Massachusetts Taxpayers Foundation

News Release

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For Immediate Release

March 8, 2000

MTF Proposes Transportation Finance Plan

The Massachusetts Taxpayers Foundation today recommended that the state raise at least $2.5 billion of additional funding to support the Central Artery project and ensure a balanced statewide transportation program.

In testimony before a Special Joint Legislative Committee the Foundation recommended a financing plan with three key objectives:

- paying for the $1.4 billion in recently identified Artery cost overruns in a fiscally responsible way that does not further undermine the Commonwealth's ability to meet other critical transportation needs;
- creating a $500 million Artery contingency fund for any future cost overruns, the kind of contingency that has been absent from prior finance plans;
- providing at least $600 million in supplemental funds over three years for statewide transportation projects, including the statewide road and bridge program and Chapter 90 local aid, that have been cut back or delayed because of the need to finance the Artery in the face of a 40 percent cut in federal highway aid.

MTF's proposal would be financed with a variety of new and existing revenue sources that would provide $2.4 to $2.7 billion for these capital needs:

- $660 million in highway bonds supported by four cents of the state's current 21-cent gas tax, about $120 million per year;
- $600 million in Commonwealth bonds financed with drivers' license renewal fees, about $45 million per year, which the Governor recently agreed to retain;
- $730 million financed by restoring vehicle registration fees that were recently eliminated, generating another $55 million annually;
- $250 to $500 million of the Commonwealth's fiscal 2000 operating budget surplus to retire old, high-interest Commonwealth debt and issue an equivalent amount of new debt to fund capital projects, saving interest costs without increasing outstanding debt;
- $150 to $200 million from the Turnpike Authority, either by issuing bonds financed with toll revenues, including the revenue generated by previously planned toll increases in 2002, or by using the Authority's cash reserves.
- $50 million from Massport financed with Tobin Bridge and airport revenues.

MTF's proposal was developed to address the shortcomings of the Commonwealth's current Artery finance plans. In order to meet the extraordinary demands of the Artery while coping with federal aid cuts of $300 million per year, the state has borrowed heavily against its existing capital resources instead of developing new funding sources to support capital spending. As a result, the state has had to scale back its support for other important transportation projects, and the impact of the Artery on the state's ability to meet its capital needs will continue to be felt for years to come. While a large amount of borrowing is unavoidable with a project of this magnitude, MTF's proposal would dedicate new revenue sources to finance capital needs rather than continuing to divert funds that could be used for other important projects.

In addition to dedicating $1.5 billion of its capital bond funds to the Artery, the Commonwealth will spend $3.1 billion to repay other Artery debts over the next 40 years. Between 2004 and 2015, the state will use $1.5 billion of its federal highway aid to pay off the Grant Anticipation Notes (GANs) issued to help pay for the Artery, funds that otherwise would have been available for other transportation projects. Another $1 billion—$25 million per year for 40 years—will be paid to the Turnpike Authority to underwrite $400 million of the Turnpike's contribution to the project. The state will also absorb nearly $600 million in interest costs on the GANs and other Artery debt.

By dedicating so much of our limited capital resources—both present and future—to the Artery, the Commonwealth will be sacrificing other critical capital investments long after the Artery is complete. In contrast to the state's original commitment to start $400 million of new road and bridge projects annually, the state advertised $109 million of construction contracts last year and plans to advertise $215 million this year. Planning agencies across the state were recently advised that federal funds for new projects would be severely reduced this year and that no state funding was available for new local projects. Major interstate reconstruction and other transportation projects in every corner of the Commonwealth languish on the drawing board.

MTF also suggested other funding sources that may be appropriate to include in the finance plan. Relying more heavily on tolls would shift a larger share of Artery costs—currently less than 10 percent—to users of the Metropolitan Highway System. Tolls on I-93, larger toll increases on the harbor tunnels than currently planned, or other toll scenarios could cover as much as $1 billion in Artery costs while addressing the inequity of relying primarily on tolls paid by Turnpike commuters.

MTF testified against several other sources that have been proposed to help pay for the Artery cost overruns. The Foundation opposes issuing more Grant Anticipation Notes that would further erode the Commonwealth's ability to finance other important highway projects by diverting more of the state's limited federal funds to the Artery. Extending the repayment of the additional Turnpike bonds to 50 years would stretch the limits of sound financial practice. MTF also opposes dipping into the stabilization fund to help pay for the Artery; the fund should be reserved for its intended purpose—to compensate for revenue reductions resulting from an economic downturn. Similarly, tobacco settlement funds should be reserved for current and future health care costs, as the Commonwealth has already planned.

Founded in 1932, the Massachusetts Taxpayers Foundation is an independent, nonprofit organization which conducts research and policy analysis on state and local taxes, government spending and the economy. Dedicated to the public interest, MTF ranks as one of the largest and most effective organizations of its kind in the country. The Foundation has won four national awards in as many years for its work on capital spending, business costs, and managing the state's budget surpluses.

Capital Financing Options

Objective: Develop a financing plan for $2.5 - 3 billion to cover recently identified Central Artery cost overruns, build a contingency for future Artery cost increases, and fund other critical transportation needs that are not being addressed because of the Artery.

Allocation of Financial Resources

$ billions

Identified Artery cost overruns	$1.4
Contingency for future Artery cost increases	0.5
Other transportation projects	0.6
Total	$2.5

Funding Sources for Financing Plan

Revenue Source $ millions	Annual Revenue	Amount of Bonds or One-time
Bonds financed with pledge of 4¢ of existing gas tax	$120	$660
Bonds financed with drivers' license renewal fees	45	600
Bonds financed with vehicle registration renewal fees	55	730
FY 2000 operating budget surplus		250-500
Additional Turnpike bonds financed with previously planned Turnpike/tunnel toll increases on 1/1/02, or Turnpike cash reserves		150-200
Additional Massport contribution		50
Total	$220	$2,440 - 2,740

Additional Sources That Warrant Further Investigation

The following funding sources may be appropriate depending on their impact on Artery operations and traffic flow, the project's ability to meet its insurance needs, and the Turnpike Authority's financial condition.

Revenue Sources $ millions	Annual Revenue	Amount of Bonds or One-time
Additional bonds financed with tolls on I-93, larger toll increases on tunnels than currently planned, or other toll scenarios (amounts are rough estimates)	up to $90	up to $1,000
Artery insurance fund		up to 300
Total	up to $90	up to $1,300

Funding Sources MTF Would Not Support

Additional GANs: Issuing more Grant Anticipation Notes would further erode the Commonwealth's ability to finance other important highway projects when the GANs are repaid with future federal funds.

Extending Turnpike Bonds to 50 years: This would stretch the limits of sound financial practice.

Stabilization Fund: The stabilization fund was created to compensate for revenue reductions resulting from an economic downturn and should be reserved for this purpose.

Tobacco Settlement Funds: These funds should be reserved for current and future health care costs, as the Commonwealth has already planned.