

Policy Dialogue

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MBTA Capital Spending Derailed by Expansion?

Pioneer Institute partnered with the Massachusetts Taxpayers Foundation on a study finding the MBTA cannot afford any of its planned expansion projects without additional state funding. Speaking at a forum on the study's release were Michael Widmer, MTF president; Charles Chieppo, director of the Shamie Center for Restructuring Government at Pioneer; Thomas Finneran, speaker of the Massachusetts House of Representatives; James Scanlon, the Commonwealth's acting secretary of transportation; and David Luberoff, associate director of the Taubman Center for State and Local Government at Harvard's Kennedy School of Government. The remarks of each are excerpted below.

Transit Expansion: A State Responsibility

Michael Widmer: This paper finds that the MBTA cannot afford expansion projects without sacrificing critical maintenance and modernization of the existing system or incurring an ever higher mountain of debt and undermining its long-term finances. At the planned rate of spending, the T's deferred maintenance backlog will continue to grow and reach nearly \$4 billion by 2006. In addition, paying \$3 billion in mandated Central Artery mitigation projects within the T's fiscal constraints is clearly unrealistic—this is really a corollary of the conclusion that if we can't afford expansions, then clearly we can't afford the artery mitigation requirements.

We came to these conclusions by looking at nine different funding scenarios; I'll summarize three key ones. First, using the MBTA's own capital funding assumptions—that is, reducing annual debt issuance from \$300 million to \$52 million by 2010; three percent annual sales tax growth; 10 percent fare increases in 2003 and 2005; two percent reduction in operating expenses before inflation; and \$500 million in maintenance and modernization—leaves a shortfall in funding for expansion of \$1.7 billion. Second, if we reduce debt issuance more gradually—from \$300 million to \$152 million by 2010—and project a more likely sales tax growth of 5.5 percent, we just about break even, leaving no money for expansion.

Finally, if we use the MBTA capital funding assumptions but reduce maintenance and modernization to \$350 million for the first two years and an absolute bare minimum of \$200 million in each of the remaining 10 years, we have just \$600 million for expansion over 10 years; of course, what's planned greatly exceeds that amount. Spending \$800 million for maintenance and modernization—the amount needed to keep the T in a state of good repair—is not possible under any scenario. Spending the \$500 million the T projects allows us not to lose any further ground, but that's possible only if no funds are spent on expansion.

Read the complete study, "MBTA Capital Spending: Derailed by Expansion," online at www.pioneerinstitute.org/pdf/mbta.pdf.



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Implementing fiscal reforms, strengthening revenues, and reducing operating costs is absolutely essential to supporting the capital spending program and keeping the system solvent. The T needs to focus its capital program on achieving the promise of “forward funding” which requires the T to manage within its own budget. The goals of forward funding were a sound fiscal system and improved service. We are already seeing positive steps on both of those counts, but we have a long way to go. That’s clearly where the T capital program needs to be focused, and this analysis underscores that even more dramatically.

T *expansions should be weighed and paid for or not as part of a statewide transportation strategy.*

—*Michael Widmer*

We recommend that the Commonwealth assume the responsibility for funding of expansion projects, including Central Artery mitigation commitments. T expansions should be weighed and paid for or not as part of a statewide transportation strategy. We shouldn’t have these expansion projects set aside just within the T’s framework, and have highways separate. We as a Commonwealth really need to have an integrated transportation strategy.

We view this recommendation as an important positive policy recommendation for the proper long-term transportation investments in the Commonwealth. Doesn’t it make sense from a Commonwealth point of view to think about the Urban Ring in the context of and tradeoffs with highway funding across the state, such as the expansion of Route 3 South or other highway projects in central or western Massachusetts? The state has limited capital dollars and it needs to balance its investments in public mass transit as much as it does with highways.

Expansion’s Impact on the MBTA’s Operating Budget

Charles Chieppo: In looking at MBTA expansion, we need to recognize that construction costs represent only part of the true cost of expansions. Each of these expansions dramatically adds to the T’s operating deficit. In addition, every expansion increases the amount of assets that need to be maintained. We need to choose future expansions very carefully.

Having said that, I want to turn to operating costs. The T’s finance plan assumes that it will cut its operating costs base by two percent a year going forward. Most of the scenarios that assume the T will reach that goal still leave no money for expansion. Measured by cost-per-mile or cost-per-hour of service, the T is the most expensive transit system in the country to operate. Costs have risen by an average of more than six percent a year over the last five years. Part of that is due to new commuter rail lines. But depending on how you do the math, between 55 percent and two-thirds of the T’s budget is labor costs, which are among the highest, if not the highest, of any major transit system in the United States. We have the highest paid bus drivers in the country, and we’re near the top in virtually every other category.

Contracts of most of the MBTA’s 27 collective bargaining units are up at the end of this fiscal year. The negotiations that are going on right now are absolutely critical. We cannot afford another repeat of the 1998 carmen’s union contract with 20 percent increases.

The key point is that the T currently doesn’t have the tools to control its operating costs.

In 1980, the legislature passed so-called management rights legislation that preserved the T’s right to subcontract, prohibited the T from bargaining away the right to hire part-time employees, and increased management’s control over employee assignments. The T itself found that over the 1980s, it saved \$15 million annually due to the management rights legislation. An expert from the Kennedy School concluded the legislation saved even more than that.

Today, however, all that remains of the legislation is the right to hire part-timers. Passage in 1993 of the Pacheco Law—the most restrictive anti-privatization legislation in the nation—essentially eliminated the right to subcontract, and any faint hope of being able to do that



Charles Chieppo of Pioneer Institute.

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—*Charles Chieppo*

was extinguished with language in the 1998 carmen’s contract. A plan to contract out the operation of 40 percent of the T’s buses in 1997 could have saved \$54-87 million dollars over five years. The private contractor also offered to clean and maintain the T’s bus shelters for free, guaranteed a revenue stream from the sale of ads placed on the shelters, and agreed to build more shelters, also at no cost. Both plans were struck down under the Pacheco Law.

Amendments passed in 1995 to the management rights legislation took away much of the T’s control over its employees’ assignments. Work rules are a huge problem at the T. Today, because of outdated work rules, the T has more employees than it needs and incurs far more overtime costs than it needs to. Together, it’s estimated that those two factors add 10-20 percent to the T’s labor costs.

The bottom line is that if we’re serious about the T cutting its operating costs we have to give the T the tools to do it. We should repeal, amend, or make the T exempt from the Pacheco Law and restore the management rights legislation.

Maintenance and Modernization Over Expansion

Thomas Finneran: Among insights I derived from the report is that policy constantly evolves. There is a constant challenge as circumstances and needs change. There is no such thing as a final victory in the public arena. You do not get to say, “Okay, we got forward funding done” and then move on to something else. This is going to require an extraordinary effort in the years ahead.

There are clearly some very strong projects competing for our attention. But the focus on maintenance and modernization must have a higher priority.

—Thomas Finneran

It is obvious from even a cursory examination of the report that the old system was hideously broken. There were no restraints on operating and capital spending. It was running pell mell toward bankruptcy—probably so severe that the state itself could not have bailed it out.

I would concur to a limited degree with the report’s call for a state role in the funding of T expansion projects. Limited because extraordinary pressure already exists on our capital program.

Expansion is a wonderful thing to pursue and has political appeal.

There’s a parallel debate going on with regard to financing expansion of healthcare to cover more of our uninsured population. Expanding healthcare when we have such glaring holes in the existing structure is shocking and irresponsible. The same point holds true to this paper’s conclusion that maintenance and modernization should have a higher priority than expansion.

I don’t back away from expansion because I can name two projects, other than the completion of the Greenbush Line, which are appropriate for our consideration (“our” in the all-inclusive sense of the word—not just the MBTA, but the Commonwealth, as well). We should focus on moving forward on commuter rail for New Bedford and Fall River and I’m aware of some frustration in Framingham and Worcester with the insufficiency of commuter trains in that area. These would be two worthy projects.

By focusing on these two I don’t mean to neglect others. As a lifelong Bostonian, I’m fascinated by the notion of the Silver Line and the Urban Ring. There are clearly some very strong projects competing for our attention. But the focus on maintenance and modernization must have a higher priority.

Another insight that I derive from the report is that the creation of incentives for management is incredibly important. That’s an appropriate discipline to impose. I predict we will see creativity, innovation, and dynamic thinking which was not characteristic of the MBTA in the past because it did not have to be. But now there is a new system imposed on it. Extraordinarily successful corporations are forced constantly to innovate, think creatively, change the way they do business, and have a perseverance to the task. The task for the MBTA is to make sure that the taxpayers of Massachusetts get their money’s worth—a coherent,

functional, efficient, and fairly modern system. It is going to require them to do things that in the past have been easily avoided—fare increases, successful and innovative management of real estate holdings, advertising opportunities, and holding down operating costs.

I'm hopeful forward funding has created these incentives and pressures so that the MBTA and the leadership of the Commonwealth will rise to the occasion and make sure this tree we planted a few years ago bears the most impressive fruit for all of us for many years to come.

Points of Agreement and Disagreement

James Scanlon: The MBTA sees eye-to-eye to many of the facets of this report. The report clearly reminds us all that we have to keep our collective eye on the ball so that the MBTA continues to live within the fiscal compliance envisioned under forward funding.



Acting state transportation secretary James Scanlon is interviewed prior to his remarks.

We agree with the basic premise that expansion efforts should not unreasonably take resources away from maintenance efforts. Our primary focus is on maintaining the integrity of our existing infrastructure, and we will not compromise a system that millions of people have come to depend on.

The report highlights the importance of the automatic fare collection project that the MBTA wholeheartedly embraces. I am pleased to report that the automatic fare collection specifications were advertised in October 2001 and installation will begin in December 2003.

There are, however, a number of premises in the report that I differ with.

- Allocating an average of 75 percent to system maintenance and 25 percent to expansion for the MBTA system is appropriate. We need to fulfill legal commitments while at the same time maintain the system. This statistical breakdown represents a balanced spending plan. Simply put, it is unrealistic to turn a 100-year-old system into a completely new one.

- Also, it has gone unrecognized that the MBTA has expended almost \$7.4 billion since 1980 on both expansion and maintenance. I would venture to guess that no other transit authority in the country, other than the MTA in New York, has expended this level of capital funding. I strongly believe that the MBTA is already relatively in a good state of repair.

- The report overstates the MBTA's commitment to expansion and understates its commitment to maintenance. The report seems to list projects like the Urban Ring, the Blue Line North Shore extension, and the North/South Station rail link as initiatives that are presently programmed into our capital program. Quite the contrary; we need more time to program these projects. But we are challenged to keep the ball rolling on feasibility studies, alternative analysis, cost estimates, and initial designs so that we can be ready for the future. These projects, however, are not funded for the hundreds of millions of dollars that are represented by the report.

- The report failed to qualify the economic, environmental, and social benefits to the Commonwealth on expanding the reach of the commuter rail system. The Greenbush project is fully funded and within the MBTA's existing capital program at a cost of \$434 million, not the \$600+ million the report suggested, and will bring unprecedented growth in economic opportunities for the South Shore. It is a project within the 25 percent expansion category and in no way compromises the MBTA's fiscal health.

Still, even where there are differences, we share a common goal with both Pioneer Institute and the Massachusetts Taxpayers Foundation. We feel strongly that we must live up to the spirit of forward funding, and will follow the fiscal charge that was set for us.

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—James Scanlon

Considerations on Moving Forward with MBTA Expansion

David Luberoff: It seems to me there are three things in the report that we ought to be worried about even more than the report suggests. The first is the assumption built in the T's operating budget about increased efficiency, which is extremely difficult to accomplish.

Second, projects often wind up costing substantially more than we thought they were going to cost when we authorized them—on average, 40-80 percent more. Third, the report presumes federal funding for the T will be more or less stable. That's probably reasonable. While President Bush's budget calls for a modest increase in funding for mass transit, it also proposes a substantial 25 percent reduction in funding for highways. If this passes, it would put even more pressure on the state's capital budget. To the extent the state might have thought about "flexing" any highway money to transit, there will be less there.



Forum panelists David Luberoff (left) of Harvard's Kennedy School of Government congratulates Speaker Thomas Finneran following his remarks.

We should honestly, accurately, and as dispassionately as possible assess where we are. In that sense, this report is a phenomenal piece of work. One can dispute some of the accounting, but the basic message is that there is not a lot of money for new expansions. We should also look very carefully at what we have gotten from two decades from incredible investment in the T in terms of how are people using transit. Before we move forward with expensive capital investments, we ought to be sure that there is good data that says they will do the things that we hope that they will.

One of the most striking things about this report is the extent to which the MBTA is a substantial "outlier" on a variety of performance measures. It is an expensive system whose debt costs are higher than any transit authority. We ought to figure out why are number one in a variety of measures where we probably ought not to be.

We have an obligation and a responsibility to continue to maintain the system. As far as new projects, there ought to be some basic guidelines, such as cost-per-new rider, that make clear under what circumstances the MBTA will and won't move forward with a new project. If it costs more than "x" new rider, it's not worth it.

We also ought to think hard about who is going to benefit from any new spending initiatives. The MBTA is now being funded in large part by the sales tax, which is a modestly regressive tax—it falls slightly higher on poor people than the affluent. Commuter rail ridership tends to be middle to upper middle class people. So we are, in effect, taxing poorer people to subsidize more affluent people. I am not convinced this is a particularly sound public policy, particularly in a budget crises.

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—David Luberoff

Along these same lines, it is striking that the MBTA's bus replacement cycles have been extended out. For the most part bus riders tend to be lower income and usually a higher percentage of minority people and women. So to the extent that the MBTA and its political overseers made conscious decisions in the 1990s to invest in commuter rail and underinvest in buses, we have again subsidized the people who may be in least need of subsidy, and we have hurt the people whom we probably want to help the most.

The T's future capital budget is to a large extent driven by the mitigation requirements of the Central Artery project. That is taken as a given. But the air quality benefits of the projects in the Central Artery are minimal. In an era when money is tight, it is worth looking at those agreements again and asking whether they buy us very much in terms of environmental quality and whether they are costing a lot in terms of new rider.

Finally, and related to that, we hear about the economic benefits of new projects. It is incumbent upon those who are asking for new projects to produce credible numbers about those projects and develop credible funding sources for them.