Needed upgrades to Boston transit system threatened by capitalist financing schemes

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23 May 2018

On May 7, the unelected Fiscal & Management Control Board (FMCB) that governs the Massachusetts Bay Transportation Authority (MBTA) reviewed plans for a $3.5 billion upgrade to its Green Line light rail branches and voted to hire a project management consultant. The upgrades would be a separate project from the Green Line Extension into the Boston suburbs of Somerville and Medford and would take 15 or more years to complete.

The improvements—bridge improvements, upgrades of track layouts that are in some cases more than 100 years old, and new, longer trains to allow for more passengers—are desperately needed. The loop in the tracks leading into Park Street station under Boston Common in downtown Boston, for example, was laid out in 1895. A total of 34 existing station platforms are shorter than the 225 feet needed for a three-car train. If completed, the improvements would increase peak capacity on weekdays from 73 trains to 94.

However, under capitalism the money needed for this project will be raised through bonds that suck social resources out of the transit system in the form of interest paid to J.P. Morgan, Citibank, Wells Fargo, and other predatory lenders. Under Massachusetts law the debt service owed to these corporations is given more protection than workers' wages and pensions. A November 2017 Moody's Credit Opinion waxed poetic about this legal thievery, noting the "MBTA's pension obligations are sizeable and growing, but fall below debt service in the priority of payment waterfall."

The MBTA already has more than $5 billion in outstanding debt, and its yearly debt service—payments consisting of principal and interest—is forecast to increase from $450 million in 2018 to more than $500 million in 2021. These amounts do not include any borrowing for the Green Line program. In comparison, total wages for the system's more than 6,000 workers were slightly less than $518 million in 2017.

After the failure of its attempts to blame worker absences for the high level of dropped bus trips systemwide, MBTA management admitted in March that it needs to hire 55 more drivers. The total yearly cost is estimated at $3.6 million, or less than 1 percent of debt service payments.

While allowing bondholders to suck hundreds of millions of dollars of interest out of the system every year, MBTA management is claiming that $6 million of operating revenue must be raised by installing advertising billboards on the outside of subway entrances. As of the beginning of February, the MBTA planned to increase its digital advertising screens to 700 by the end of the year.

According to the *Boston Globe,* at the beginning of May—after complaints from neighborhood groups about the advertising scheme—an MBTA memo to the state legislature claimed that without the $6 million of advertising revenue "the options include cutting service, more rapidly increasing fares and parking fees, or seeking additional state aid." General Manager Luis Ramírez, who before taking this job had built his career by signing misleading financial statements at Global Power Equipment Group, threatened 7 percent fare increases if the new MBTA billboards were not approved.

While the MBTA—which is incorporated as a "quasi-public" entity under Massachusetts law—has no taxing authority, it receives 1 percent of revenues from the state's regressive sales tax as a dedicated source of income every year. Any amount of this money that is pledged to bondholders cannot be diverted for other purposes. In the event of a bankruptcy, bondholders would be repaid before any money was provided for pensions or retiree healthcare.

In addition, Section 11 of Chapter 161A of the state's laws allows the MBTA board of directors to raise fares to pay for debt service if needed.

The complicated borrowing schemes include not just bonds backed by sales tax revenues, but also shorter-term notes backed by anticipated income from future bonds. A September 2017 presentation to the FMCB, for example, describes an issuance of $300 million of notes that would be paid back with only $274 million raised from sales tax bonds. While the source of the $26 million difference is not made clear in the presentation, it does state that $100 million of the bond income would be used in another gamble, for "replenishment of commercial paper."

The MBTA and its bankers try to hide their rapaciousness behind progressive wording. A Series 2017 issuance of $271 million in Subordinated Sales Tax Anticipation notes, for example, is called "sustainability bonds" because of the environmental benefits of mass transit. That the bonds provide 4 percent in tax-free income to the purchaser is, of course, just a plus for the civic-minded investors at J.P. Morgan, Citibank and Wells Fargo.

No matter who the eventual purchaser, the Depository Trust Company (DTC)—a huge clearing house that handles millions of stock and bond issuances—is the depository for this bond issue. DTC is a member of the Federal Reserve System and a wholly owned subsidiary of the Depository Trust & Clearing Corporation (DTCC). Across all of its businesses the latter had more than $2 billion in shareholder equity at the end of 2017, with its settlement and asset services activity bringing in $449 million of revenue and its clearing services activities raking in nearly $533 million.