

Cost Control Takes the Wheel: Priority Reform Areas for Balancing the MBTA's Operating Budget

By Charles Chieppo, Andrew Mikula, & Aidan Enright

Charles Chieppo is a senior fellow at Pioneer Institute and principal of Chieppo Strategies LLC, a public policy writing and communication firm. Previously, Chieppo was an adjunct professor at Suffolk University and a research fellow at the Harvard Kennedy School, where he was the primary contributor to "Better, Faster, Cheaper," which was the most read blog on Governing.com. His columns and articles have appeared in numerous local and national publications, including The Wall Street Journal, The Boston Globe, Boston Herald, National Review, Education Next, USA Today, Commonwealth magazine and The Hechinger Report. Chieppo is a graduate of Boston University's College of Communication and Vanderbilt University Law School.

Andrew Mikula is a Senior Fellow in Housing at Pioneer Institute. Beyond housing, Andrew's research areas of interest include urban planning, economic development, and regulatory reform. He holds a Master's Degree in Urban Planning from the Harvard Graduate School of Design.

Aidan Enright is Pioneer's Economic Research Associate. He previously served as a congressional intern with Senator Jack Reed and was a tutor in a Providence city school. Mr. Enright received a B.S. in Political Science and Economics from the College of Wooster.

Background

Massachusetts Governor Maura Healey recently signed a surplus budget package that would give the MBTA an additional \$535 million from revenue generated by the Commonwealth's surtax on high earners.¹ Without it, the T was looking at a \$700 million FY 2026 deficit.²

In addition, the MBTA receives 16 percent of the receipts from the state sales tax, fare and other self-generated revenue, and assessments on the municipalities the MBTA serves.

This report will focus on the MBTA's budget since 2018, the last time the T balanced its operating budget without state contract assistance or federal funds.³ It covers a particularly tumultuous time in the Authority's history, including the COVID-19 pandemic and the dramatic reduction in ridership that came with it, large injections of state and federal funding in response to the pandemic, and the subsequent period that included subway slow zones,⁴ a months-long closure of the Orange Line,⁵ a fire on an Orange Line train,⁶ and a man who was tragically dragged to his death on the Red Line.⁷

Recently there has been progress, with more reliable service and the elimination of subway slow zones.⁸ But since FY 2021, system operating costs have been rising more quickly every year, including by nearly 15 percent between FY 2023 and FY 2024 (see Figure 1).⁹ On a per-passenger basis, from FY 2013 to FY 2023, the MBTA's operating expenses also grew faster than those of most of its peer transit agencies, with the notable exceptions of WMATA in Washington and the CTA in Chicago (see Figure 2).¹⁰

Further, there have been missed opportunities to examine cost issues at the MBTA. A 2024 state commission focused exclusively on finding new revenue sources for the T; productivity and cost control weren't even part of its charge.¹¹

Since FY 2021, system operating costs have been rising more quickly every year, including by nearly 15 percent between FY 2023 and FY 2024.

Figure 1: Year-Over-Year Growth in MBTA Operating Expenses (Excluding Debt Service), FY2016-FY2024¹²

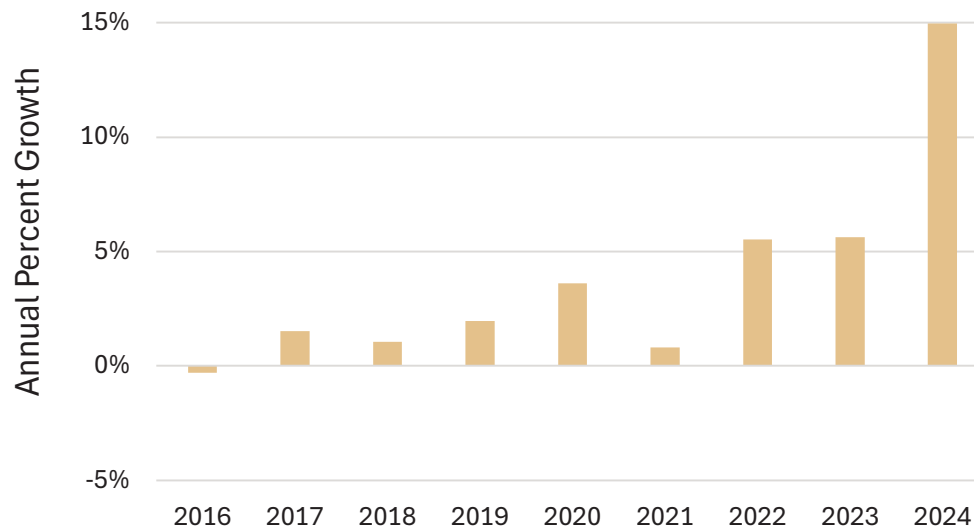
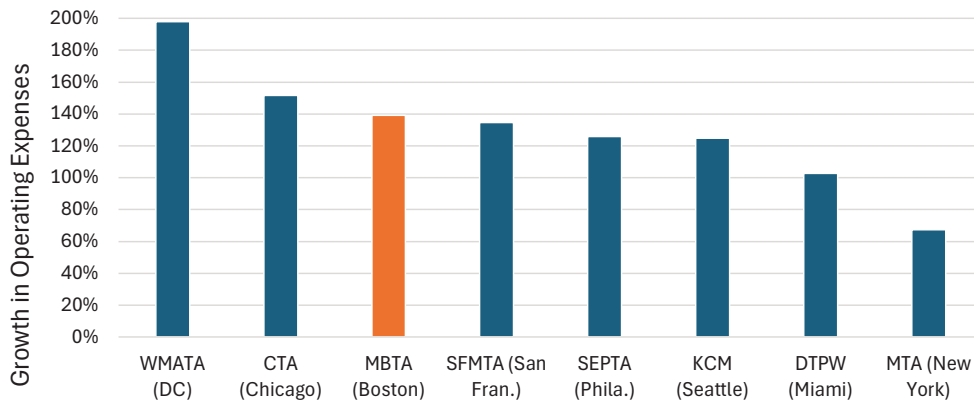


Figure 2: Operating Expenses Growth Per Unlinked Passenger Trip Among MBTA and Peer Transit Agencies, FY2013-FY2023¹³



Taking our eyes off the ball on cost control

MBTA costs have long been out of line with those of peer transit agencies,¹⁴ but when the Fiscal and Management Control Board was created in 2015, it represented a promising opportunity to control costs. After the FMCB's term was not extended in 2021,¹⁵ T costs have reverted to increasing at an alarming rate.

While fare revenue declined by around \$285 million from 2018 to 2023,¹⁶ state operating support for the MBTA increased by about \$539 million¹⁷ and the T received approximately \$2 billion in federal COVID relief funding during the same period.¹⁸ In the wake of the pandemic, the number of unlinked trips the Authority provided also fell by 35.9 percent, from 366.7 million in 2019 to just under 235 million in 2023.¹⁹ Ridership in 2024 and the beginning of 2025 remain far below pre-pandemic norms.²⁰

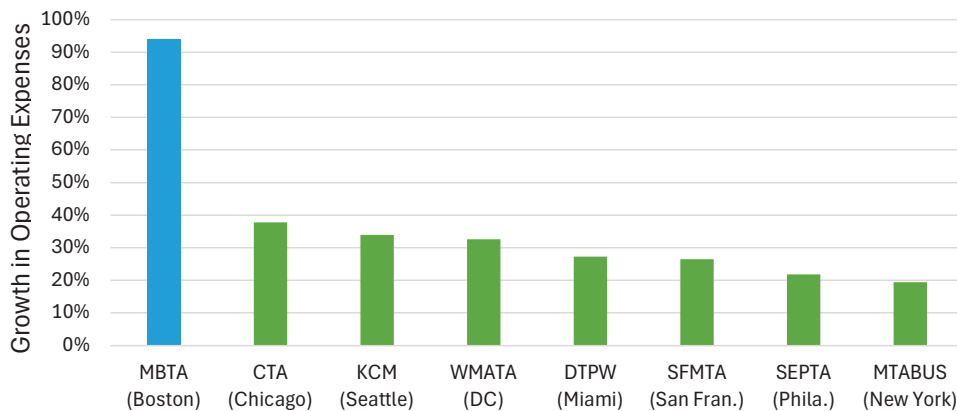
Pandemic-related ridership declines certainly aren't the MBTA's fault, but the resulting fare revenue declines only increase the importance of moderating the growth in operating costs going forward.

Between 2019 and 2023, MBTA bus operating expenses per vehicle revenue hour nearly doubled.

Skyrocketing bus costs

In 2019, MBTA buses had total operating expenses per vehicle revenue hour of \$153, compared to \$220 at New York's Metropolitan Transit Authority.²¹ By 2023, costs had risen slightly to \$263 in New York, but the hourly cost of operating an MBTA bus nearly doubled, to \$297, far exceeding New York's costs (see Figure 3).²² During that same period, the number of annual passenger miles traveled on the MBTA bus network fell from 258 million to 205 million.²³

Figure 3: Growth Rate of Bus Operating Expenses per Vehicle Revenue Hour for MBTA and Peer Transit Agencies, 2019-2023²⁴



There are many facets to the MBTA bus system's cost problem. Going back to 2017, for example, a study by former state Inspector General Greg Sullivan found that the T had the highest bus vehicle maintenance costs among the nation's 25 largest transit systems.²⁵

Headcount

The recently approved MBTA budget calls for hiring over 1,000 people to bring headcount over 8,000.²⁶ During the derailments, collisions and shutdowns, some observers cited T labor shortages as to blame.²⁷ But lawmakers and MBTA officials must draw a distinction between bus drivers and administrative employees. The evidence shows that areas like bus maintenance and "Money Room," the Authority's cash counting operation that has since been contracted out, had staffing levels that were far above what was typical for the private sector.²⁸ Any new hires should be in areas where they're actually needed.

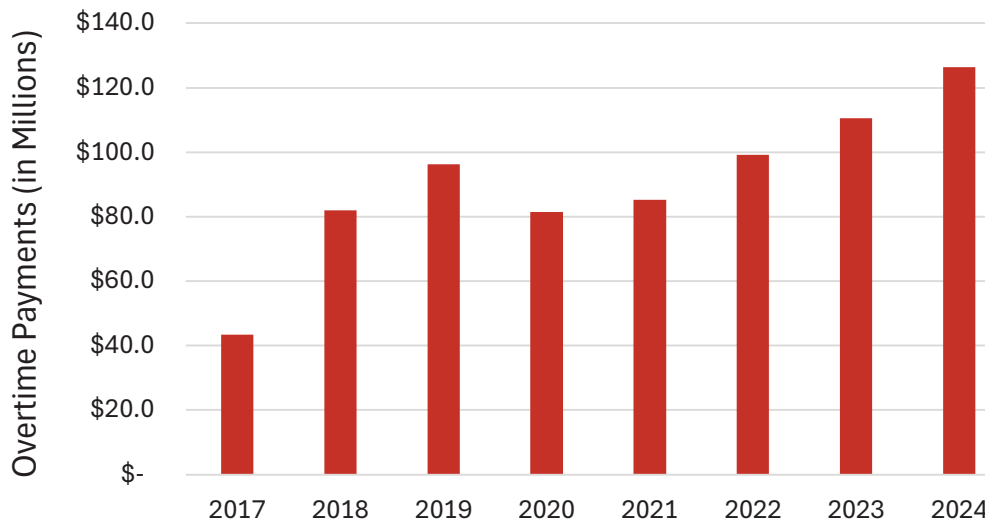
Overtime

Overtime has been another MBTA budget buster. T employees earn higher hourly pay rates for time on the clock beyond their regularly scheduled hours, which is sometimes necessary due to emergency repairs and absenteeism. But historically, more than 40 percent of overtime pay the agency doled out went to workers who spent fewer than 40 hours working at their base pay rate in the same week.²⁹

In 2015, record snowfall necessitated about \$7.2 million in emergency response work shifts and extended hours, bringing agency-wide overtime payment totals to \$75 million.³⁰ After an accountability system was rolled out in 2016, average daily overtime hours were cut by 25 percent in the first year.³¹

But that accountability system appears to have gone by the wayside. The \$85.3 million spent on overtime in 2021 rose to \$126.4 million in 2024 (see Figure 4).³² In 2024, 117 MBTA employees earned more than \$100,000 in overtime, and 76 were paid more in overtime than in base pay.³³

Overtime payments at the MBTA rose by 48 percent between 2021 and 2024.

Figure 4: Total Value of Overtime Payments to MBTA Employees, 2017-2024³⁴

Hypothetically, the T's recent efforts to aggressively fill open positions should render overtime pay less necessary going forward.³⁵ But as of this writing, that hiring spree has yet to translate into a decline in the agency's total overtime payments.

Pacheco Law exemption

MBTA management no longer has access to a proven cost control tool. Among the powers granted to the FMCB was a three-year exemption from the Commonwealth's so-called Pacheco Law,³⁶ which makes it difficult to contract out any service provided by state (or MBTA) employees. Several examples illustrate how the Pacheco Law exemption allowed the T to better manage costs and improve service measures.

When the FMCB hired consultant Shellie Crandall to review the MBTA's Secure Cash Counting Facility (the "Money Room") operations in 2016, she found that there was no process of daily reconciliation for cash.³⁷ Armored trucks were doing nine pickups per shift, compared with an industry standard of 40.³⁸

The Pacheco Law exemption allowed the FMCB to reduce these inefficiencies by partnering with private contractors, including the cash management company Brinks. When Brinks took over operations, they cut costs by 65 percent,³⁹ reduced time-to-deposit by 80 percent,⁴⁰ and enabled the MBTA to accurately track cash for the first time.

In 2017, T officials hired consultant Ernest Miller to evaluate how the agency could improve its warehouse operations, which support the MBTA's maintenance work. Miller told *The Boston Globe* he was floored by the dysfunction within the system.⁴¹

That same year, the FMCB contracted out the operation of inventory management and logistics to Mancon. There is some dispute around the degree to which warehousing and logistics improved under the new contract. A 2019 report from the Massachusetts Inspector General found that, in calculating savings, the MBTA didn't include the \$1.8 million it paid to a third-party consultant that oversaw the new contract.⁴² But in a 2018 report to the legislature, the MBTA found that during the first year of the contract, inventory accuracy improved from 57 percent to nearly 80 percent⁴³ and 99.8 percent of deliveries were made within 10 hours.⁴⁴

Under the FMCB, the Pacheco Law exemption allowed the T to better manage costs and improve service measures.

The original Pacheco Law waiver brought another major benefit. Thanks to the prospect of private sector competition, the MBTA's largest union, the Carmen, agreed to renegotiate their contract. The resulting agreement was projected to save about \$218 million over 10 years.⁴⁵ In total, the MBTA reported over \$450 million in savings over a decade thanks to its three-year Pacheco Law exemption.⁴⁶

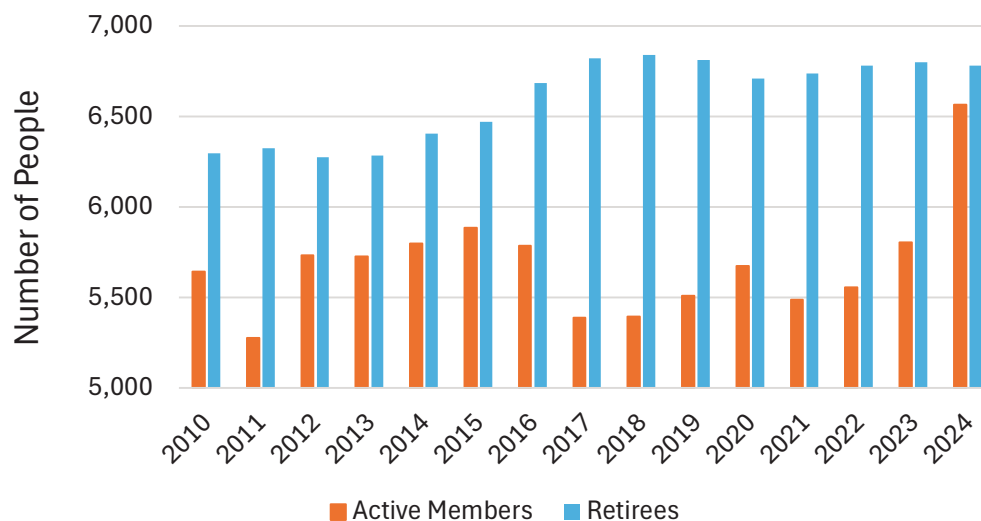
The MBTA Retirement Fund

In 2007, the T contributed \$37 million to the MBTA Retirement Fund (MBTARF).⁴⁷ In the previous year, the fund was 94 percent funded.⁴⁸ For the fiscal year ending June 30, 2025, the budgeted contribution is \$207.7 million,⁴⁹ yet at the end of 2024 the funding ratio had fallen to just over 56 percent.⁵⁰

The rise in unfunded liability has come even amid a hiring spree that has greatly reduced the gulf between the number of contributors and those collecting benefits. As of Dec. 31, 2024, 6,565 active employees paid into the fund, but 6,783 retirees collected from it (see Figure 5).⁵¹ Still, this ratio is hardly the recipe for a healthy pension fund.

The biggest reason for the mismatch between contributors and beneficiaries is the age at which T employees retire. Those hired before December 2012 can retire with a full pension after 23 years of service, regardless of age.⁵² Those hired after December 2012 can retire with a full pension at age 55 after 25 years.⁵³

Figure 5: Number of Active Employees and Retirees in the MBTA Retirement Fund, 2010-2024⁵⁴



Between 2007 and 2025, the MBTA Retirement Fund went from 94 percent funded to 56 percent funded, even though annual MBTA contributions to the Fund increased more than five-fold.

Another driver of the crisis is that T pension benefits are significantly more generous than what most state employees get. For example, when a 61-year-old state employee earning \$80,000 annually retires after 25 years, they get 1.75 percent of their salary for each year of service, or 43.75 percent, which adds up to an annual pension of \$35,000.⁵⁵

At the MBTA, the multiplier is 2.46 percent per year of service, so instead of receiving 43.75 percent, that same person's pension benefit is 61.5 percent of their salary.⁵⁶ Thus, the \$80,000 earner will get \$49,200 annually.

T employees also contribute less toward their pensions than most state employees because, unlike state workers, T employee pension contributions are subject to collective bargaining rather than set by statute.⁵⁷

Another difference with the state is that the MBTA is part of Social Security.⁵⁸ This means that the T and its employees each pay the 6.2 percent Social Security tax, and that retirees collect both pension and Social Security benefits. In FY 2024, the T paid \$63.1 million in Social Security taxes.⁵⁹

Conclusion

MBTA costs are again rising at an unsustainable rate, and both the data and experience suggest that expenses can be trimmed without harming safety or operations. Large urban transit systems aren't anyone's example of well-oiled machines, but T operations are unusually costly, even when compared to its peers.

While fixing the MBTA Retirement Fund is a more complicated matter, the T would benefit from the reinstatement of an entity such as the Fiscal and Management Control Board to focus on cost control. One of the keys to the FMCB's success at controlling costs was its exemption from the Pacheco Law. State policy makers should restore the MBTA's exemption from the law and use the FMCB's experience with private contractors to more effectively target accountability and cost control.

It isn't possible to deliver public transportation cheaply, but every dollar of waste eliminated is one that can be invested in the regional economy by improving mobility in Greater Boston.

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