



COMMONWEALTH OF MASSACHUSETTS
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HOUSE TASKFORCE
ON
INFRASTRUCTURE AND DEBT

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MassHighway/MassPike Merger: A Pothole on the Road to Reform



MassHighway/MassPike: Rationale for Restructuring

The Governor bases his plan to merge MassHighway and Turnpike operations on the following rationales:

- The Turnpike Authority's financial distress
- Desire to unify the Commonwealth's highway department
- Ability to achieve \$20.1 million in annual savings

MassHighway/MassPike Merger: Fiscal Year 2005 Overview

The Governor's merger plan would:

- Create "Turnpike Efficiency Fund" on the Commonwealth's books, into which all Turnpike revenues will be paid
- Transfer \$190 million of Turnpike cash to balance Commonwealth FY05 budget, and replace it with \$180 million balance of Turnpike Debt Service Reserve Fund
- Pledge Commonwealth's full faith and credit as collateral for \$2.5 billion of Turnpike debt
- Finance Turnpike's outstanding debt with annual Commonwealth contract assistance, to be reimbursed by Turnpike revenues in "Efficiency Fund"
- MHD and other state agencies assume administrative and maintenance functions of the Turnpike, including Central Artery/Tunnel system

MassHighway/MassPike Merger: Causes for Concern

In its analysis of the Governor's transportation restructuring proposal, the House Infrastructure & Debt Task Force discovered flaws and potential risks:

1. Deficit financing disguised as "reform"
2. Commonwealth debt burden increases by \$2.5 billion
3. No tax relief
4. No toll relief
5. Questionable savings due to lack of implementation plan
6. Risk to investment in Central Artery/Tunnel system
7. MassHighway's challenges
8. Politicized toll policy
9. Fragmented transportation policy

MassHighway/MassPike Merger: (1) Deficit Financing Disguised as “Reform”

- The Governor’s plan to “liberate” \$180 million in “trapped” MassPike debt service reserve funds to balance the Commonwealth FY 2005 budget is deficit financing, pure and simple.
- This is not free money. The Turnpike Authority created this reserve with borrowed funds to protect bondholders from revenue shortfalls.
- The Turnpike Authority must pay this \$180 million back over the life of its bonds.
- The \$180 million reserve fund is currently invested, generating \$9.8 million in annual interest earnings, which the Turnpike uses to pay its debt each year.
- If this reserve fund is liquidated as proposed, the Commonwealth would still be required to realize additional revenues of \$9.8 million annually to replace lost interest earnings.
- The up-front benefit of cashing out this reserve fund actually costs the Commonwealth’s taxpayers and Turnpike toll payers approximately \$460 million over the remaining life of the Turnpike’s debt.
- This is a short-sighted gimmick, and is not prudent fiscal policy.
- The Massachusetts Taxpayers Foundation (MTF) has suggested that using \$190 million in Commonwealth cash reserves during FY 2005 would be a better fiscal approach than using this form of costly deficit financing.

MassHighway/MassPike Merger: (2) Commonwealth Debt Burden Increases by \$2.5 Billion

- Under the Governor's merger plan, the Commonwealth assumes responsibility for \$2.5 billion in outstanding Turnpike debt. The impact on the state's credit rating and its ability to access bond markets in the future is uncertain, and has not been fully addressed.
- In effect, the Governor is proposing to use \$2.5 billion of Commonwealth debt capacity in order to obtain a one-time cash grab of \$190 million.
- MTF has advised the Task Force that assuming the Turnpike's debt would not necessarily run the Commonwealth afoul of credit rating agencies in the short-term because toll revenue will remain in place to pay the bonds.
- However, they warned that this plan will make the need to increase tolls in the long term politically difficult to implement and justify. This risk could trigger a downgrade in the state's credit rating or force taxpayers to shoulder the burden of toll shortfalls.

MassHighway/MassPike Merger:

(3) No Tax Relief

- The Governor's merger plan promises at least \$20.1 million in annual savings.
- Even if the \$20.1 million cited by the Administration were real savings, that money is realized in the form of excess toll revenues, and **would not be used to the benefit of Massachusetts taxpayers.**
- In a meeting with the House IDTF, Administration officials indicated that after FY 2005 excess toll revenue would be used only for Turnpike purposes, and would not be diverted to balance the Commonwealth's budget.
- The Governor's FY 2005 budget proposal does not reduce MassHighway's line items to reflect any corresponding savings to taxpayers.

MassHighway/MassPike Merger: (4) No Toll Relief

- The merger plan proposes a reduction in Turnpike expenses, but provides for no toll relief.
- Tolls cannot be eliminated or reduced under the merger because doing so would expose Commonwealth taxpayers to the Turnpike's \$2.5 billion debt.
- Toll payers will continue to pay tolls, and will see toll increases every six years to satisfy bond repayment.

MassHighway/MassPike Merger: (5) Questionable Savings/Lack of Implementation Plan

- The merger proposal assumes \$20.1 million in annual savings through the reduction of Turnpike expenses.
- The plan will eliminate existing Turnpike patron services such as emergency service patrols and visitor information centers, which benefit toll-paying drivers. Turnpike users will receive fewer services without seeing any toll reduction or relief.
- Reduced Turnpike expenses are achieved by assigning administrative and O&M functions to MHD, suggesting that MHD has excess staff capacity and/or that its staff is underutilized.
- Given state budget cuts, layoffs, and early retirement incentives over the last three fiscal years, this plan raises the question of whether MHD truly has excess capacity to assume added responsibility.
- The Romney Administration has not offered a detailed implementation plan, making it difficult to assess the accuracy of its savings claim.
- Absent a detailed implementation plan, the Administration's numbers are suspect.

MassHighway/MassPike Merger: (6) Risk to Investment in Central Artery/Tunnel System

- The 1997 MHS legislation authorized MassPike to own and operate Central Artery/Tunnel facilities upon completion, as part of an integrated MHS system of tunnels, bridges, and roadways.
- This legislative initiative was based in part on two independent studies that assessed whether MHD or MassPike was best equipped to own and operate the CA/T.
 1. A 1990 study by Lazard Freres cited concerns with MHD's "capacity to recruit and hire needed level of staff" and "ongoing ability to obtain the funds necessary to operate and maintain the System."
 2. A 1996 MHS Joint Feasibility Study recommended that "the Authority be the owner of the MHS facilities" and stated that this "offers the added benefit of insulating MHD's annual \$400 million road and bridge advertising program" from CA/T cost impacts.
- Administration officials claim that the merger will not jeopardize the CA/T system because MHD will retain outside contractors for operations and maintenance. The Administration claims this will not cost the state more money because MassPike will also contract out for these services.
- The Turnpike Authority informed the Task Force that in fact its own employees are being trained to operate and maintain the CA/T system. It is unclear that this personnel and expertise would be retained under a merger.

MassHighway/MassPike Merger:

(7) MassHighway's Challenges

- The Governor's plan focuses exclusively on the Turnpike Authority, but does not address the challenges MassHighway presently faces in its mission.
- In 2003, the Federal Highway Administration cited MassHighway for its inability to hire and retain qualified engineers and technical personnel to adequately staff the Commonwealth's Statewide Road and Bridge Program.
- The report pointed to a shortage in MHD district inspection staff that monitor the quality and accuracy of highway and bridge construction work.
- FHWA warned that continued failure to meet necessary staffing levels would jeopardize the Commonwealth's federal highway funding.
- Over the past decade, MHD increasingly shifted the salary costs of its workforce from operating accounts to its bond accounts. Of its 1700 personnel, the salaries of approximately 1400 employees, or 80%, are paid annually with Commonwealth borrowing.
- Turnpike employee salaries and benefits are funded exclusively on a pay-go basis. Shifting these employees and functions to MassHighway would exacerbate the problem.

MassHighway/MassPike Merger: (8) Politicized Toll Policy

- Under the merger plan, Turnpike toll rates essentially become a gubernatorial and legislative responsibility.
- This would subject future toll increases to political pressures, making it difficult to raise tolls as necessary (i.e. MBTA).
- MHS toll increases are scheduled for every 6 years, beginning in 2008, to maintain pace with escalating debt service payments.
- If toll increases become politically unpalatable, Massachusetts taxpayers would become responsible for funding the Turnpike's annual deficit.

MassHighway/MassPike Merger:

(9) Fragmented Transportation Policy

- The Governor's proposal presents a narrow view of providing a more efficient delivery of transportation services to the public.
- The Commonwealth needs a broader vision for transportation policy and planning, across all modes of service.
- A unified highway system is only a single component of this broad plan.
- The process of developing a more coordinated transportation policy is ongoing through the efforts of the Transportation Restructuring Commission, statutorily mandated in the Commonwealth's FY 2004 budget (Ch. 26, Acts of 2003, § 599).

MassHighway/MassPike Merger: Recommended Reforms

1. Shared MassHighway and MassPike facilities and equipment
2. Commonwealth savings through utilization of Turnpike resources
3. Peak/Off-peak pricing discounts and policies
4. Refinance Western Turnpike debt
5. Expand Turnpike Board of Directors to include Secretary of Transportation

MassHighway/MassPike Merger: (1) Shared Highway Facilities and equipment

- It is not unreasonable for MassHighway and the Turnpike Authority to pool equipment, materials, or facilities when feasible.
- The Legislature should direct both agencies to develop a plan and report back to the Legislature within six months.

MassHighway/MassPike Merger: (2) Commonwealth Utilization of Turnpike Resources

- The Turnpike Authority currently has the capacity to assist the Commonwealth to maintain feeder interstate highways in Western MA.
- The Authority could save Commonwealth taxpayers approximately \$13 million, by operating and maintaining feeder interstate highways that connect to the Turnpike.
- The Legislature proposed this plan in FY 2004, but it was vetoed by Governor Romney.
- This plan should be included in the FY 2005 budget.

MassHighway/MassPike Merger: (3) Peak/Off-Peak Pricing Discount Program

- The Turnpike Authority should work to encourage additional enrollment in the FastLane program by establishing an peak period pricing system.
- Such a plan would reduce congestion and help reduce Turnpike operating costs.

MassHighway/MassPike Merger: (4) Refinance Western Turnpike Debt

- The Turnpike could take advantage of historically low interest rates by refinancing outstanding Western Turnpike debt.
- The Turnpike could save approximately \$13 million, depending on interest rate fluctuations.
- The Legislature should provide the Turnpike Authority immediate statutory authorization to refinance.

MassHighway/MassPike Merger: (5) Expand Turnpike Board of Directors

- The Secretary of Transportation presently chairs the MBTA Board of Directors
- The Secretary could be placed on the Turnpike's board to provide increased accountability and oversight.

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