rather than placing the entire burden on users of limited-access highways.

4. **Vehicle registration fees should be indexed to inflation, and should vary based on vehicle fuel efficiency.** Vehicle registration fees were raised in 2009. While this was a positive step, registration fees are an important component of transportation financing and should be indexed to inflation in order to keep pace with the growing cost of providing a safe and reliable transportation system for the Commonwealth. In addition, vehicle registration fees should be calculated based on vehicle fuel efficiency, ranging from the lowest fees for motorcycles, hybrid cars and electric vehicles, up to the steepest fees for heavy trucks and buses. This would provide a modest incentive for residents to choose more efficient vehicles and would recognize the Commonwealth's commitment to lowering emissions of greenhouse gases.

5. **Revenue from the Underground Storage Tank program should be dedicated to transportation.** Approximately $75 million per year is collected from the Underground Storage Tank program through a 2.5 cents per gallon tax levied upon motor fuel wholesalers, and an annual $250 fee per tank paid by the owners of underground storage tanks. This revenue currently goes to the General Fund, and the funds for administering the UST program are subsequently allocated from the General Fund. The Department of Revenue estimates that while the program collects approximately $75million each year, the UST program would be fully funded at a level of $30-35 million per year. MAPC proposes legislative language that would require UST program revenue to be directed to the Transportation Trust Fund or to a dedicated UST fund, and require that any monies collected through the UST program in excess of expenses be dedicated to transportation funding.

6. **Fees based on transportation impacts from development should be used to provide revenues for transportation.** The state should establish clear rules for assessing impact fees, and these fees should be assessed to address both the local and regional impacts of development on transportation infrastructure. Impact fees should not only help to cover the capital costs of adding or expanding infrastructure, but should also address at least a small portion of the operating costs of transit. While impact fees can help to pay for an occasional small project, or part of a larger project, the Commonwealth should not expect them to become a major and predictable source of transportation funding. The Commonwealth should establish clear guidelines for measuring both local and regional impacts, and identifying who should measure these impacts and assess the fees. The state can also help by sanctioning the establishment of a "mitigation bank" to collect and expend impact fees from a variety of development projects along a specific corridor.

7. **Fund a modest portion of transportation expansion costs through District Improvement Financing.** Municipalities should be encouraged to adopt District Improvement Financing (DIF) and pledge a portion of incremental property tax collections to cover debt service costs for major capital projects favored by the municipality, or even to cover a portion of the operating or maintenance costs of this new improvement. Municipalities should not be overly burdened by such contributions, but a modest local match may be reasonable, especially if it can come from new revenues derived from development around the project.

8. **Allow municipalities or regions to raise funds for specific projects or lists of projects.** Allow single municipalities or regional groups of municipalities to hold votes to raise funds for specific projects or lists of projects, through increases in the property tax, sales tax, parking fees, real estate transfer tax, or other sources. This is a major source of revenue for transportation infrastructure in metropolitan areas in the southern and western US, but it is not currently available in Massachusetts. The Center for Transportation Excellence reports that voters supported 87% of transportation funding referenda nationwide in 2011, raising more than $1 billion specifically for transportation projects in 16 states. More than half of the referenda raised funds through property tax increases, with sales tax and vehicle fee increases each accounting for 14% and bonds accounting for 10% of the measures. Support for transportation funding referenda is widespread across party lines, as voters recognize the importance of investment in transportation infrastructure.

   This option has the strong support of the Massachusetts Association of Regional Planning Agencies (MARPA). However, this proposal might require an amendment to the state constitution in order to be implemented. These funds could be used for expansion projects, major capital improvements, restoring or expanding transportation services, or supplementing existing resources for operations and maintenance.

9. **Increase Chapter 90 funding to $300,000,000.** Chapter 90 funding, established in 1973, provides full reimbursement of documented expenditures related to the maintenance, improvement, and repair of approved roadways and pedestrian and bicycle infrastructure. Allocations for this program had been stagnant at $150 million since the mid-1990s, while need around the Commonwealth continued to increase. In response, Chapter 90 funding was increased to $200 million starting in FY2011. This was a much needed step, but it did not go far enough. The State should increase annual allocation amounts to $300 million, as the Massachusetts Municipal Association recommends, to ensure that cities and towns have the means to adequately maintain and repair our local transportation infrastructure.

10. **Create a new funding allocation in the transportation bond bill for Complete Streets activities on local roads.** Creation and implementation of Complete Streets guidelines is an important tool for municipalities to ensure that the public right of way is routinely designed, constructed and operated in a way that provides safe access for all users. The Commonwealth should provide dedicated funding to incentivize communities and regions to adopt Complete Streets policies, which ensure that transportation planners and engineers consistently design and operate the entire roadway with all users in mind, including bicyclists, public transit vehicles and riders, and pedestrians of all ages and abilities.

11. **Devote a portion of a broad-based tax toward transportation.** Because an effective transportation system is essential to economic development and quality of life for all residents of the Commonwealth, whether or not they are direct users of each mode, revenue from non-transportation sources should contribute to building and maintaining the transportation system that Massachusetts needs.

In 2000, the Legislature increased the sales tax and earmarked twenty percent of sales tax revenue to go toward the MBTA. Starting in FY 2010, the Legislature also devoted $180 million in revenue from another sales tax increase to transit ($160 million in additional support for the MBTA, and $20 million in resources for the RTAs). Similar, additional measures could be taken with the sales tax or other broad-based, statewide taxes (e.g. a real estate transfer tax or payroll tax) to dedicate funds to transportation. Tax revenue that increases along with the tax base and/or inflation are preferred, but other sources would also be welcome.

12. **On the Massachusetts Turnpike, reinstate tolls between exits 1-6 for passenger vehicles and retain all tolls past 2017.** The Commonwealth should not forfeit these revenues, but instead use them to pursue a balanced operating budget for the Western Turnpike. The tolls from exits 1-6 would generate significant revenue with relatively little capital expenditure since the old toll booths have been maintained for trucks. MAPC advocates a balanced tolling system with the burden shared more equitably across regions (see item #3 under "Issues to Study"), but in the meantime it is crucial not to forfeit revenue for our already-underfunded transportation system.

Reform Recommendations

The Transportation Reform enacted in 2009 made positive steps toward reforming our transportation system. Achievements of the bill that MAPC supported include: establishing a consolidated state transportation agency, MassDOT; establishing a Transportation Trust Fund to centralize transportation-related revenues and expenditures; establishing a Regional Mobility Assistance Program; and requiring that MBTA employees and retirees be transferred to the state Group Insurance Commission.

However, MAPC supports additional measures to reform our transportation system. These changes will allow the greatest efficiency of process and will provide methods of significant long-term cost-savings for the Commonwealth.

1. **The Commonwealth should cease to utilize bond funds to pay for annual operating expenses.** The annual appropriation to MassDOT should be sufficient for it to discharge its operational duties – without borrowing and thus burdening future generations.

2. **The Commonwealth should assume a significant portion of the debt of all transit agencies.** The MBTA needs to fully fund its state of good repair program. With an estimated $4.5 billion backlog of capital projects needed to maintain a state of good repair, the MBTA will have difficulty reaching its full ridership potential, even though high gas prices have contributed to record levels of ridership in 2011. Maintaining a state of good repair will help the MBTA to retain that increased ridership and generate higher fare revenue over time. However, the MBTA will be unable to maintain a state of good repair if its debt burden is not eased. Twenty-five percent of the MBTA's operating budget in FY2011 was devoted to servicing the debt burden of $5.5 billion—actually $8.5 billion when interest is included—much of it from transit commitments required to offset air pollution related to the Central Artery/Tunnel Project. The Commonwealth should assume a large portion of the MBTA's debt, easing the burden it places on the MBTA's budget and allowing the agency to maintain a state of good repair, thereby increasing both ridership and fare revenue.

3. **The Commonwealth should pay for all MBTA capital expansions that are consistent with reasonable capital plans and/or required by court settlements or agreements with federal agencies.** The Commonwealth should assume the cost for any future expansions, consistent with reasonable capital plans, court settlements, or agreements with federal agencies, so that the MBTA can concentrate on maintaining a state of good repair. All reasonable efforts to acquire federal funds to pay for a portion of the costs of such expansions should be exhausted. Before committing to a project, there should be a reasonable expectation that the MBTA has adequate revenues in place to operate and maintain the expansions. Additionally, planning for capital expansion should analyze on a 20-year time horizon whether the MBTA can reasonably expect to have the resources to operate and maintain any expansions, with the goal of ensuring that new service does not divert funds from maintenance and operations.

4. **Pursue public/private partnerships to leverage public investment in transportation.** Within the current system, there is a limited availability of public funding for transportation projects. Certain transportation projects, as well as being important to the public, may also provide valuable benefits to private entities (a new transit stop near a commercial or residential development, for example). In certain cases private companies are willing to contribute to the cost of a transportation project that will benefit their business, and this should be encouraged by seeking out opportunities for public/private partnerships, and prioritizing projects that leverage private funds. However, MAPC does not support the sale or long-term lease of major transportation assets. Sale or lease of truly surplus assets can be beneficial, but long-term revenue or service provision must not be compromised in favor of short-term financial gains. In all cases an analysis of risks and rewards should take place that aims to maximize the public benefit of any public assets, so that privatization occurs only when it will increase the long-term value to the public of the assets being considered for sale or lease.

5. **Establish a Massachusetts Transportation Infrastructure Bank.** An Infrastructure Bank would leverage public resources and private investment to provide loans, grants, and other financial assistance to cities, towns, and transit authorities for qualified transportation projects. The Infrastructure Bank would be required to be fiscally responsible, and would be self-sustaining after an initial investment of public funds. It would operate independently, allowing priorities to be set and projects to be selected based on merit. When the bank lends funds to eligible projects, loan repayments would be collected by the bank and lent to subsequent projects, creating a revolving loan program that would increase the overall number of transportation projects to receive funding. There are currently 33 states with infrastructure banks, while in Massachusetts legislation to create a Transportation Infrastructure Bank has been repeatedly filed, but no action has been taken.

6. **RTAs should be forward funded.** The MBTA is already forward funded, but the state's RTAs must ask for their costs to be reimbursed at the end of each fiscal year. The TFC recommended forward funding for all RTAs in order to establish state support levels before the start of each fiscal year. This item would require the Commonwealth to double-fund RTAs for one year. This recommendation was included in the 2009 Transportation Reform legislation, which mandated forward funding to begin in FY2012. However, the FY2012 budget postpones forward funding until FY2014. We believe that all efforts should be made to prevent forward funding of the RTAs from being postponed further.

7. **MassDOT should have the flexibility to use all revenues at its discretion.** For example, the 2009 Transportation Reform law restricted the use of toll revenues to the maintenance and operations of the assets on which a given toll was collected. This statute should be changed to allow MassDOT the flexibility to use revenue raised from a particular asset on a different asset or even a different mode, as long as the monies raised are in excess of what is needed to operate and maintain the originating asset in a state of good repair. (Using MassPort revenue to support the MBTA would be one example.)

Issues to Study

Finally, below are some significant issues that should be studied. These issues have the potential to increase efficiency of the system, but more research is needed to determine proper structure and implementation details.

1. **Study the implementation of congestion pricing.** Congestion pricing or surrogate strategies like variable-priced parking, could generate additional funds, or it could be a revenue neutral policy that results in a more efficient use of transportation infrastructure by providing incentives and disincentives to use roads at certain times, resulting in more evenly distributed trips. However, real transit alternatives must be available to those who might wish to travel by car less often. Additionally, some alternatives may be needed to ensure that low income communities are not unfairly burdened by this system (possibly through tax credits or congestion surcharge reductions).

2. **Study location efficient mortgages.** Location efficient mortgages promote a reduction of vehicular miles traveled. Such mortgages are available in other cities around the country and allow people to buy more expensive houses in locations where they do not need to rely on automobiles from transportation. A study is needed in order to determine how best to create and promote such a plan.

3. **Study the implementation of a broad system of direct road user fees on limited access highways.** This item could generate significant revenues on interstate and limited access highways by levying a per-mile charge via "open road tolling" technology. These fees, equitably distributed on all limited access highways and assessed electronically, would be better than traditional tolls because they are safer, cause less congestion, and can cover a broader number of roads than those currently covered by tolls. Such a system would apply tolls broadly across the state, which would be much more equitable than the current system that collects tolls only from people using the Mass Pike, the harbor tunnels, and the Tobin Bridge. Tolls that are applied across the state could be much lower than tolls currently assessed only on one road and a small number of harbor crossings. However, a wider distribution of tolls must be studied in order to ensure that new tolls do not simply displace traffic to nearby local roads.

   In the meantime, steps should be taken to mitigate the inequity of the current tolling system. Commuters who use a monthly transit pass, as well as FastLane users, currently qualify for a state income tax deduction for their commuting expenses. Unfortunately, filing for this deduction can be administratively difficult, so MAPC recommends that the process be simplified so more residents can receive this deduction. Eventually, when tolls are distributed more evenly across the state, the deduction could be revisited.

4. **Implement a pilot program to assess the feasibility of VMT charges to replace or supplement traditional tolling.** A VMT fee system has been piloted or studied in several US states. Under such a system, fees are assessed based on the number of miles driven, and can be assessed at different rates according to the type of road, the time of day, and/or the type and fuel efficiency of the vehicle.

   A transponder installed in the vehicle tracks the miles traveled, and fees are usually collected at gas stations. Tracking VMT through odometer readings collected at annual vehicle inspections is an alternate method of implementation. Unlike traditional tolling, revenue is collected for use of all roadways, and could be allocated to help municipalities maintain local roads. VMT fees have the advantage of equitably charging all drivers for their road usage, instead of penalizing users of certain roads.

VMT fees create an incentive to minimize total miles driven, and based on the structure could also incentivize driving on certain roads, driving at off-peak times, and/or purchasing fuel-efficient vehicles. In addition to raising revenue in a rational and equitable manner, such a system could have significant positive effects on congestion and greenhouse gas emissions. A pilot study should be implemented to determine the technical feasibility of a VMT fee system, and to develop a proposed pricing structure for statewide implementation.

5. **Study the introduction of "HOT lanes."** HOT (high occupancy/toll) lanes are lanes that operate alongside existing highway lanes to provide users with a faster and more predictable travel option. While HOV (high occupancy vehicles), buses, and emergency vehicles would have free access to these lanes, drivers with too few passengers to qualify as an HOV could pay a toll for access. These tolls could vary depending on congestion and/or time of day. A study should be conducted, taking into account feasibility and equity.

6. **The MBTA should study peak/off-peak pricing.** Peak pricing can raise additional revenue, while encouraging more efficient use of transit infrastructure and increased ridership during off-peak hours. For example, the Washington DC Metro has a 20 cent rush hour surcharge, which has raised significant additional revenue without negatively impacting ridership; in fact, weekday riders were even less sensitive to price effects than expected.

7. **The MBTA should study the implementation of a University Pass Program.** Creating a University Pass Program could generate dedicated revenue for the MBTA and RTAs while increasing ridership among students. Such a program could create an opportunity to generate revenue without increasing taxes on the general public or utilizing state/federal funds. Universities within one mile of MBTA or RTA services could participate by paying a discounted annual fare per full-time undergraduate or graduate student directly to the MBTA or nearest RTA. Students would be able to use their pass for unlimited rides on buses and trains operated by the nearest transit service. The feasibility of including faculty and staff should also be considered. A similar program has been successfully implemented in other major cities, including Chicago.

Moving Forward with Funding:
New strategies to support transportation and balanced regional economic growth

By Benjamin Forman, Dan Darcy, and James Emilio[1]

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MassINC
RESEARCH. JOURNALISM. CIVIC LIFE.

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EXECUTIVE SUMMARY

Difficult economic times have created a host of challenges for Massachusetts. Among them, the financial shortfalls of the state's transportation agencies place high on the list. The MBTA is considering fare hikes and service cuts; even with these actions, real questions remain about how the agency will close gaps and keep the aging system operating in the future. The state's 15 regional transportation agencies are also struggling. They have gone years without an increase in state funding. Most have already raised fares and cut the modest service upon which many of the state's most economically disadvantaged residents depend.

At this crossroads, Massachusetts faces a choice. The state can continue on the current course, applying fresh financial bandages, or Massachusetts can depart boldly from the status quo by giving regions across the Commonwealth tools to invest in public transportation at levels consistent with their needs and aspirations for economic growth. *Moving Forward with Funding* charts this second route, presenting the economic rationale for a bolder approach and demonstrating how new strategies would help Massachusetts make optimal investments in public transportation. The report advances four key themes:

1. The rationale for investing in public transit as a regional economic development strategy is exceptionally strong. Supporting evidence can be found in a large body of rigorous economic research. It is also visible in the investment patterns of private developers and the increasing number of regions focused on keeping efforts to upgrade their public transportation infrastructure moving even during these difficult economic times: New development totaling more than $7 billion in investment is planned for transit-connected areas in Greater Boston's urban core. Regions around the country have proposals for more than 600 transit projects, representing over $230 billion in new public transportation infrastructure. .... Page 9

2. The state's current practice of paying for transit with taxes collected statewide weakens support for efforts to increase spending on this vital infrastructure. Allocating resources among the state's many regions equitably is inherently difficult. Analysis suggests the MBTA has captured a disproportionate share of revenue, but like the RTAs, it has not been able to generate adequate resources to meet its needs.

- Among major US transit agencies, the MBTA receives the highest share of funding from statewide sources. This comes at a cost to regional transit agencies in Massachusetts. State assistance to RTAs amounts to just 13 percent of the money RTA communities send to the MBTA through the sales tax. On average, RTAs receive only one-third of their budget through state assistance, whereas the MBTA receives 57 percent of its budget through state funds. And while the MBTA has actually seen a 16 percent increase in state support since the fiscal crisis began in FY09, the RTAs have faced a 5 percent decrease in state funds. .... Page 11
- This uneven balance has eroded support for additional investment. The RTA systems are not able to provide adequate service, which reduces ridership and causes many to overlook their role in regional economies and their ability to contribute to future economic growth. At the same time, communities outside of the MBTA service area are keenly aware of the outsized investments that have been made in Greater Boston. Only 40 percent of the state's House districts include a municipality within the

MBTA's core service area. So while the MBTA clearly requires additional resources to support its operations and failing infrastructure, many Legislators have been unwilling to provide the necessary funds. .... Page 12

3. This analysis shows regional financing has the potential to produce the resources needed to support robust transit systems across the state. Evidence nationally suggests that states with regional transportation financing are investing more in this vital infrastructure. This paper examines two regional revenue streams: A payroll tax and a tax on vehicles per mile traveled. These taxes can be collected at varying rates within discrete geographic areas and they have the potential to generate significant resources at a relatively low cost to the average taxpayer.

- For instance, a 0.16 percent payroll tax would provide revenue in the range needed to close the MBTA's annual operating deficit ($140 million to $207, million depending on how the tax is levied in overlapping RTA districts). This 0.16 percent payroll tax would cost the median full-time worker in the MBTA service area just $1.77 per week. In RTA service districts, a payroll tax at this rate would generate nearly $100 million in revenue (more than one and a half times what RTAs currently receive from the state) at a cost of approximately $1.50 per week to the median full-time worker in RTA districts. .... Page 18
- Alternatively, RTAs could generate a similar revenue stream with a 0.5¢/mile tax on vehicle travel at a cost of $1.53 per week per registered vehicle. The MBTA shortfall could be closed with a tax ranging from 0.5¢/mile to 0.75¢/mile (depending on how the tax is levied in overlapping RTA districts). This would cost between $1.03 and $1.54 per week per registered vehicle in the MBTA service area. .... Page 19

4. To make regional financing work, Massachusetts must first develop a sound framework for establishing the geography of transit districts and supporting these districts as they plan, build, and operate this critical infrastructure. A bill authorizing regional financing would need to carefully negotiate how regions establish districts to support regional transportation assets, and how revenue should be allocated to build, operate, and maintain transportation infrastructure over the long term. The state would also need capacity to support regions as they develop plans for transportation investments and undertake the technical aspects of this complex work. . .Page 22

Moving Forward with Funding outlines a vision for investment in public transportation infrastructure that regions all across the state can endorse. The report identifies revenue mechanisms that provide a foundation for stronger regional transit systems, while closing the large gaps in the MBTA operating budget. By adopting this strategy, the T can move forward with projects essential to Greater Boston's future growth and prosperity. At the same time, the state's RTAs can better support regional economic development. This balanced approach better serves Massachusetts.

REVIEW OF MASSDOT FARE INCREASE AND SERVICE CUT PROPOSALS

MBTA
Advisory
Board

February 2012

DRAFT

The MBTA Advisory Board is an independent statutory organization which represents the interests of the 175 cities and towns in the MBTA service district. Each year these municipalities contribute over $150 million in subsidies to the MBTA via municipal assessments.

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Executive Summary

Based on testimony at public meetings on MassDOT's plans to raise MBTA fares and cut MBTA service, as well as a decade-long track-record of sounding the alarm about the MBTA's cyclical and structural operating and capital financing crises, the MBTA Advisory Board offers the following proposals to close the MBTA's FY13 operating budget deficit and help close its projected FY14 operating deficit. The framework for these proposals is based upon the following principals:

- Focus on commuters- the vast majority of ridership who just want to get to/from work
- No service cuts or changes to RIDE service area for the time being.
- Buy time for Patrick/Murray Administration and Legislative Leadership to find a long-term solution to our broken transportation system.
- Focus on Transportation Reform and co-operation by all parts of State Government
- Those who benefit the most from transit service should contribute towards it's proportionally and equitably.

To close the FY13 $161.1 million operating deficit the Advisory Board makes the following proposals to generate new revenue ($91.6 million) and find more savings through transportation reform ($79.0 million).

FY 13 Revenue/Savings Proposals	Revenue/Savings ($, net, millions)
New Revenue from MBTA Ridership	75.0
More Savings from Transportation Reform	70.8
MBTA Innovation and Efficiencies	11.7
Revenue from Institutional Beneficiaries of MBTA Service	13.1
TOTAL:	170.6

The Advisory Board's proposal, while not perfect, does preserve the transit system and bring more stakeholders into the discussion around fixing public transportation. Most importantly it provides a window of opportunity for the Patrick/Murray Administration and Legislature to lead us out of this mess. MassDOT's proposals offer only a one-year fix that leads right back to even more cuts and fare hikes next year. Since 2003 the Advisory Board and numerous other reports, articles, and papers have heralded the MBTA's fiscal woes and warned of draconian fare increases and service cuts. 2012 is the year when either such cuts and increases come to pass or the year that our elected leaders finally get serious and deliver the comprehensive, long-term solution that will allow Massachusetts to thrive in the years ahead.

Introduction

In January 2012 MassDOT announced plans to close the MBTA's $161 million FY13 operating budget deficit via fare increases and service cuts. Since this announcement at numerous public hearings and meetings the reaction has been clear- the public demands something else.

While there is not unanimity about how this new solution should be framed, broadly speaking there seems to be consensus around the following themes:

- The MBTA is mired in a structural and cyclical deficit, which requires a legislative fix.
- Such a legislative solution will eventually require new revenue, cost shifting, and debt relief to be successful.
- Riders cannot and should not bear the burden of new revenue alone.
- Fare increases, while unpalatable, are preferable to service cuts.
- The burden of revenue increases and cost reductions should be as small as possible, and should be shared by as many stakeholders as possible.
- The MBTA must everything possible to collect all the fare revenue it is owed.
- Leadership is required from the Patrick/Murray Administration, Legislature and other leaders to find a way out of this that does not require figurative annual bloodletting.

It is important to note that the MBTA has much more than a $161 million operating budget deficit. On paper its FY13 deficit is closer to $185 million, which management to its credit has reduced through efficiencies, attrition, and changed work practices. It carries a debt burden of over $8 billion in principal and interest that devours over $400 million in spending annually. Despite such large annual payments the amount it spends on debt principal is too low for it to get out of debt at any time in the near future. Its backlog of state-of-good-repair projects is well over $3 billion meaning that maintenance and enhancement projects will continue to be deferred and the system will continue to lurch from crisis-to-crisis, delay-to-delay, and frustration-to-frustration for want of revenue. For the past several years the Authority has plugged large operating deficits through greater efficiency, land sales, revenue securitization and by refinancing and restructuring debt. This year MassDOT's proposal is for fare increases and service cuts. In FY14 the deficit is projected at over $201 million, and even if all the cuts and fare increases are enacted the deficit will still be over $40 million.

The MBTA Advisory Board offers the following alternative to MassDOT's fare increase and service cut proposals. While this alternative is certainly not a long-term fix it does buy one-year of breathing space for the Patrick/Murray Administration and Legislative leadership to finally fix transportation. For FY13 the Advisory Board proposes:

FY 13 Revenue/Savings Proposals		Revenue/Savings ($, net, millions)
New Revenue from MBTA Ridership		
25% fare increase		75.0
	Subtotal:	75.0
More Savings from Transportation Reform		
Assistance with transportation security costs		36.3
Transfer ferry service & assets to MassPort		31.1
Private Carrier/Suburban Bus cost reallocation		2.1
Assistance of homeless transportation costs		1.3
	Subtotal:	70.8
MBTA Innovation and Efficiencies		
0% FY13 wage increase for all MBTA employees		8.2
MBTA abutter lease program		2.0
Alcohol advertisement program reinstatement		1.5
	Subtotal:	11.7
Revenue from Institutional Beneficiaries of MBTA Service		
Transit proximity beneficiary payments		5.5
Special event surcharge		5.0
CR proximity beneficiary payments		2.6
	Subtotal:	13.1
	TOTAL:	**170.6**
	FY13 Operating Deficit:	-161.1
	Surplus Towards FY14 deficit	9.5

In addition, at the request of our members and in direct response to the public testimony of the public at MassDOT's hearings on their proposals, we request the MassDOT Board undertake the following non-revenue policy reviews and provide us a written response:

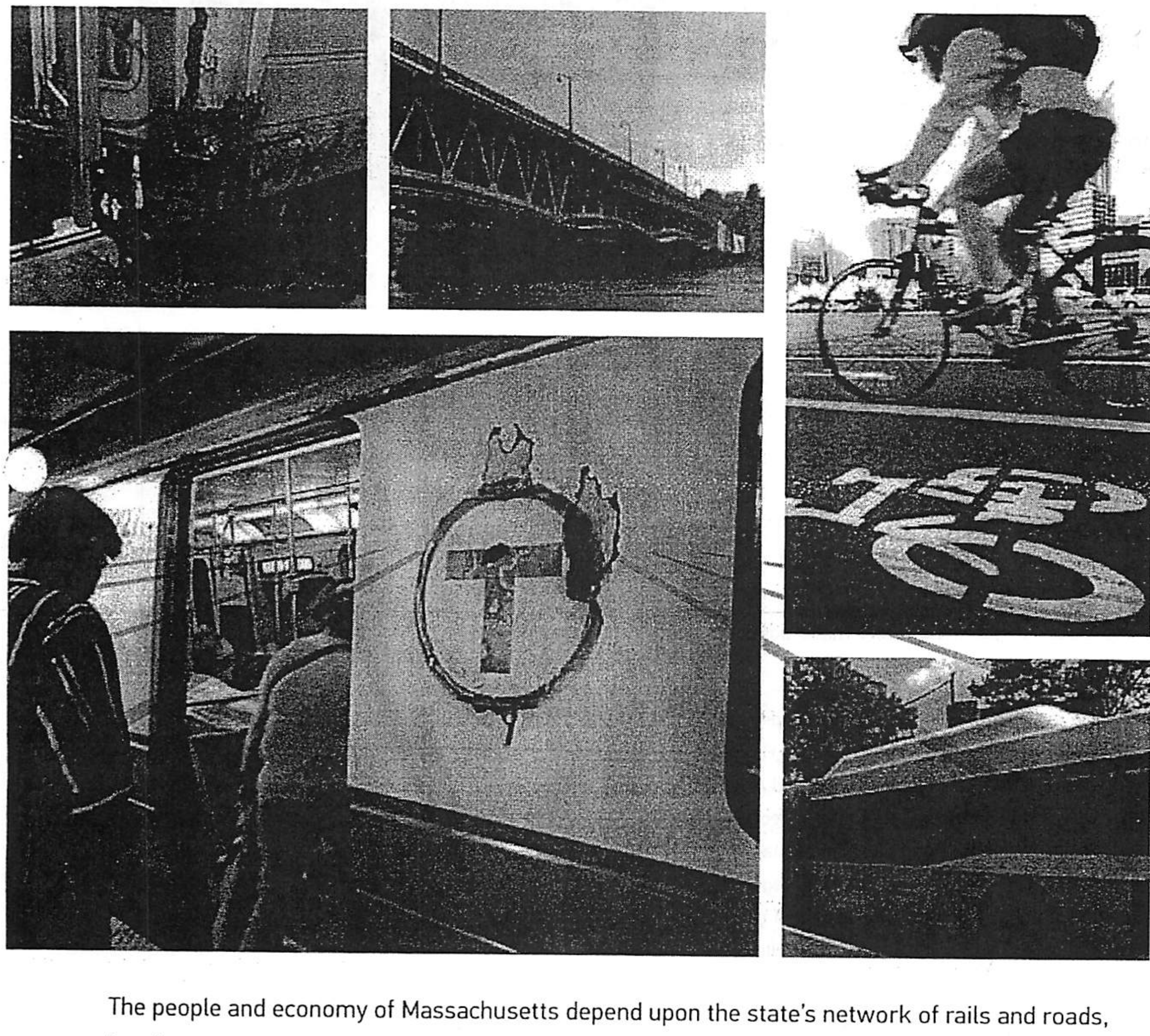
FY13 Non-Revenue Policy Requests of MassDOT Board of Directors

Fare evasion study and reduction policy by 6/30/12
RIDE in-person assessments as soon as possible
Statewide paratransit commission findings by 4/1/12
TOD value capture study with recommendations by 9/1/12
Underperforming route "watch list" policy with timeline and public processes.
Small, regular fare-increase policy by 7/1/13

MAXED OUT

MASSACHUSETTS TRANSPORTATION AT A FINANCING CROSSROAD

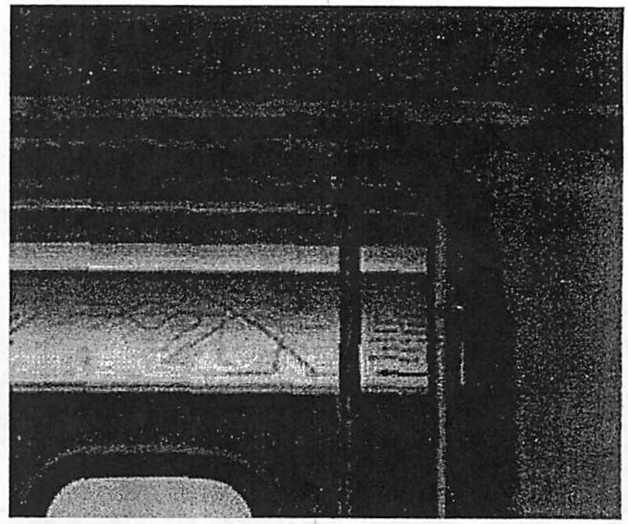
A Primer from Transportation for Massachusetts (T4MA)



The people and economy of Massachusetts depend upon the state's network of rails and roads, but the transportation system is living largely on borrowed time and borrowed money. Faced with a crushing burden of debt, the system lacks the revenue to maintain its current condition, let alone meet future needs.

OCTOBER 2011

Transportation for Massachusetts (T4MA), a diverse coalition of Bay State organizations, seeks to promote an environmentally sustainable, reliable, and affordable transportation system for people across the Commonwealth. T4MA believes that a strong and competitive Massachusetts economy requires a transportation system that supports and connects communities while reducing greenhouse gases and other pollution and providing greater choices to users of the state's rails and roads. Through research, advocacy, and organizing, T4MA works to spur investment in transportation improvements and to obtain the best return on those investments to travelers and taxpayers. T4MA members promote better transportation, regional planning, affordable housing development, public health, environmental protection, environmental justice, and smart growth.



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I. The Transportation Financing Crisis Matters

Fixing transportation is about more than rails, roads, sidewalks, bike paths, and bridges. Transportation is at the core of the Massachusetts economy, strengthening links to jobs, and delivering goods and services as well as opportunities. The system is also central to a more environmentally responsible future.

The Massachusetts transportation system is aging, unable to maintain itself in good condition and even more unable to expand to meet the requirements of the Commonwealth's people, environment, and economy. The situation—on the balance sheet and on the state's roads and rails—keeps getting worse. But as a Transportation Finance Commission created by the Legislature in 2004 succinctly put it, "We take our transportation system for granted."[1] Massachusetts can no longer afford such complacency. Nor can policy makers assume that passage of transportation reform two years ago solved the system's underlying problems. The need to understand the depth and significance of the transportation system's financial problems has become especially urgent.

The stakes are enormous: Life in the Commonwealth is built upon a transportation infrastructure that connects more than 6 million residents to jobs, schools, health care, libraries, ball fields, churches, and each other.[2] The system has approximately 72,000 miles of roads and more than 5,000 bridges.[3] The state has the nation's fifth largest transit system in terms of ridership[4] and, with South Station, the sixth busiest intercity rail station. While the transportation system features major players such as the Massachusetts Bay Transportation Authority (MBTA), and the Massachusetts Port Authority, it also consists of regional transit authorities, transport for senior citizens, and small roads and bridges used by residents, businesses, and tourists throughout the state. As a new transportation leadership team seeks to define the system's future in Massachusetts, the state faces a potential 30 percent federal transportation budget cut under proposals before Congress. For the highway division alone, this could mean the loss of $180 million, reducing the federal contribution from $600 million[5] to $420 million.

Despite additional sales tax revenues for the MBTA and the metropolitan highway system provided by the Legislature, other revenue streams, such as federal stimulus funds, are tapping out or are vulnerable to budget cuts. As funding declines, service will suffer in a range of ways, from bus routes that are eliminated and road and bridge repairs that are deferred to public transit expansions that are canceled, despite their important role in reducing vehicular emissions that contribute to climate change. Because of its financial problems, the MBTA plans to raise fares in July 2012 and service cuts are likely even with that increase.

The most direct measure of transportation's financing woes is not found in data or even reports such as this one. Rather, the impact is being felt in direct ways by people and businesses across Massachusetts. Just this past summer, a maxed-out system showed up as Red Line commuters stuck on trains for hours as equipment operating far past its expected lifetime suffered breakdowns. A maxed-out system means traffic bottlenecks that negatively affect deliveries to or by small businesses, and some regional transit authorities being forced to eliminate bus service on weekends, often leaving people who live outside of major urban areas with few if any public transportation options, forcing them back into a costly and environmentally harmful dependency on automobiles.

All Massachusetts transportation systems are jeopardized by a long pattern of underinvestment.

Warnings about the consequences of a financially strapped system are not new. "While the financial picture is grim, it is important to note that the MBTA is too valuable an economic asset to permit its further deterioration or even collapse, said a 2009 report on MBTA finance requested by Governor Deval Patrick and authored by David D'Alessandro. "A robust public transportation system provides vital economic and quality-of-life benefits to residents from all walks of life and to businesses in the communities it serves."[6] That applies to the entire transportation system in Massachusetts, all of which is jeopardized by a long pattern of underinvestment.

It's true that the same can be said for other areas of government in this era of fiscal stress. From schools to health care, tough times are leading to curtailed services and hard choices across the board. But it is difficult to find a single area of state government with a more direct and indirect impact on the Commonwealth than transportation.

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ECONOMIC COMPETITIVENESS

The Commonwealth's transportation system supports a strong state economy by connecting workers to jobs and businesses to customers while helping spur private sector investment in commercial and residential development. But as the non-profit group Our Transportation Future warned in a July 2010 white paper, "[T]he condition of our transportation infrastructure is deteriorating to the point of threatening Massachusetts's economic competitiveness."[7] Achieving the great potential of Gateway Cities requires local transportation connections, including easy and affordable access to Boston's economic engine. While problems such as traffic congestion add costs to business and thus hurt job creation, highway, transit, and other construction projects create not only better infrastructure, but good jobs.

ENVIRONMENTAL CONSEQUENCES

Transportation decisions directly impact the environment. In Massachusetts, the transportation sector is the largest and fastest growing source of greenhouse gas emissions that cause climate change. Reducing such emissions will require more than fuel-efficient cars. Massachusetts also needs expanded transit, bicycle, and other alternatives to automobiles, especially ones with single occupants. Resulting improvements in air quality will contribute to healthier people and communities.

QUALITY OF LIFE

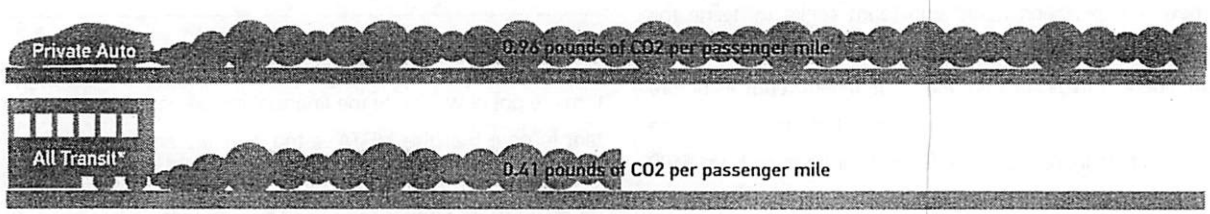
A comprehensive transportation system can link people to a range of services. But today, such access is limited in many communities. For example, senior citizens—an already significant population segment that is growing as boomers age into it—require better mobility options. According to the U.S. Department of Transportation and the American Association of Retired Persons, more than 70 percent "of older households want to live within walking distance of transit."[8]

Progress On Reforms, But Reform Is Not Enough

Massachusetts has acted to improve how it operates and finances transportation. The first effort focused on the MBTA, which serves 175 communities over an area of 3,200 square miles with a daily ridership of approximately 1.24 million passengers.[9] In 2000, legislation referred to as forward funding provided the MBTA with its first-ever dedicated funding source, giving it one-fifth of the then-five percent state sales tax. However, with revenue from this sales tax source falling far short of projections, the MBTA's financial condition has actually gotten worse since forward funding.

FIGURE 1

Comparing Greenhouse Gas Emissions



SOURCE: Transit Cooperative Research Program, *Synthesis 84 Current Practices in Greenhouse Gas Emissions Savings from Transit*, page 8 figure 4.
* All transit includes bus, heavy, light, and commuter rail.

In 2009, the Legislature passed transportation reform, which restructured how Massachusetts operates and funds its highway system. The legislation merged the Executive Office of Transportation and several other transportation agencies into a multimodal department of transportation, MassDOT. While transportation reform has led to greater efficiencies and cost savings, it has not been enough to significantly ease fiscal stresses and better align the transportation system with the Commonwealth's broader social, economic, and environmental priorities.

In FY 2012, 45 percent of the combined annual operating budgets of MassDOT and the MBTA will go to pay off debt, not to operate and maintain current systems, let alone expand them.

Investment to maintain and improve the Commonwealth's transportation system would make Massachusetts a more prosperous and sustainable place to live. Yet with a growing backlog of essential maintenance needs and a long list of projects awaiting funding, new proposals to better meet such important goals cannot be practically considered, especially with the state's high level of debt: In FY 2012, 45 percent of the combined annual operating budgets of MassDOT and the MBTA will go to pay off debt, not to operate and maintain current systems, let alone expand them.[10]

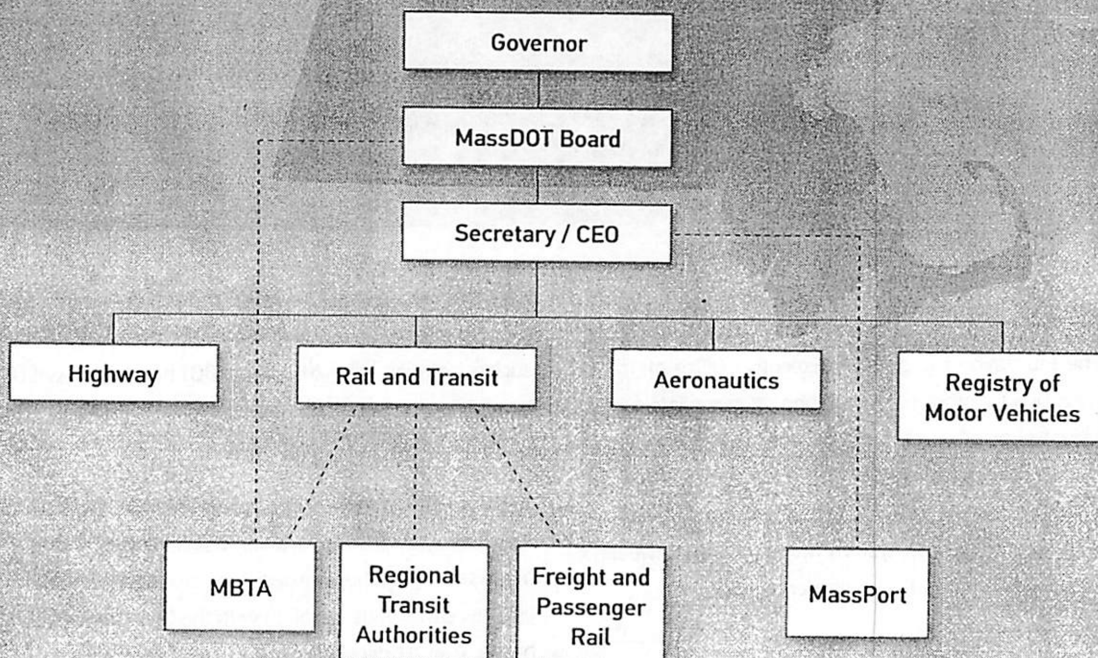
MassDOT now spends so much to repay borrowed money that it does not have enough left to pay for some routine operations, such as salaries. In FY 2011, MassDOT had to borrow $145 million to cover operating costs.[11] In other words, MassDOT dipped into future funding to pay today's bills.

While the system clearly needs new revenue, the state must also spend its sparse transportation dollars more strategically. That means changing the way decisions are made so that transportation investments better align with the Commonwealth's broader needs. Transit riders need to know that their fares are being used effectively, especially since they may be going up. Motorists need to know that the gas taxes, tolls, and Registry of Motor Vehicle fees they pay are being spent wisely. All taxpayers need to know that good transportation investment decisions are being made and carried out as cost effectively as possible. Money paid into the system needs to be used for maintenance and projects that will provide the most value to all system users over the long term.

Numerous studies and reports have detailed the deepening financial crisis, and more are coming. But the complexity of transportation financing makes it difficult to grasp the full magnitude of the problem. Until more decision-makers, users, and taxpayers better understand this stark situation, it will not be resolved. The Transportation for Massachusetts coalition offers this report as a primer on Bay State transportation finance—how it works, why it is now in crisis, and the path forward.

How Massachusetts Transportation Is Organized

FIGURE 2



SOURCE: MassDOT Fiscal Year 2011 Transportation Budget in Plain English

Transportation reform in 2009 merged the Executive Office of Transportation and several other agencies and authorities, including the Massachusetts Turnpike Authority, into MassDOT. MassDOT operates four divisions: highway, rail and transit, aeronautics, and the Registry of Motor Vehicles. MassDOT also has an Office of Transportation Planning. With the Secretary of Transportation serving as its chief executive officer, MassDOT has a five-member Board of Directors appointed by the governor.

While the same five-member board oversees both MassDOT and the Massachusetts Bay Transportation Authority, the MBTA and the state's 15 regional transit authorities maintain their status as independent authorities.

II. Scope Of The Problem

Previous studies have documented that revenue shortfalls jeopardize the current transportation network and severely limit future choices. But as deep federal cuts loom, an already dismal outlook is about to get even worse.

The Transportation Finance Commission minced few words in its 2007 report. Transportation, it concluded, "has been neglected for years... [T]he system we take for granted will fail if we do not take prompt and decisive action."[12] Taking "a very conservative view," the Commission estimated that "over the next 20 years, the cost just to maintain our transportation system exceeds the anticipated resources available by $15 billion to $19 billion. This does nothing to address necessary expansions or enhancements."[13]

Nearly five years later, the picture has gotten worse as an aging infrastructure has further deteriorated, even as demands on it increase due to population changes and other factors. The Commission's numbers were based on a snapshot of five years ago; it defined the gap as the difference between available revenue and the ability to continue spending at then-current levels. The Commission did not have the information to actually assess how much needed to be invested in the system to keep it running well and up to current transportation standards. In the real world of transportation users, failing to achieve a state of good repair means train breakdowns, crowded roads, and an overall decline of service and systems.

Since the Commission's report, the MBTA and MassDOT have been developing more current assessments of the system's actual condition. The good news is that much better information about system conditions is now available; the bad news is that the gap between system needs and resources is much greater, in scope and dollars, than described by the Commission. The MBTA has a $4.5 billion backlog of state of good repair and other projects. On the road and bridge side, MassDOT also faces a chasm between needs and revenues. According to MassDOT, the five-year cost to bring the system up to standards and meet high priority needs is $6.17 billion, while the amount of funding projected to be available over the same time frame is $2.5 billion.[14]

Frustrated commuters and drivers might wonder how state transportation agencies with multi-billion dollar budgets have become so maxed out, like credit card users who have hit their limits. While this report tries to respond to that legitimate question, doing so is neither simple nor easy. Finding the answer to a seemingly basic question—how much money flows into the state's transportation system and where does it go—requires detours through a stream of agencies, acronyms, funding sources, and other fiscal complexities that can confuse even policy wonks. But the bottom line is pretty clear: Massachusetts has been forced to use major chunks of its transportation dollars to pay the principal and interest on borrowed money (the official term is "debt service"), which itself is the result of the way revenue-starved Massachusetts funded yesterday's transit, road, bridge, and other transportation projects. Unless the Commonwealth changes how it funds projects, transportation debt will continue to mount and revenues that could otherwise be used for system maintenance and improvements will instead be used to pay off the debt on borrowed money.

The Growing Gap

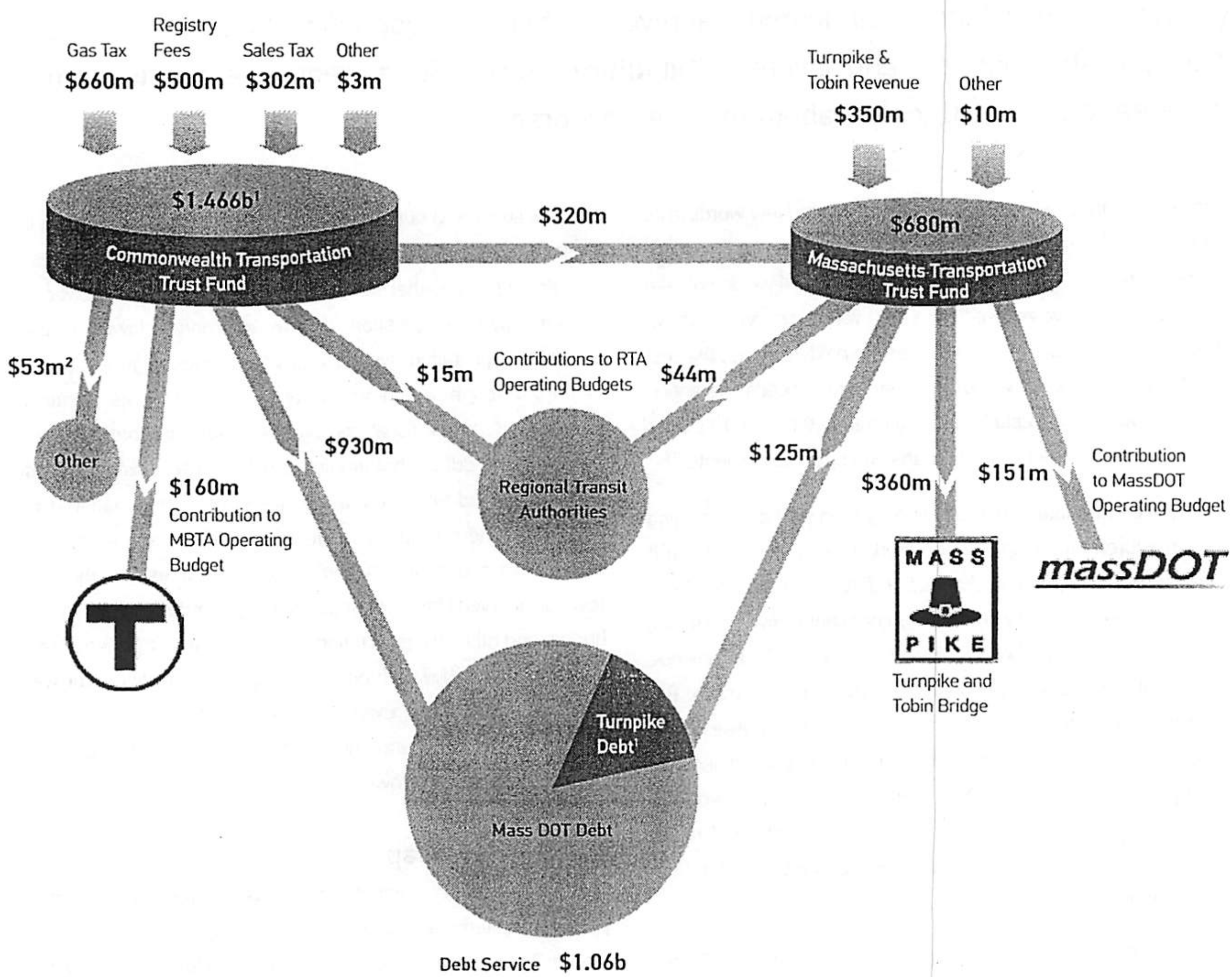
Massachusetts has a variety of revenue sources for its transportation systems and uses them for a range of purposes. (See Figure 3.) These sources and uses are tracked separately for MassDOT and for the MBTA, which is a separate state agency. Further complicating the money picture, each agency has two kinds of budgets: the annual operating budget, which covers regular costs such as wages and routine repairs, and the five-year capital spending plan, which covers the costs for longer-term investments, such as bridge construction or train locomotives.

Federal funds are available mainly for capital spending. Local funding is targeted largely at local roads, though cities and towns also pay assessments to help cover regional transit system costs. Significant funding for transportation comes from state sources, including user fees such as tolls and transit fares, and state general revenue. For transit, the main funding source is the sales tax. The two largest state revenue sources for roads, bridges, and

FIGURE 3

State Funding for Transportation Operations

Well over half of state transportation revenues go to pay off borrowing.



SOURCE: FY 2012 MassDOT Budget Hearing, January 3, 2011

1 CTF total includes estimation factor (FY 2012 MassDOT Budget Hearing, January 3, 2011.)

2 Reserve for snow and ice removal.

3 This debt relates to the Metropolitan Highway System portion of the Turnpike.

other state transportation systems are gas taxes and Registry of Motor Vehicle fees.

For their capital budgets, the agencies get federal funds and the state borrows money. Some of these revenues are used for maintenance or capital projects, while others go to pay the interest on money that has previously been borrowed.

Unlike most state agencies, whose budgets come from the Commonwealth's General Fund, MassDOT is now funded through two separate funds: the Commonwealth Transportation Fund (CTF) and the Massachusetts Transportation Trust Fund (MTTF).

The CTF, which is subject to appropriation by the Legislature, receives about $1.5 billion a year from gas taxes, Registry fees, and sales tax money. The Legislature requires that CTF funds are first used to pay off debt, the amount of which is a function of past and current year spending on projects. The result is that little is left for actual transportation investments. In FY 2011, nearly 75 percent of CTF revenues ($1.06 billion, including all gas tax revenues and Registry fees) were spent on debt service.[15] (See Figure 3.)

Because transportation agencies don't have enough revenue to maintain their systems, the backlog of unmet needs grows larger and larger and the condition of transportation and transit systems deteriorates further. Without enough resources, modernization and expansion are now hoped-for luxuries for highway and transit agencies alike, despite their potential benefits.

Unless the Commonwealth changes how it funds projects, that transportation debt will continue to mount and revenues that could otherwise be used for maintenance and improvements in transit, roads, bridges and more will instead have to pay back borrowed money.

Debt: Necessary Funding Tool, But With Long-term Consequences

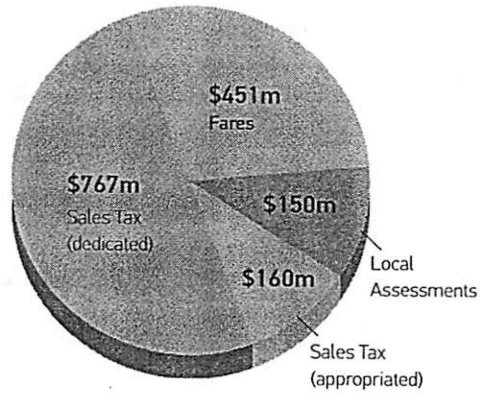
Finding the money for overdue repairs and other maintenance is a challenge under good conditions, and today's funding conditions are anything but good. The increasing costs of principal and interest payments on all the transportation debt the state has racked up cut deeply into its capacity to fund projects. The outlook is made even bleaker by the political and fiscal climate in Washington D.C.: federal funding for transportation is declining, potentially in significant ways. Any money that comes to Massachusetts in upcoming years will be largely used to pay off transportation bills the state has already run up trying unsuccessfully to keep the system in a state of good repair.

To understand the magnitude of the problem on the transit side, it's important to recognize that the MBTA carries the highest debt burden of any transit authority in the nation.[16] In FY 2011, 25 percent of its annual operating budget went to debt service, which is the MBTA's second largest cost after wages and benefits;[17] the system's annual debt payments are now nearly as large as its total revenue from fares.[18] The percentage going to debt service will continue to rise; the MBTA estimates that it will reach 30 percent by 2016. The shortfall between needed upgrades and available funds is actually worse than official numbers suggest. For example, the MBTA's Capital Investment Program does not include other identified and necessary projects, including about $1.3 billion to replace aging cars on the Red and Orange Lines. (See Figure 5.) Similarly, MassDOT has identified major highway projects, currently estimated to cost $550 million, for which no funding exists.[19]

A look beyond the operating budgets of MassDOT and the MBTA and into the $1.5 billion CTF offers a more complete picture of how debt dominates everything else. Every year, the state col-

FIGURE 4

Total Local and State Revenue For MBTA Operations FY 2011



SOURCE: MassDOT Budget FY 2011

FIGURE 5

Not a State of Good Repair

A sample of the challenge facing the MBTA:

Orange Line
120 cars built in 1979-1981 need to be replaced

Red Line
74 cars built in 1969 need to be replaced

Mattapan High Speed Line
New vehicles are needed to replace the cars built in the 1940s

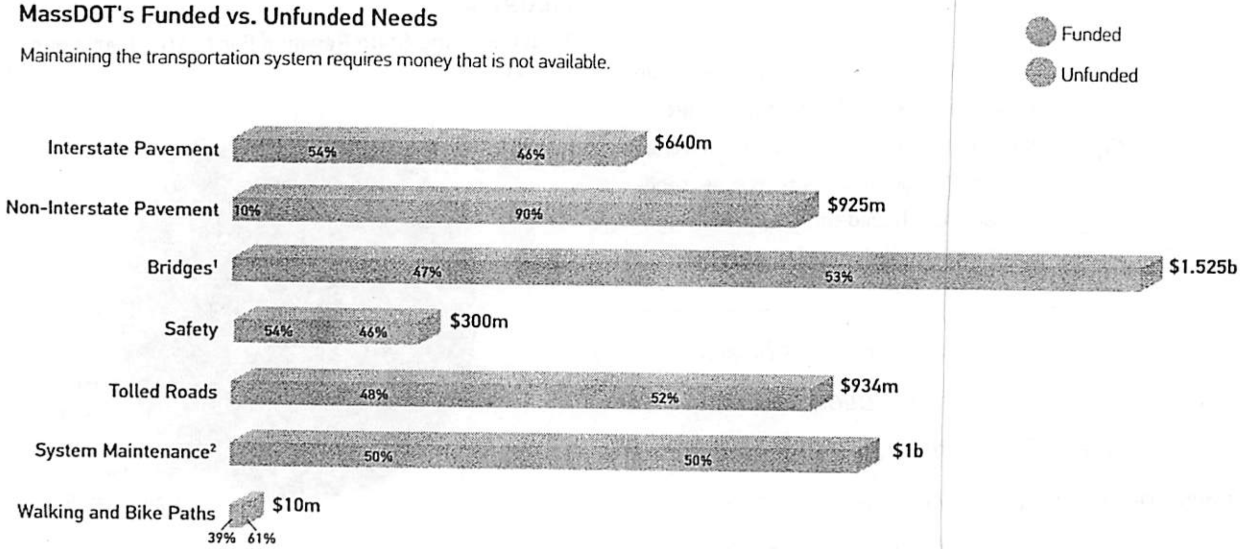
Commuter Rail
More than half of the MBTA's 82 commuter rail locomotives date to the 1970s and nearly all are at or past the manufacturer's recommended lifespan of 25 years

SOURCE: Boston MPO, Long Range Transportation Plan, Pathways to a Sustainable Future.

FIGURE 6

MassDOT's Funded vs. Unfunded Needs

Maintaining the transportation system requires money that is not available.



SOURCE: MassDOT, FY 2011 Capital Improvement Program
1 This program does not include the Accelerated Bridge Program projects
2 This is Non-Federal Aid System Maintenance

lects about $500 million in Registry fees and more than $660 million in gas taxes.[20] That money, plus roughly $300 million in sales tax revenue appropriated by the Legislature, flows into the CTF. But while that money is intended to fund transportation, nearly three of every four dollars in that fund are going to repay debt for money already borrowed by the Commonwealth for transportation projects. Despite recent efforts to reissue some debt at lower interest rates, the debt service burden will continue to grow as long as Massachusetts keeps using borrowed money as its primary way to pay for transportation.

FEDERAL BUDGET CUTS LOOM; STATE REVENUES FALL SHORT

The Bay State's in-state revenue sources cannot come close to filling the current shortfall and certainly not the one due to looming federal cuts. The 21-cents-per-gallon state tax on gas has not been increased since 1991 and factoring for inflation, that 21 cents buys only as much as 13 cents would have in 1991.

On the transit side, revenues from the primary source of state funding, a penny of the sales tax, have fallen significantly short of projections. When forward funding was established in 2000, the MBTA assumed an average sales tax growth rate of 3 percent a year. Due to various factors, including the recession and tax-free Internet sales, that assumption proved far too optimistic.[21] Though a 2009 sales tax increase did provide the MBTA with $160 million in new revenue, the overall underperformance of the sales tax, which accounts for 57 percent of all MBTA revenues, has worsened the transit system's already bleak financial outlook.

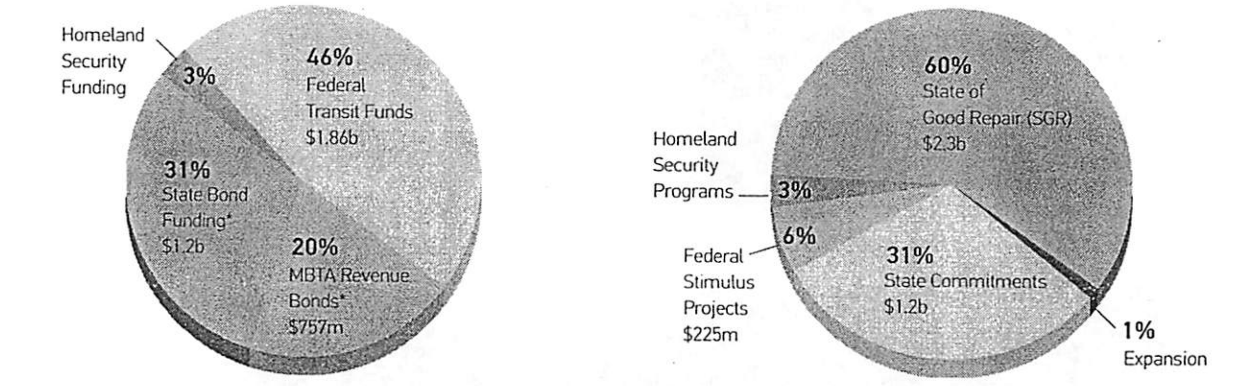
Alarmingly, the MBTA's annual operating deficit is expected to *double* over the next four years as its state of good repair backlog continues to grow. While the MBTA's Capital Investment Program states that the agency must spend $470 million a year simply to prevent further system deterioration, the actual number may be closer to $750 million, according to the long-range transportation plan recently adopted by the Boston Metropolitan Planning Organization. Funding cuts to the transportation system are like dominoes. The first piece to fall is the direct impact on projects, whether maintenance or expansion. The lack of timely investment and aggressive preservation strategies then leads to higher costs to fix the same problems later. Inadequate funding has further consequences down the line. Because of tight budgets, for example, some day-to-day operations of transportation agencies are now being paid from capital budgets, taking away money that could otherwise be used for road or bridge repairs. Another domino that could fall: budget pressures could leave MassDOT with an insufficient staff of adequately trained personnel to oversee and maintain road and bridge projects to keep quality up and costs down. Such a lack of careful supervision could translate into greater costs in the future.

Another consequence of transportation's bleak balance sheet is that it undermines the possibility of future federal funding for transit. For a project such as the Green Line extension, for example, the state is required to demonstrate that the MBTA can pay associated operating costs, as well as maintain both the existing system and any extension. Despite the state's high level of investment in transit, the MBTA's debt service load and its maintenance backlog make it increasingly difficult for Massachusetts to make that case.

In short, a critical situation facing the Massachusetts transportation system is about to get even worse.

FIGURE 7
MBTA Capital Investment Program (Total: $3.8 billion FY12 - FY16)

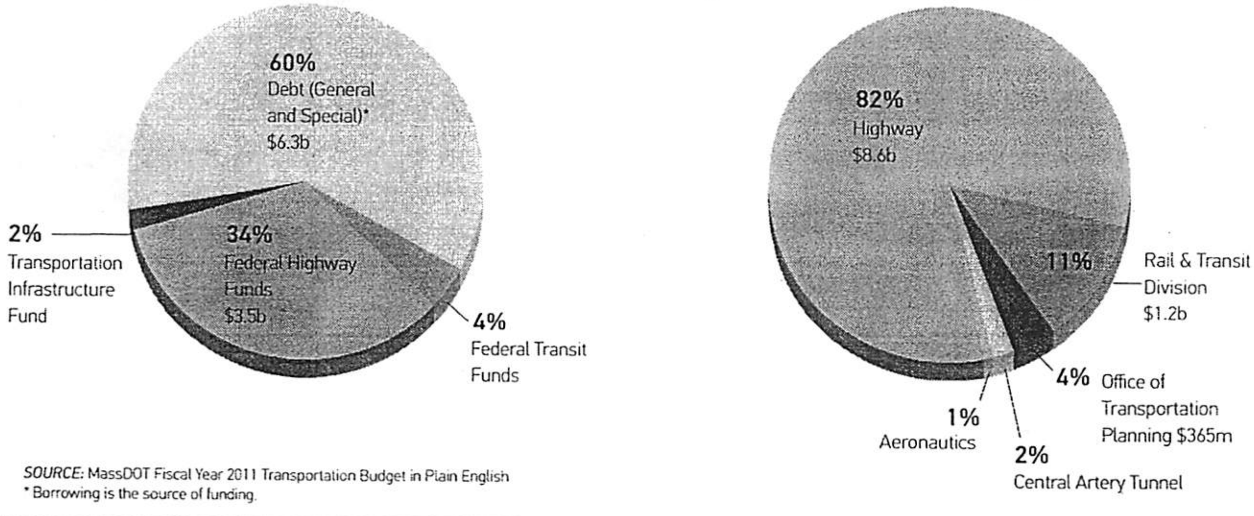
Source of Funds *Use of Funds*



SOURCE: MBTA Presentation to the Board September 9, 2011
* Borrowing is the source of funding.

FIGURE 8
MassDOT Capital Investment Program (Total: $10.4 billion FY11 - FY15)

Source of Funds *Use of Funds*

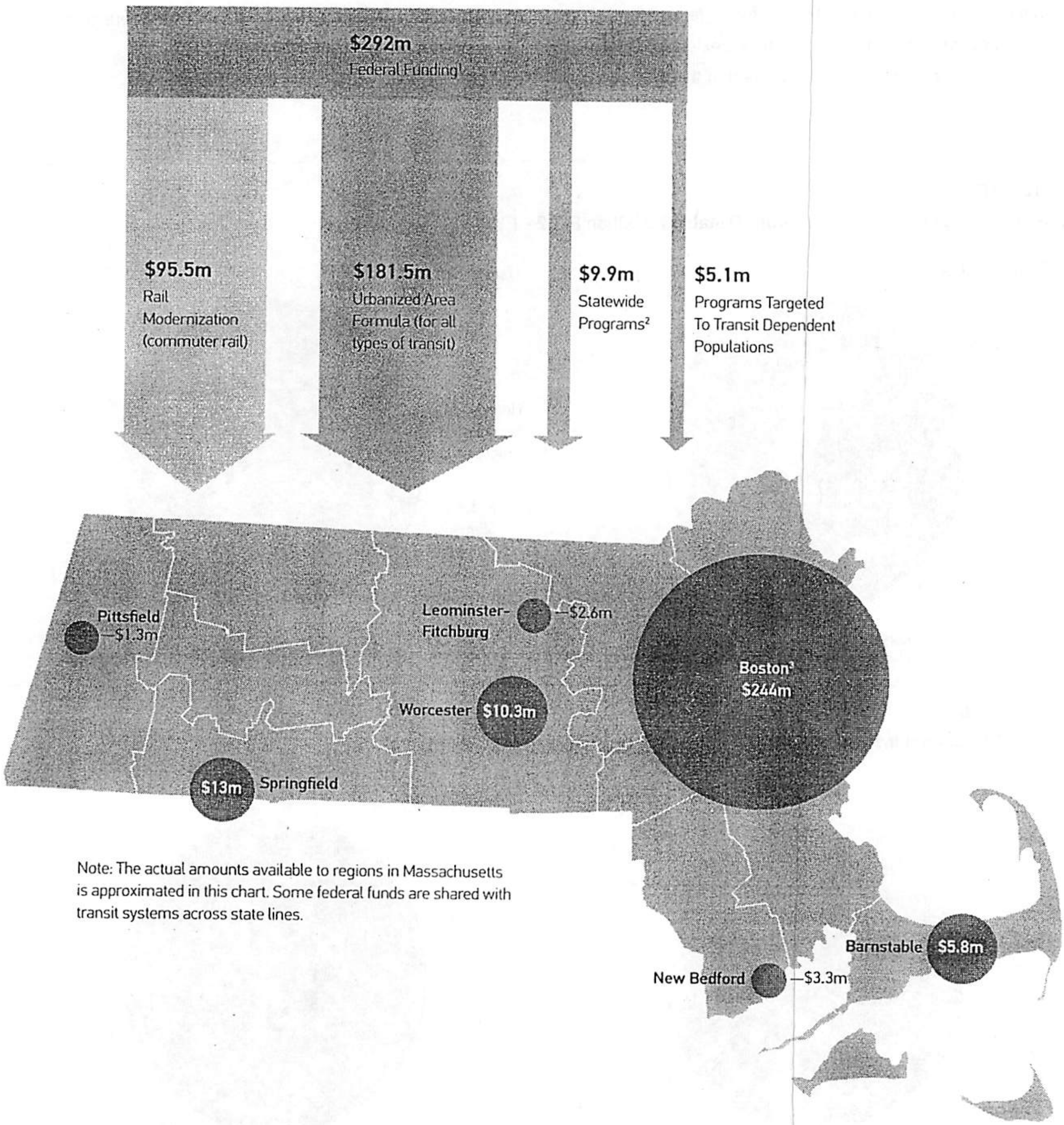


SOURCE: MassDOT Fiscal Year 2011 Transportation Budget in Plain English
* Borrowing is the source of funding.

FIGURE 9

Federal Funding for Massachusetts Transit

$292m in federal appropriations are currently dedicated to city-specific, statewide and interstate transportation programs. The MBTA receives most federal transit funds.



SOURCE: Federal Register, Vol. 76, No. 98.

1. These figures do not include the federal stimulus funds Massachusetts received.
2. Statewide programs include Rural, Elderly and Disabled, Metropolitan Transportation Planning, Statewide Transportation Planning and Rural Technical Assistance.
3. The MBTA receives all the Rail Modernization and most of the Urbanized Area Formula funds for the Boston metropolitan area. The MBTA and Regional Transit Authorities agree upon a split of these funds.

FIGURE 10
Federal Funding for MassDOT

$648m Highway, roads, and bridge funding

$560m Federal highway funds	**$88m** Required 20% state match[1]

$159m In payment

Grant Anticipation Notes to pay

$350m State Programs

$128m	**$155m**	**$41m**	**$26m**
Bridge Program[2]	Major roads/ Maintenance[3]	Costs due to contract changes	Other

$139m Regional Priorities[4]

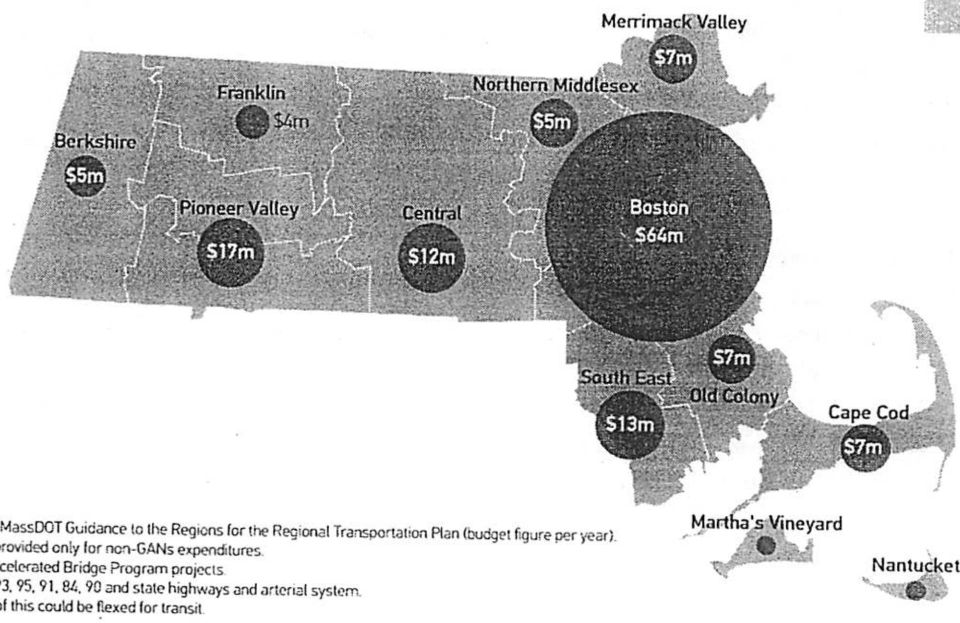
Only 21% of federal capital dollars remain for Metropolitan Planning Organizations for regionally identified projects.

$648m Total Funds

- $159m GANS Notes

- $350m State Programs

$139m Remaining for Regional Priorities, split between 13 MPOs and MPO-like regions.



SOURCE: MassDOT Guidance to the Regions for the Regional Transportation Plan (budget figure per year).
1. Match provided only for non-GANs expenditures.
2. Non-Accelerated Bridge Program projects.
3. I-495, 93, 95, 91, 84, 90 and state highways and arterial system.
4. Some of this could be flexed for transit.

Budget Basics

OPERATING BUDGET

Like the Commonwealth and many businesses, MassDOT and the MBTA have separate operating and capital budgets. Each year's operating budget covers payroll, operations such as running buses and trains for the MBTA, snow and ice removal for MassDOT and, when resources allow, routine maintenance.

CAPITAL BUDGETS

Capital budgets, by contrast, are designed to allow the agencies to plan and fund longer-term investments designed to preserve existing trains, roads and bridges, undertake more intensive maintenance and rehabilitation, and acquire or build new facilities. The sources that fund the operating and capital budgets overlap but the uses of those funds are very different, which is why such spending is tracked separately. Typically, funds must be borrowed to provide the state's share for MBTA and MassDOT programs.

PAY AS YOU GO

Pay as you go means using today's dollars for today's expenses, either for capital programs or operations. Most of the time, the sources of revenue available for operations barely cover expenses and then, typically, funds must be borrowed to provide the non-federal share of both the MassDOT and MBTA capital programs.

FUNDING

Revenue to fund the transportation capital budgets comes from federal agencies, such as the Federal Highway Administration and Federal Transit Administration, and from borrowing money. Both the MBTA and the Commonwealth (on behalf of MassDOT as well as other agencies) issue bonds to fund capital investments; the bonds raise a specific amount of money but in return the bondholders must be repaid not only the principal but also interest over a period of twenty or more years. The money to repay the bonds as well as operate the system comes from fares, tolls, sales tax, gas tax, and registry fees.

DEBT SERVICE

Like a household's mortgage, the real cost of borrowing the funds is not the amount borrowed but the total cost of the principal and interest over the life of the bond. And like a household, these obligations must be paid back in the form of debt service. In Massachusetts, this debt service is paid for from the same sources of money that would otherwise be available for operations and routine maintenance.

CAPITAL INVESTMENT PROGRAMS

Both MassDOT and the MBTA have five-year rolling Capital Investment Programs (CIPs) which detail how much revenue is available and how it will be spent. The current capital plans for both agencies acknowledge that available resources are well below the amounts needed to properly maintain the systems. The MassDOT CIP for the highway division identifies $6.17 billion in needed investment over the next five years but is able to allocate only $2.5 billion. The MBTA plan notes that "without a discrete source of pay-as-you-go capital funds, the MBTA will likely be unable to invest the required amounts included in the CIP resulting in an increased backlog of state of good repair needs and unacceptable deterioration of the infrastructure critical to providing reliable service."

III. How We Got Here

Rather than using dedicated state revenues to pay-as-you-go for at least some transportation projects, debt has become the state's primary way to finance transportation. The tab for ever-growing debt service is coming due at an especially bad time.

This and other reports have documented the financial stranglehold on transit and other transportation systems in Massachusetts. But *how* it happened—how debt has sharply reduced transportation options—is much less understood. Because the story behind how the system got maxed out is complex, even people who care about transportation are drawn to relatively simple explanations. Some reflexively blame overspending and mismanagement by transportation agencies. Others cite Central Artery/Tunnel Project costs and problems, equating that project with overspending and mismanagement. While some management decisions and the Big Dig certainly contributed to the current problem, the more accurate and complete explanation of how Massachusetts transportation has gotten so maxed out lies in how the state has funded transportation in recent decades—and, perhaps more importantly, how it has not.

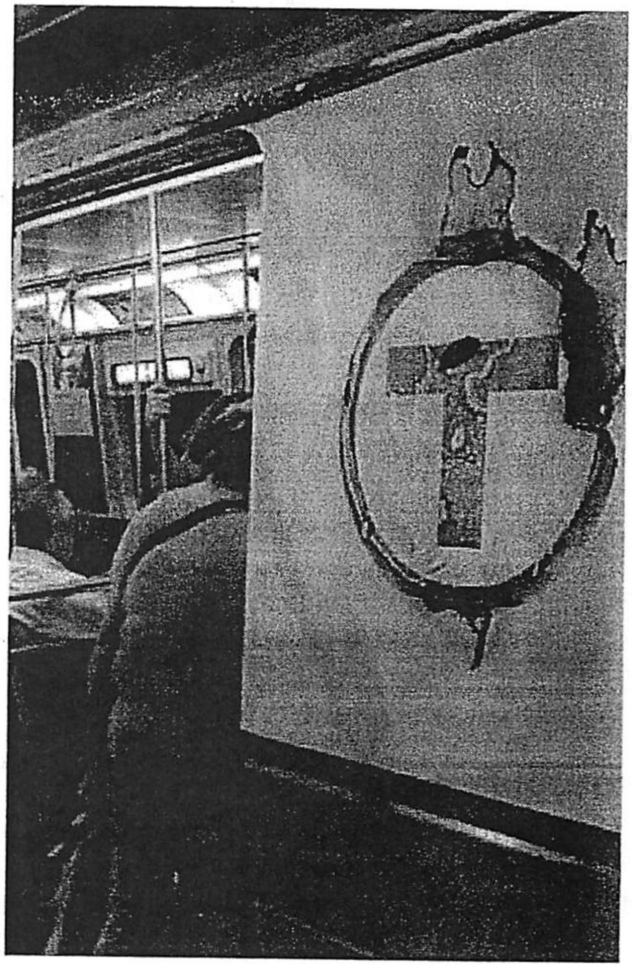
It may seem counterintuitive, but Massachusetts transportation is maxed out today not because the state has spent *too much* on transportation, but because it has spent *too little*.

It may seem counterintuitive, but Massachusetts transportation is maxed out today not because the state has spent too much on transportation, but because it has spent too little.

Leveraging Federal Dollars

In some ways, Massachusetts has been a victim of its own success. Instead of using and, where necessary, raising its own revenues to maintain or expand systems, Massachusetts has taken advantage of federal funds to finance transportation. That approach made sense in some key ways. The federal government requires a state match of just 20 percent of transportation capital dollars, meaning that as long as Massachusetts could show an ability to pay $1 towards a project's costs, it could secure an additional $4 in federal funds, even if that $1 was itself produced by borrowing.

For state officials, leveraging federal dollars was much easier (politically, at least) than relying on annual appropriations or seeking increases in user fees such as tolls or gas taxes. Other states, of course, also utilize federal funds to finance projects, but unlike Massachusetts, many of those states pay their 20 percent share out of actual state revenues, in essence using their own cash for a down payment. Massachusetts, by contrast, often bor-



rows money to meet that federal match requirement. It is also worth noting that Massachusetts, unlike states such as New York and Pennsylvania, does not require voter approval for the state to borrow money. This means that the public generally does not recognize that the rails and roads upon which they depend are financed in large part with borrowed money, not just with taxes or other revenues. If the state is to change how it funds transportation, the public must understand the system's true costs and the need to find a better way than debt to pay for them.

Grant Anticipation Notes— The State's Credit Card

The current system, by which Massachusetts issues debt and promises to use future revenues to pay it off, is somewhat akin to using a credit card: the state gets what it wants now (in this case, money to fix roads or bridges) and pays the bill off over time and with interest. A financing tool known as Grant Anticipation Notes (GANs) has become a very significant part of the state's highway funding since the state used them to pay Big Dig construction bills before federal funds became available. GANs are essentially a pledge of future revenues. But does the resulting debt burden mean that decision-makers acted in poor faith or without proper due diligence? It can be argued that they actually had little alternative but to pursue federal dollars for the basic reason that a lack of sufficient state resources tied their fiscal hands. Despite the warnings of the Transportation Finance Commission and others, debt remains an important and necessary tool for financing transportation. But the struggle to keep up with payments on its debt leaves Massachusetts with even fewer funds for maintenance or expansion, even as those needs increase.

Transportation Reform and MBTA Forward Funding: Important but Inadequate

For years, some people calling for changes in how Massachusetts funds and operates its transportation systems called for reform before revenue. And reform came, most notably through forward funding for the MBTA in 2000 and transportation reform in 2009. Though both initiatives have led to financial savings and improved organizational accountability, these and other reforms have been only partially successful.

FORWARD FUNDING

For years, the MBTA's budgeting practice was to spend money and then send the state an annual bill after the fact. Forward funding in 2000 abolished that system and, as noted before, provided the MBTA with a fixed revenue stream, most of it from a dedicated penny of the sales tax.

As a result of forward funding, the MBTA develops an annual balanced budget based on its projected revenues, including fares, local assessments, and sales tax revenue. Because of this new revenue system, the MBTA has been able to save money by restructuring some its debt. However, as noted by the MBTA itself, "Much of the current debt has been refinanced at a lower cost over the past ten years, but those savings opportunities no longer exist."[22] Despite refinancing and other strategies, the MBTA continues to struggle to find the money it needs each year just to keep the system's condition from further deterioration. Forward funding was, in short, a positive but insufficient reform.

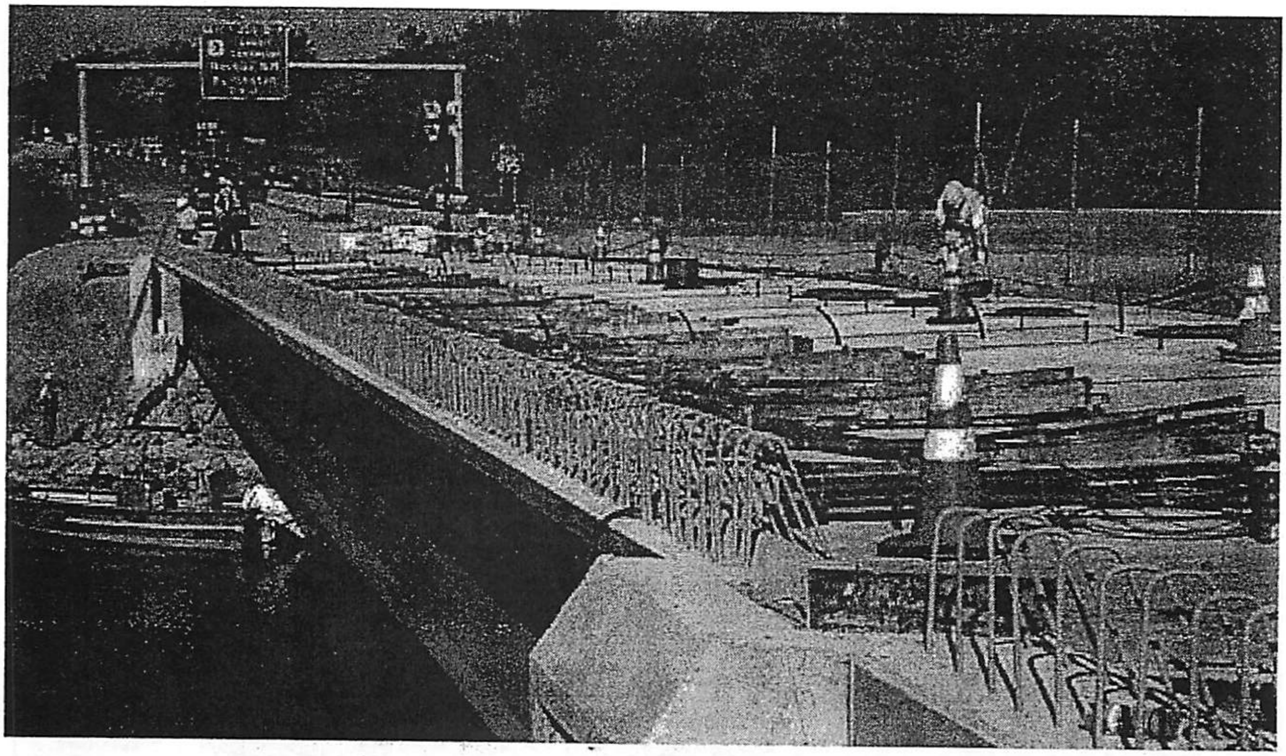
TRANSPORTATION REFORM

If forward funding restructured MBTA funding, transportation reform in 2009 restructured the way Massachusetts funds and operates all of its transportation system. Following transportation reform, MassDOT's Commonwealth Transportation Fund allows for revenues to be used across different transportation modes. This positive development sets the stage for a progressive, multimodal approach to future transportation investment decision-making.

With funds sparse, another important aspect of transportation reform was that it helped create a system to better prioritize projects according to condition and degree of use. Such asset management systems can lead to more coordinated and cost-effective investments by moving money to where it is most needed within transportation's different modes.

Transportation reform also sought to address another of the transportation system's major cost drivers: labor costs, including expenses from health care and other employee benefits, especially at the MBTA. Despite some results, such as moving MBTA workers into the insurance plan covering state employees, wages and benefits remain the transit system's biggest cost. However, collective bargaining rules and a process by which arbitration often reverses MBTA efforts to reduce costs limit the agency's ability to further control health care and pension costs.

The cost savings promised by reform will come over a 20-year period. But the system is starved for funds now. Reform before revenue made sense as a first step, but reform is not a substitute for revenue.



Case Study: Accelerated Bridge Program

A program recently in the news illustrates the upside and downside of borrowing money to pay for transportation projects. With a bridge collapse in Minnesota driving home the danger of structurally deficient bridges, Massachusetts sought a way to repair bridges on an expedited basis. By this summer, the Accelerated Bridge Program (ABP) had reduced the number of structurally deficient state highway bridges from 543 (as counted in 2008) to 423. More importantly, the number of such bridges is no longer escalating as it would have without the program, saving the state more expensive repairs in the future. But how did debt-ridden MassDOT find the money to do this project? Massachusetts turned to a familiar friend: Grant Anticipation Notes.

While GANs enable necessary projects to get done now before they cost more later, it is at the cost of future revenues. Indeed, in FY 2011, more federal money was set aside to pay off GANs than went to the state's Metropolitan Planning Organizations for regional priorities. (See Figure 10.) Over the next three years, about $785 million in federal funds (including the state match) will be committed to statewide road and bridge needs and another $397 million will be dedicated to regional priorities. But $527 million in federal funds will be held aside to pay off GANs. In other words, nearly 30 percent of all expected federal funds will go to pay off old commitments rather toward new needs.

Even with such borrowing against the future, ABP is not enough to keep the state's bridges in a state of good repair. MassDOT estimates an annual gap of $161 million between identified needs for other bridge repairs and available funds for completing those repairs.[23] The inability to fix those structures now will cost Massachusetts more in terms of both public safety and dollars.

Transportation Under The State Bond Cap

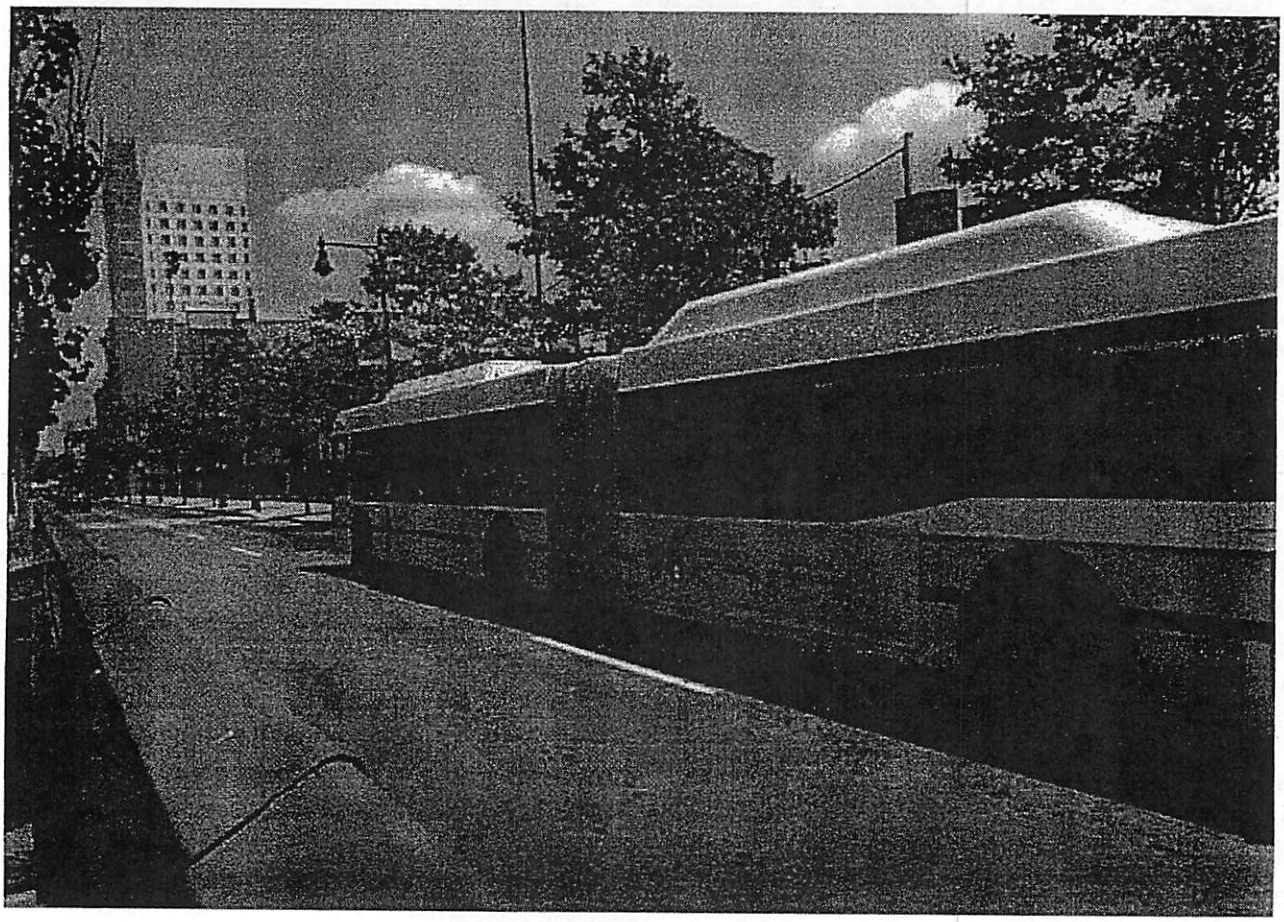
Since 1991, Massachusetts agencies, including transportation, have operated under an annual cap to limit their borrowing to levels closer to what the state can afford to support. But unlike other parts of state government, such as housing agencies or the courts, transportation agencies are expected to cover the principal and interest on bonds issued under the cap. "Transportation has historically represented the largest share of the Commonwealth's capital spending, accounting for between one-half and two-thirds of the total capital budget over the last five years," according to MassDOT.[24]

But do the MBTA, MassDOT, and other transportation agencies really have a more viable alternative to the debt tool today than in the past? Borrowing money remains the Bay State way of doing transportation business. That's in large part because a revenue stream that would enable a pay-as-you-go approach continues to lag far behind identified needs. The last gas tax increase was more than two decades ago; a 2009 attempt to raise it by 19 cents, of which 6 cents would go to public transit, was abandoned in the face of strong opposition. The MBTA fare increases that may soon be proposed would be the first since January 1, 2007. Most of the new revenue to the system has been from a non-user source, the statewide sales tax. But rather than going to transportation system maintenance and capital improvements, much of that revenue is being used to pay for basic operating expenses and the interest on debt.

This perpetuates a Catch-22. Necessary maintenance of capital facilities is deferred or outright ignored, which kicks the cost can down the road into the future, further widening the growing gap between needed improvements and available funds. Meanwhile, the combination of heavy debt service and a tangle of federal and state restrictions on the allowable use of revenues leaves little or no unrestricted funding available to plan and build other local, regional, and state transportation projects that serve important economic and environmental goals.

Reform before revenue made sense as a first step, but reform is not a substitute for revenue.

Delayed transportation projects end up being more expensive. And the risks to public safety, the environment, and the Massachusetts economy increase.



IV. Spending Smarter

Transportation in Massachusetts needs more revenue and better planning.

Changes in how Massachusetts finances and operates its transportation systems, especially forward funding and transportation reform, have created greater transparency about the system's needs compared to its funding capacity. Greater transparency means that policy makers and others have the information they need to respond.

That response must be comprehensive. It must consider not only the pressing need for revenue, but how to best use that revenue. With dollars increasingly tight, further changes may be needed to make the Commonwealth smarter in deciding how it invests in transportation. Despite federal requirements to coordinate transportation with other planning processes, transportation planning in Massachusetts, as in many states, remains compartmentalized, with transportation decisions not fully integrated with land-use planning, other infrastructure needs, and environmental considerations.

How Decisions Are Currently Made

Though driven by federal requirements, transportation planning is implemented through state and regional choices. Investments intended to meet statewide needs are basically decided by MassDOT, while local and regional transportation spending choices are generally selected by 13 Metropolitan Planning Organizations (MPOs) scattered across the state. Under federal law, MPOs are charged with planning and programming federal highway and transit funds. Typically, MPOs employ regional planning staff.

Various factors shape their decisions, but MPOs are bound by certain limits, such as the state bond cap or changes in federal funding, as they make long-term plans and pursue short-term programs. While these constraints are intended to force transportation planners to prioritize and identify a fundable universe of projects, they limit the number of projects that can be advanced at any one time. The pipeline of transportation projects is long. Even routine projects can take several years and a major project can require a decade from concept to completion.

In Massachusetts, MPOs tend to have more involvement in how federal highway funds are spent than in how the MBTA and regional transit authorities use federal transit funds. MPOs tend to accept the transit agency's allocations and incorporate them into regional plans with few changes. While priorities may shift from year to year, those plans often consist of maintaining the existing systems rather than enhancing or expanding them. For example, of the $3.8 billion in capital projects included in the MBTA's Capital Investment Program for the five years beginning in FY 2012, more than 90 percent goes to existing projects and system maintenance and less than 10 percent to enhancements and expansion projects.[25]

The decision-making process for highway spending is more complicated. While MassDOT usually takes the lead role in determining how federal funds will be applied to statewide highway needs, MPOs program federal highway funds to regional priorities. MassDOT determines maintenance priorities for the state system, while other MPO members, especially municipalities and regional planning agencies, generally take the lead in selecting regional priorities.

Problems With The Process

As a result of financial and other constraints, MPOs have tended to give priority and commit funds to projects that are under way or at least well into design and preliminary engineering. This limits opportunities to advance new projects that could serve important environmental, economic, or other goals, or improve local or regional mobility choices, such as better sidewalks and bike paths, expanded transit service, or local shuttles to jobs and downtown areas.

The current planning process also creates a constant battle to find the right balance between spending to maintain a state of good repair in both transit and highways and investing in broader programs. On the one hand, maintenance is critical and early spending can avoid more expensive fixes later. On the other, funds used to get the current system into good condition cannot be used to create a transportation system that will meet both current and future demands.

A more outcome-focused and data-based process would help MassDOT and the MPOs develop and advance projects that better meet the needs of the people of Massachusetts and are better aligned with state policy goals, including efforts to reduce greenhouse gases, allow seniors to remain in their communities, enhance social equity, offer workers an affordable way to commute in off hours, and give Massachusetts communities more efficient connections to the global market. Integrating more diverse perspectives into the evaluation process could also result in tapping into a broader range of funding sources to deliver the projects.

Some projects—including some long promised and planned—might have to be reassessed or re-shaped as their relative benefits are compared to their likely costs. Such right-sizing of the project pipeline will not be easy, but communities may prefer it to waiting for projects that will never come or that will be so expensive when they are finally programmed that they displace all other needs.

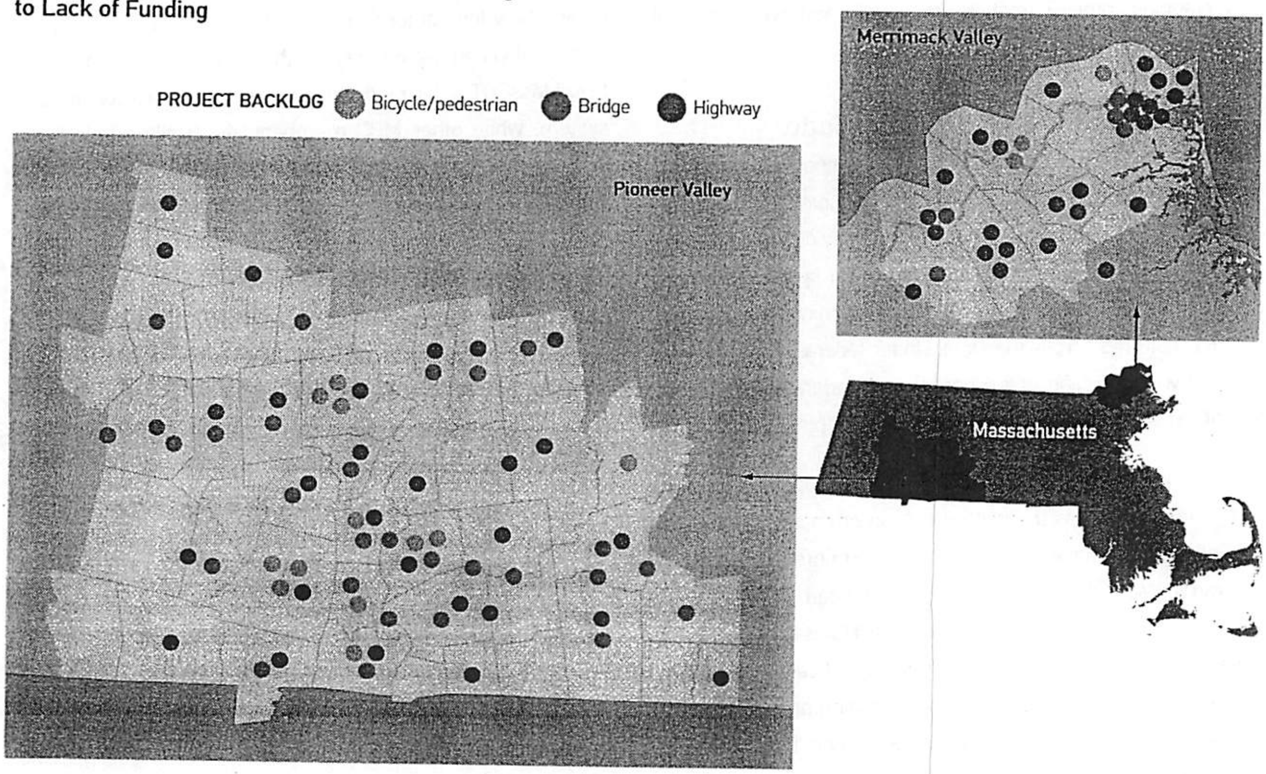
The Route Ahead

This paper seeks to help the public understand how the Massachusetts transportation system got so maxed out. Such understanding is a prerequisite if the public is to be willing to support programs and policies, some of them costly and contentious, involving both revenues and the decision-making process for transportation.

To their credit, state transportation agencies have been trying to make their fiscal situations more transparent and comprehensible. More detailed information about the depths and roots of financing and other issues affecting transportation, including possible revenue and other solutions, is also available from a number of non-government sources. A year ago, for example,

FIGURE 11

Examples of Lost Opportunities In Just Two Regions Due to Lack of Funding



SOURCE: Merrimack Valley MPO 2011 Regional Transportation Plan Roadway and Bridge Projects as of 5-17-2011 and Pioneer Valley Infrastructure Improvement Project Report 2010

Northeastern University's Dukakis Center for Urban and Regional Policy in collaboration with Conservation Law Foundation, held a Blue Ribbon Summit on Financing the Massachusetts Bay Transportation Authority and Regional Transit Authorities.

Organizations and events aren't the only prompts for consideration of transportation problems and solutions. Legislative proposals, such as the Transportation Economic Development and Ridership Act (TEDRA) now before the Legislature, also offer opportunities for important analysis and discussion of multiple financing strategies for transportation.

As MassDOT itself has recognized publicly over the past few months, the time for a serious discussion of new revenue has come. The following foundational criteria can help guide the important public conversation that will hopefully now proceed:

1. **The transportation system must be funded with resources sufficient to enable it to function effectively and safely today while increasing transportation choices for the future**

2. **To succeed in generating necessary public support, transportation leaders must develop customer-based performance metrics that make clear the links between transportation investments and real outcomes, such as reductions in greenhouse gas and other pollution, affordable access to jobs, less time stuck in traffic, and greater mobility options.**

3. **Future efforts must build on the accomplishments of forward funding and transportation reform to further improve how transportation in Massachusetts is managed and financed**

4. **To ensure broad-based support, leaders should conduct an open public discussion about transportation needs and options for achieving them.**

That last point is especially critical. Without public understanding and support, policies to fix the system's fiscal and other problems will simply not succeed. The stakes involve the future of transportation in Massachusetts. And that involves the future of the Commonwealth itself.

GLOSSARY OF TERMS

A&F (Executive Office of Administration and Finance) Executive department in the Administration responsible for developing the Governor's budget and overseeing other financial responsibilities for the Commonwealth.

ABP (Accelerated Bridge Program) $3 billion dollar investment over 8 years by the Administration to repair Massachusetts's bridges using a combination of federal highway and state funds.

AC (Advance Construction) Allows states to begin a project even in the absence of sufficient federal-aid obligation authority to cover the federal share of project costs. Advance construction eliminates the need to set aside full obligational authority before starting projects. As a result, a state can undertake a greater number of concurrent projects than would otherwise be possible.[26]

Capital Funds Funding dedicated to new projects or projects to expand the capacity of the transportation system, including freeway widenings, rail extensions, transit station improvements, new bicycle and pedestrian lanes, and so forth. (Also see "operating funds".)[27]

CIP (Capital Investment Program) The MBTA's or MassDOT's five year capital expenditures plan.

CTF (Commonwealth Transportation Fund) CTF is the successor to the state's Highway Fund. It receives $1.466b annually from state sources—registry charges, fuel taxes, and sales taxes (excluding the dedicated one cent that goes directly to the MBTA). This fund is subject to appropriation by the legislature and the amount of debt service attributable to the fund is a function of past and current year spending.

Debt Service The amount of money owed as a result of past borrowing.

Farebox The revenues collected by transit operators from passenger fares.[27]

FHWA (Federal Highway Administration) See U.S. DOT.[27]

Forward Funding MBTA funding reform instituted in 2000 that abolished funding in arrears and provided MBTA with a fixed revenue stream.

FTA (Federal Transit Administration) See U.S. DOT.[27]

FY (Fiscal Year) Annual schedule for keeping financial records and for budgeting transportation funds. Massachusetts's fiscal year runs from July 1 through June 30, while the federal fiscal year runs from Oct. 1 through Sept. 30.[27]

GANS (Grant Anticipation Notes) Used to borrow against future federal-aid funds (Federal Transit Administration Title 49 grants) that are allocated by formula (Section 5307) or by project (Section 5309).[27]

MassDOT (Massachusetts Department of Transportation) Created in 2009 by Transportation Reform to oversee an integrated department that includes four divisions Highway, Mass Transit, Aeronautics and the Registry of Motor Vehicles (RMV), and an Office of Planning and Programming.

MBTA (Massachusetts Bay Transportation Authority) The agency that provides public transportation service in eastern Massachusetts.[28]

MHS (Metropolitan Highway System) The portion of the Turnpike that includes the 12 mile Boston Extension along with the Sumner-Callahan and Ted Williams Tunnels which connect to Logan Airport.

MPO (Metropolitan Planning Organization) A federally required planning body responsible for the transportation planning and project selection in its region; the governor designates an MPO in every urbanized area with a population of over 50,000 people. MPOs produce three federally mandated documents: the Transportation Plan, Transportation Improvement Program, and Unified Planning Work Program.[27]

MTTF (Massachusetts Transportation Trust Fund) Created by Transportation Reform it is one of the two structures through which state funds are funneled (the other is the CTF). The MTTF is the primary fund for MassDOT. Revenue collected in the MTTF includes Toll Revenue, non Toll Revenue, Departmental Revenue, Operating Transfer of funds from the CTF, and Contract Assistance dedicated to debt service. The MTTF funds the operating costs of the four divisions of MassDOT as well as the Office of Transportation Planning. All revenue except departmental revenue and the operating transfer from the CTF is restricted for Turnpike purposes.[27]

RTA (Regional Transit Authority) The entity responsible for providing public transportation in a region; there are 15 RTAs in Massachusetts.

SD (Structurally Deficient Bridges) A bridge is structurally deficient when the deck (driving surface), the superstructure (supports immediately beneath the driving surface), or the substructure (foundation and supporting posts and piers) are rated in condition 4 or less on a scale of 1-10.

SGR (State of Good Repair) The MBTA defines SGR as the "condition where all assets perform their assigned functions without limitation"

Transportation Reform 2009 Transportation Reform legislation restructured the way Massachusetts funds the highway system by turning the Executive Office of Transportation and several other existing transportation agencies into a multimodal department of transportation, MassDOT. The Massachusetts Turnpike Authority (Turnpike) was incorporated into the new MassDOT Highway Division, although the reorganization did not eliminate the bond covenants or change the law that isolates Turnpike revenues for Turnpike needs.

Turnpike (Massachusetts Turnpike Authority) Sometimes called MassPike, this agency is responsible for the operation of the Massachusetts Turnpike and the three harbor tunnels (Sumner, Callahan, and Ted Williams).

U.S. DOT (United States Department of Transportation) The federal agency responsible for highways, mass transit, aviation and ports and headed by the secretary of transportation. USDOT includes the FHWA and the FTA, among others.[27]

END NOTES

1 Massachusetts Transportation Finance Commission (TFC). *Transportation Finance in Massachusetts: An Unsustainable System*. March 28, 2007.
http://www.eot.state.ma.us/downloads/tfc/TFC_Findings.pdf

2 The transportation system also includes other important players, from MassPort to Regional Transit Authorities.
To focus the discussion about financing issues, this paper focuses on the system's two biggest players, MassDOT and the MBTA.

3 MassDOT, FY 2011 *Capital Investment Program* (MassDOT CIP).
http://www.massdot.state.ma.us/Portals/17/documents/CIP/CIP_2011_2015.pdf

4 MBTA, FY 2011 *Capital Investment Program* (MBTA CIP).
http://www.mbta.com/uploadedfiles/About_the_T/Financials/MBTA%20CIP%20FY11-FY15.pdf

5 MassDOT Guidance to the Regions for the Regional Transportation Plan.

6 MBTA Review, Independent review of MBTA finances prepared by commission headed by David D'Allesandro. November 1, 2009.
http://mbtareview.com/MBTA_Review_2009.pdf

7 Our Transportation Future, *Our Transportation Future White Paper*, July 2010.
http://www.edrgroup.com/attachments/-01_OTF%20White%20Paper%20Final%207-20-10%20v%2023.pdf

8 USDOT, *Draft USDOT Strategic Plan*, 2010-2015.
http://www.dot.gov/stratplan/dot_strategic_plan_10-15.pdf

9 MassDOT CIP, Id.

10 Transportation Advisory Committee Presentation (TAC), September 21, 2011.

11 TAC, Id.

12 TFC, Id.

13 TFC, Id.

14 MassDOT CIP, Id.

15 TAC, Id.

16 Massachusetts Taxpayers Foundation (MTF) presentation, *Fixing Transit Finance*, A Better City Forum, April 25, 2011.
http://www.abettercity.org/docs/Transit%20Finance%20Slides.pdf

17 The biggest expense remains wages and benefits. At its heart, transit remains a predominantly human capital-intensive endeavor, i.e., a human being must actually drive the bus, collect fares from the vending machines and conduct safety inspections. In FY12, these expenses represent over 37 percent of all expenses. That figure does not include wages and benefits paid for commuter rail, ferries, and paratransit employees; contractors operate those services and the costs are part of the separately listed "contracted services" that account for another twenty-five percent of the FY12 budget. MBTA FY12 Operating Budget Oversight Report, MBTA Advisory Board, March 30, 2011, p. 4.

18 MBTA, *Statement of Revenue and Expenses*, FY 2001 to FY 2011.

19 MassDOT CIP, Id.

20 MassDOT, *Fiscal Year 2011 Transportation Budget in Plain English*, December 13, 2010.
http://www.massdot.state.ma.us/InformationCenter/DocumentsPresentations.aspx

21 MTF Presentation, Id.

22 MBTA, *2011 Operating Budget Proposal to the Board of Directors*.
http://www.mbta.com/uploadedfiles/About_the_T/Financials/FY2011%20Operating%20Budget%20Board%20Action.pdf

23 MassDOT CIP, Id.

24 Id.

25 MassDOT, *2012 Capital Investment Program*.
http://www.mbta.com/uploadedfiles/About_the_T/Financials/MBTA%20CIP%20FY12-FY16.pdf

26 http://www.fhwa.dot.gov/ipd/finance/tools_programs/federal_aid/ac_pcac/index.htm

27 http://www.fhwa.dot.gov/ipd/finance/tools_programs/federal_debt_financing/garvees/index.htm

28 http://www.ctps.org/bostonmpo/2_planning_activities/5_transportation_terms/terms.html

29 http://www.massdot.state.ma.us/main/documents/FY12_BudgetHearing.pdf

Transportation for Massachusetts (T4MA)
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BRIAN MURPHY
Assistant
City Manager for
Community Development

To: Robert W. Healy, City Manager

From: Brian P. Murphy, Assistant City Manager for Community Development Department

Date: February 8, 2012

Re: Council Order O-10 dated January 9, 2012 regarding proposed MBTA fare increase and service cuts; and
Council Order O-8 dated February 6, 2012 regarding attendance at the February 29, 2012 MBTA public meeting

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BACKGROUND

The MBTA faces a $161 million deficit next fiscal year, a problem not the fault of the MBTA but part of a larger structural problem with transportation financing across the Commonwealth. With the MBTA under legal obligation to balance its books, it has four options: (1) reduce costs, (2) reduce service, (3) increase fares, (4) increase revenues provided by the legislature. With cost cutting measures exhausted and a legislature unwilling to provide either debt relief or additional revenue, the MBTA has proposed two scenarios that offer a combination of fare increases and service cuts to achieve a balanced budget for next year.

Until 2000, the legislature funded MBTA deficits at the end of each year, which limited the incentive to innovate or find savings. Legislators developed a plan in 2000 to require the MBTA to have an annually balanced budget. The plan, called "Forward Funding," gave the MBTA dedicated sources of revenue and mandated reform. Forward Funding provided for one penny out of five collected from the sales tax to be allocated to transit. At the time, Forward Funding was designed as a quick fix and was not expected to provide adequate funding to the MBTA in the longer term. In the 1990s, sales tax revenues grew an average of 6.5 percent per year but since 2000, this growth has only averaged 1percent, providing far less revenue to the MBTA than was anticipated as part of the Forward Funding plan. The financial problem is compounded by the MBTA's approximately $5 billion in debt, the majority of which is from the Central Artery/Tunnel project (CA/T). Transit expansion projects were included in the CA/T project to mitigate the traffic growth and environmental impacts caused by the greater capacity of the tunnel, as compared with the former elevated expressway. One third of current MBTA operating expenses pay for this debt service, meaning investments that would keep the system in a state of good repair and running reliably are repeatedly postponed.

MBTA's means over the past decade to balance its budget are no longer available: restructuring debt, liquidating cash reserves, and selling land. In 2000, MBTA

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fares were increased by 25%, the first time since 1991. Another 25% fare increase occurred in 2004 to generate an additional $25 million annually. The last fare increase in 2007, which raised an additional $70 million per year in revenue, was accompanied by a fare restructuring that introduced a single subway/bus pass and allowed free transfers between subway and bus. In 2009 Governor Patrick approved a state sales tax increase from 5 percent to 6.25 to cover deficits at the MBTA and Turnpike Authority, avoiding both a fare hike and toll increase.

Since 2000, the MBTA has implemented significant cost cutting measures, but some expenses (fuel, electricity, health insurance, federally mandated door-to-door service for the disabled) have far exceeded projections. In terms of controllable data measured by headcount and the automated fare collection system, the MBTA operates efficiently and compares favorably against peer agencies on benchmarks such as operating expense per passenger. In 2011, the MBTA achieved a record for ridership, providing 390 million trips.

Public transit is critical to making the City of Cambridge a livable city. Over 73% of the Massachusetts population lives within the MBTA service district, with over 1.3 million trips taken each day. According to the 2010 census, 27% of all Cambridge residents rely on transit as their primary means of commuting to work. Many more use transit as a secondary means to get to work and use it regularly for non-commuting purposes. The MBTA Red Line carries 250,000 riders per typical weekday. There are 26 bus routes that are in or pass through Cambridge (see route map in Attachment A), carrying about 85,000 riders per typical weekday. Of the 10 highest ridership bus routes in the entire MBTA system, four of them are in Cambridge (#66, #1, #77, and #70).

High demand is already stretching the entire system. Four of the bus routes that operate in Cambridge (#1, #47, #66, and #71), fail the "vehicle load standard," meaning there is excessive crowding during peak times. The "vehicle load standard," which is expressed as the ratio of passengers to the number of seats on the bus, is exceeded when more than 28% of passengers on a bus are standing without a seat.

The ability of our region's economy to grow depends largely on the efficiency and effectiveness of our transportation system. Regional projections for mobility needs by the year 2035 indicate that there will be a 7% increase in demand for our roadways and a 30% increase in demand for transit service. The recent Global Warming Solutions Act had the Commonwealth set a goal of reducing GHG emissions by between 10% and 25% below 1990 levels by 2020, only achievable with more public transit.

FARE INCREASE PROPOSALS

The MBTA has prepared two scenarios to close the projected deficit. Scenario 1 raises the majority of the needed revenue through a fare increase, with the remainder of the deficit covered by reducing service. Scenario 2 is split approximately evenly between revenue gains from a fare increase and saved operating costs from service reductions. Scenario 2 recommends significant service cuts. Following is a summary of the two proposals:

	Scenario 1	Scenario 2
Overall Fare Increase (all fare media types)	43%	35%
Ridership Impact	34–48 million annual trips	53–64 million annual trips
% of total current ridership	9 to 13%	14 to 17%
Revenue	Gain $161 million in annual revenue (+34%) $123.2m increase in fare revenue $38.3m net operating savings	Gain $165 million in annual revenue (+35%) $86.8m increase in fare revenue $78.4m net operating savings

Scenario 1 is projected to raise annual fare revenue by $123.2 million through increasing fares by approximately 43 percent and to save approximately $38.3 million in operating costs through service reduction, for a total estimated gain in annual revenue of $161 million. Scenario 1 is projected to result in a ridership loss of 34 to 48 million annual trips. Scenario 2 is projected to raise annual fare revenue by $86.8 million through increasing fares by approximately 35 percent and to save approximately $78.4 million in operating costs through service reduction, for a total estimated gain in annual revenue of $165 million. Scenario 2 is projected to result in a ridership loss of 53 to 64 million annual trips.

The percentage increase in pass prices is generally less than that in the single-ride fares in both scenarios; 75% of all riders use passes. Both scenarios propose to increase the cash fares at a higher percentage than the CharlieCard single-ride fare to encourage the use of the smart card technology, which significantly reduces boarding times on buses. Few riders (mostly tourists and infrequent riders) currently pay the cash fare, since use of the CharlieCard provides a savings.

CharlieCard fares

	Subway	Bus
Existing	$1.70	$1.25
Scenario 1	$2.40 (40% increase)	$1.75 (32% increase)
Scenario 2	$2.25 (32% increase)	$1.50 (20% increase)

Pass prices

	Subway/Bus LinkPass	Bus Pass
Existing	$59	$40
Scenario 1	$80 (36% increase)	$55 (38% increase)
Scenario 2	$78 (32% increase)	$48 (20% increase)

Parking price increases are also included in both proposals.

Parking prices

	Alewife Station	Lechmere Station
Existing	$7	$5.50
Scenario 1	$10 (43% increase)	$7.50 (36% increase)
Scenario 2	$9 (29% increase)	$7.00 (27% increase)

THE RIDE, the T's paratransit program, provides door-to door transportation to eligible people who cannot use general public transportation all or some of the time because of a physical, cognitive or mental disability. Paratransit functions as a "safety net" for people whose disabilities prevent them from using the regular fixed-route (bus, train or trolley) system and is not intended to be a comprehensive transportation program that meets all the needs of persons with disabilities; it is distinct from medical or human services transportation. THE RIDE is operated in compliance with the federal Americans with Disabilities Act (ADA). Though the MBTA is required to provide paratransit service only within its service area, it currently services well beyond the area. THE RIDE base fare increases from $2 to $4.50 in scenario 1, and to $3 in scenario 2. Both scenarios continue to provide THE RIDE service outside of the ADA-mandated service area, but charge a premium for providing such service. Premium fares are $12 in scenario 1 and $5 in scenario 2.

Senior fares increase by a larger percentage than other fares in both Scenario 1 and Scenario 2, while student pass fares increase by a larger percent only in Scenario 1. The maximum that the MBTA can charge for senior fares per federal regulation is half of the base cash fare. The MBTA has been charging less (currently senior fares for buses is $0.40 which is only 27% of the current cash fare of $1.50); both Scenario 1 and Scenario 2 increase this to the 50% maximum allowed. For example, the senior single-ride bus fare in Scenario 1 would increase from $0.40 to $1.10 (an increase of 175% which is equivalent to almost tripling the fare). Senior pass prices, however, only double in both scenarios.

Students can ride the MBTA for 50% off the price of standard fares and are eligible for a $20/month Student T-Pass good for unlimited travel on Bus, Subway, Express Bus, and Commuter Rail Zones 1A, 1 and 2 until 11:00 p.m. on school days. Student passes are not valid on weekends or non-school days and are only available through high school; college students pay regular fares.. In 2009, Student Pass hours were extended from 8:00 P.M. to 11:00 P.M.

Student/Senior fares

	Subway	Bus
Existing cash fare	$2.00	$1.50
Existing senior	$0.60	$0.40
Existing student	$0.85	$0.60
Scenario 1 cash fare	$3.00	$2.25
Scenario 1 senior	$1.50 (150% increase)	$1.10 (175% increase)
Scenario 1 student	$1.50 (76% increase)	$1.10 (83% increase)
Scenario 2 cash fare	$3.00	$2.00
Scenario 2 senior	$1.10 (83% increase)	$0.75 (88% increase)
Scenario 2 student	$1.10 (30% increase)	$0.75 (25% increase)

Student/Senior pass prices

	Subway/Bus LinkPass
Existing student/senior	$20
Scenario 1 student/senior	$40 (100% increase)
Scenario 2 student/senior	$39 (95% increase)

SERVICE REDUCTION PROPOSALS

Both scenarios include some level of service reductions or revisions. For both scenarios, all commuter rail service is eliminated after 10pm and all weekend commuter rail service is eliminated altogether (together, this represents about 12% of all annual trips on commuter rail). Both scenarios also eliminate Green Line E service on both Saturday and Sunday. Green line service would still run to Lechmere on Saturday and Sunday, but with fewer trains and therefore longer wait times by passengers.

For the bus network, Scenario 1 proposes the elimination of all routes that currently fail the net-cost-per-passenger standard. This standard is failed by any route with an average net cost (or subsidy) per passenger trip greater than three times the systemwide average. According to these standards, 23 weekday bus routes, 19 Saturday bus routes, and 18 Sunday bus routes fail, and these routes are thus eliminated under Scenario 1. The eliminated routes carry approximately 2.1 million trips annually, or 1.6 percent of all MBTA bus trips.

In Scenario 2, a much greater reduction in bus service is proposed with the objective of saving approximately $60.0 million in net operating costs. To do this, routes totaling approximately $71.7 million in operating costs are eliminated, with approximately $13.5 million of that being reinvested in the remaining routes in order to improve their frequency by 10 percent. Instead of using the MBTA's existing net-cost-per-passenger standard, a net cost per passenger of $2.00 was used to generally determine which routes would be eliminated. However, given the greater number of routes that would be eliminated under a $2.00 threshold if applied without exception, the proposed bus eliminations also take into account the geographic locations of the proposed cuts and the overlap of routes. Therefore, some routes with an average net cost per passenger greater than $2.00 are maintained, and some routes with an average net cost per passenger under $2.00 are eliminated. Under Scenario 2, 101 weekday routes, 69 Saturday routes, and 50 Sunday routes are eliminated or revised. The routes proposed for elimination in Scenario 2 carry approximately 30.3 million trips annually, or 23.6 percent of all bus trips.

The table below summarizes proposed service cuts to bus routes in or through Cambridge. For example, the #78 bus currently runs on weekdays, Saturday, and Sunday. Scenario 1 would eliminate all Saturday and Sunday service, while Scenario 2 would eliminate the bus route altogether. Many of these routes are critical to maintaining the vibrancy of our neighborhoods and providing access to persons with disabilities and the elderly. The #68 bus, for example, is the only bus service reaching the main branch of the Cambridge Public Library. Without the #74, #75, and #78 buses on weekends, transit service between Huron Village and Harvard Square is severely limited.

Buses in Cambridge

	Scenario 1	Scenario 2
68 : Harvard Sq -- Kendall MIT Station	W	~~W~~
72 : Aberdeen & Mt. Auburn – Harvard Station	W Sa Su	W Sa Su
74 : Belmont Center – Harvard Station (via Concord Ave.)	W Sa	~~W~~ ~~Sa~~
75 : Belmont Center – Harvard Station (via Fresh Pond Pky)	W Sa	~~W~~ ~~Sa~~
78 : Arlmont Village – Harvard Station	W ~~Sa~~ ~~Su~~	~~W~~ ~~Sa~~ ~~Su~~
67 : Alewife Station – Turkey Hill	W	~~W~~
76 : Alewife Station – Hanscom Airforce Base	W	~~W~~
79 : Alewife Station – Arlington Heights	W	~~W~~
350 : Alewife Station – North Burlington	W Sa Su	~~W~~ ~~Sa~~ ~~Su~~
351 : Alewife Station – Oak Park	~~W~~	~~W~~
80 : Lechmere Station – Arlington Center	W Sa Su	~~W~~ ~~Sa~~ ~~Su~~

W = Weekday Sa = Saturday Su = Sunday

The following table shows average daily ridership on bus routes in Cambridge that could be affected by proposed service cuts. For example, the #78 bus carries 1,550 passengers on a typical weekday and about 500 on Saturday and Sunday.

	Weekday	Saturday	Sunday
68 : Harvard Sq - Kendall MIT Station	491		
72 : Aberdeen & Mt. Auburn - Harvard Station	808	403	459
74 : Belmont Center - Harvard Station (via Concord Ave.)	1,144	303	
75 : Belmont Center - Harvard Station (via Fresh Pond Pky)	556	319	
78 : Arlmont Village - Harvard Station	1,550	476	491
67 : Alewife Station - Turkey Hill	666		
76 : Alewife Station - Hanscom Airforce Base	1,156		
79 : Alewife Station - Arlington Heights	1,054		
350 : Alewife Station - North Burlington	1,849	1,095	611
351 : Alewife Station - Oak Park	246		
80 : Lechmere Station - Arlington Center	1,932	1,383	785

PUBLIC PROCESS

In January 2012, the MBTA published ***Potential MBTA Fare Increase and Service Reductions in 2012: Impact Analysis***. Between January 17 and March 6 of this year, the MBTA is holding 24 public meetings throughout the region to allow citizens to share comments and discuss suggestions with MBTA officials. Comments will be considered by MBTA staff members and the board of directors for further action. Cambridge staff attended the public hearing on January 23 at the Boston Transportation Building, where MassDOT stenographers were present to record public testimony.

The MBTA will hold a public meeting in Cambridge on February 29, 2012 from 6-8pm at the Cambridge Senior Center. Cambridge staff will attend and provide testimony on behalf of the City of Cambridge.

Written comments will also be accepted through March 6, 2012 and should be mailed to: MBTA, 10 Park Plaza, Boston, MA 02116, Attention: Fare Proposal Committee. Comments may also be submitted electronically at the MBTA website http://www.mbta.com, by email at fareproposal@mbta.com, or by phone at (617) 222-3200, TTY (617) 222-5146.

On January 31, 2012, the MBTA filed an Environmental Notification Form (ENF) with the Executive Office of Energy and Environment (EEA) for the MBTA's Potential Service Reductions in 2012. This has been done because the MBTA's enabling legislation requires that "for a systemwide decrease in service of 10% or more, the decrease shall be the subject of an environmental notification form initiating review pursuant to sections 61 and 62H, inclusive of chapter 30." MEPA will accept comments on this ENF prior to making its determination and issuing a certificate on its adequacy. Comments must be submitted to MEPA no later than Tuesday, February 28, 2012. Comments should be addressed to:

Secretary Richard K. Sullivan, Jr.
Executive Office of Energy and Environmental Affairs (EEA)
Attn: MEPA Office -- EEA No. 14861
100 Cambridge Street, Suite 900
Boston MA 02114