



Massachusetts Taxpayers Foundation

The Infrastructure We Need — And How to Pay For It

Mass Insight Leadership Conference

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Commonwealth's Capital Problem

Demand for capital projects far exceeds state's fiscal capacity:

- Ⓒ Commonwealth's high debt limits new bonding
- Ⓒ Central Artery taking major share of capital resources from other projects; impact will extend for next 10 to 15 years
- Ⓒ 40 percent cut in federal highway aid
- Ⓒ Impact of Question 4: Likely elimination of budget surpluses that have been a major funding source for capital

Massachusetts Has Third Highest Debt Burden Among States

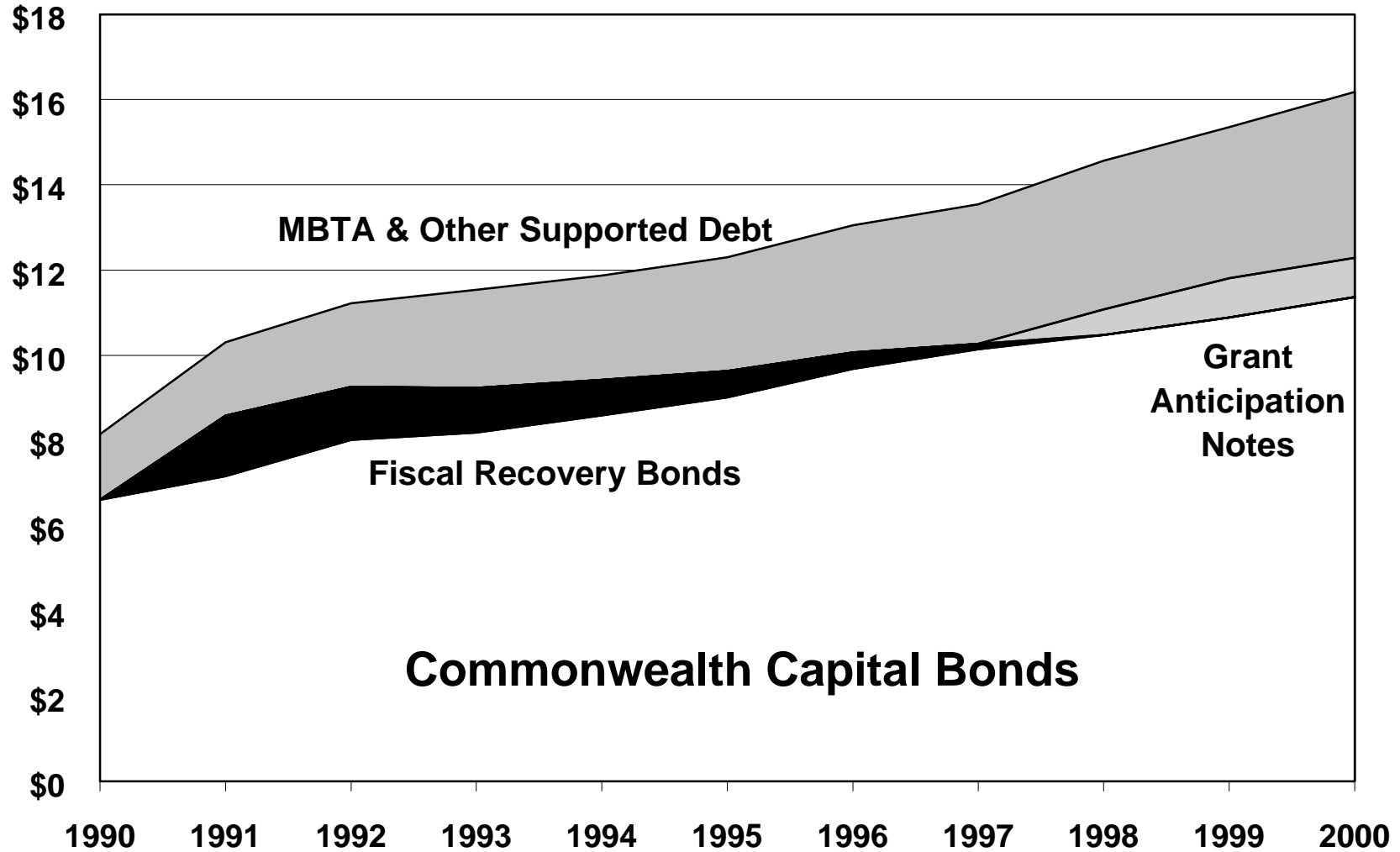
State Full Faith and Credit Long-Term Debt Outstanding, Fiscal 1998

	Per Capita	National Rank	Per \$1000 Income	National Rank		Per Capita	National Rank	Per \$1000 Income	National Rank
Hawaii	\$2,837	1	\$107	1	Ohio	\$249	27	\$10	28
Connecticut	\$2,790	2	\$77	2	Texas	\$230	28	\$9	30
Massachusetts	\$2,303	3	\$71	3	Montana	\$212	29	\$10	27
Washington	\$1,152	4	\$42	4	Michigan	\$203	30	\$8	32
Alaska	\$1,021	5	\$37	6	New Mexico	\$195	31	\$9	29
Nevada	\$987	6	\$35	8	Missouri	\$179	32	\$7	35
Vermont	\$985	7	\$41	5	Tennessee	\$174	33	\$7	34
Rhode Island	\$965	8	\$35	7	Alabama	\$161	34	\$7	33
Delaware	\$898	9	\$32	9	Arkansas	\$160	35	\$8	31
Wisconsin	\$638	10	\$25	12	Oklahoma	\$95	36	\$4	36
Maryland	\$636	11	\$21	14	Virginia	\$73	37	\$3	38
Georgia	\$599	12	\$24	13	West Virginia	\$63	38	\$3	37
Mississippi	\$592	13	\$31	10	Arizona	\$54	39	\$2	39
Utah	\$559	14	\$26	11	Florida	\$28	40	\$1	40
Illinois	\$521	15	\$18	17	Nebraska	\$2	41	\$0	41
Oregon	\$512	16	\$20	15	Colorado	\$1	42	\$0	42
California	\$485	17	\$18	18	Idaho	\$0	43	\$0	43
New York	\$474	18	\$15	20	Indiana	\$0	43	\$0	43
New Hampshire	\$470	19	\$17	19	Iowa	\$0	43	\$0	43
New Jersey	\$444	20	\$13	23	Kansas	\$0	43	\$0	43
Louisiana	\$433	21	\$20	16	Kentucky	\$0	43	\$0	43
Minnesota	\$425	22	\$15	21	North Dakota	\$0	43	\$0	43
Pennsylvania	\$388	23	\$14	22	South Dakota	\$0	43	\$0	43
North Carolina	\$281	24	\$11	26	Wyoming	\$0	43	\$0	43
South Carolina	\$269	25	\$12	24					
Maine	\$269	26	\$12	25	United States	\$426		\$16	

Source: MTF calculations using data from U.S. Bureau of the Census, Government Finances, 1998 and U.S. Bureau of Economic Analysis.

State Debt Has Doubled in 10 Years

Billions

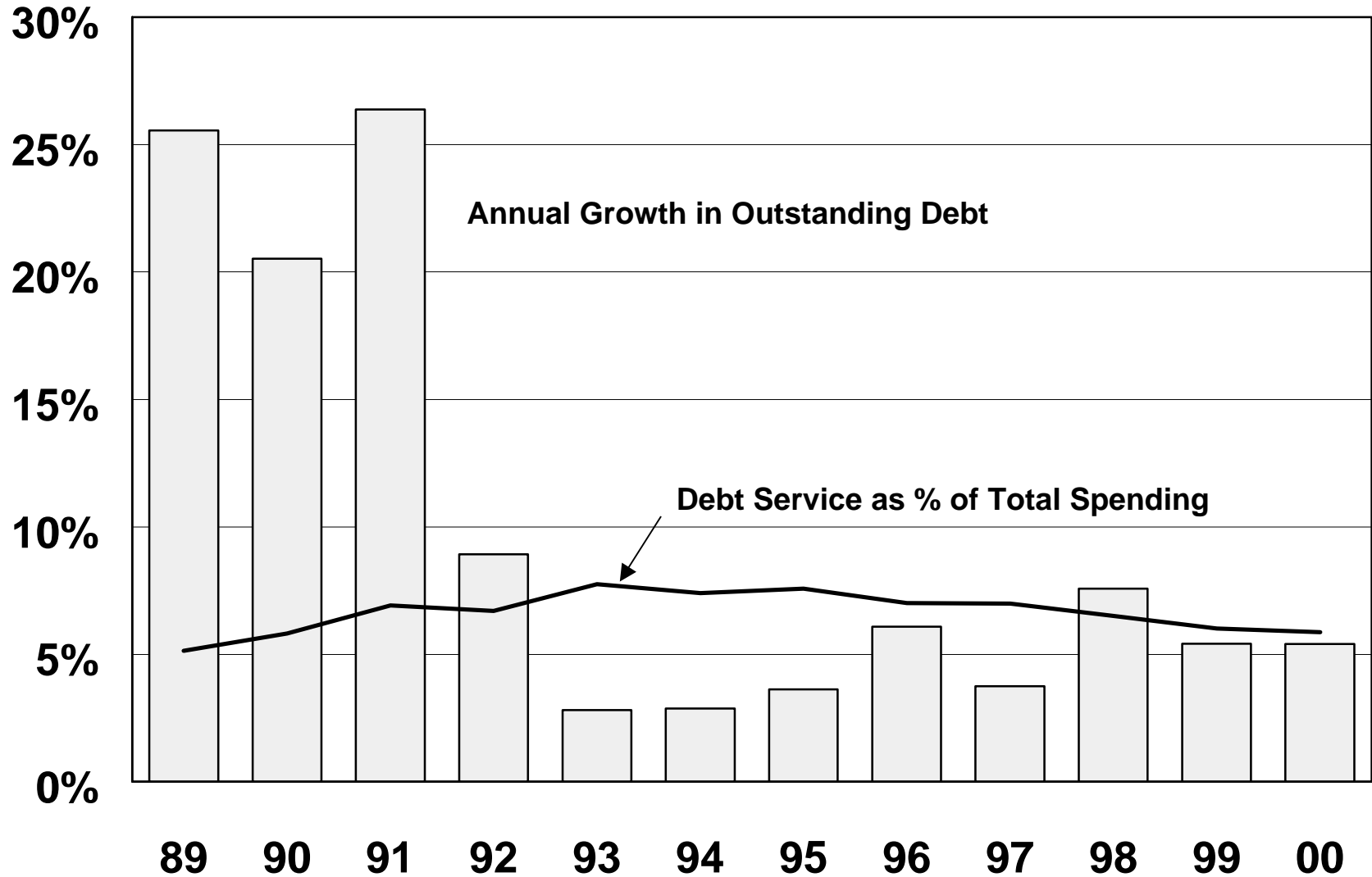


10% of Operating Budget Pays For Capital Fiscal 2001 Appropriations

\$ millions

Debt Service on Commonwealth Capital Bonds	\$1,449.3
MBTA Debt Service Assistance	approx. 300
School Building Assistance	325.4
MWRA Sewer Rate Relief	53.9
Water Pollution Abatement Trust	47.9
Convention Center Authority Debt Asst.	24.6
Mass. Development Finance Debt Asst.	13.3
Foxborough Industrial Dev. Fin. Auth. Debt Asst.	5.5
City of Boston Convention Center Debt. Asst.	2.7
Mass. Turnpike Authority Subsidy	2.5
Total	<hr/> \$2,225.3

Bond Cap Has Slowed Growth in State's Debt; Debt Service's Share of Budget Has Declined



Capital Demands Exceed \$1B Cap

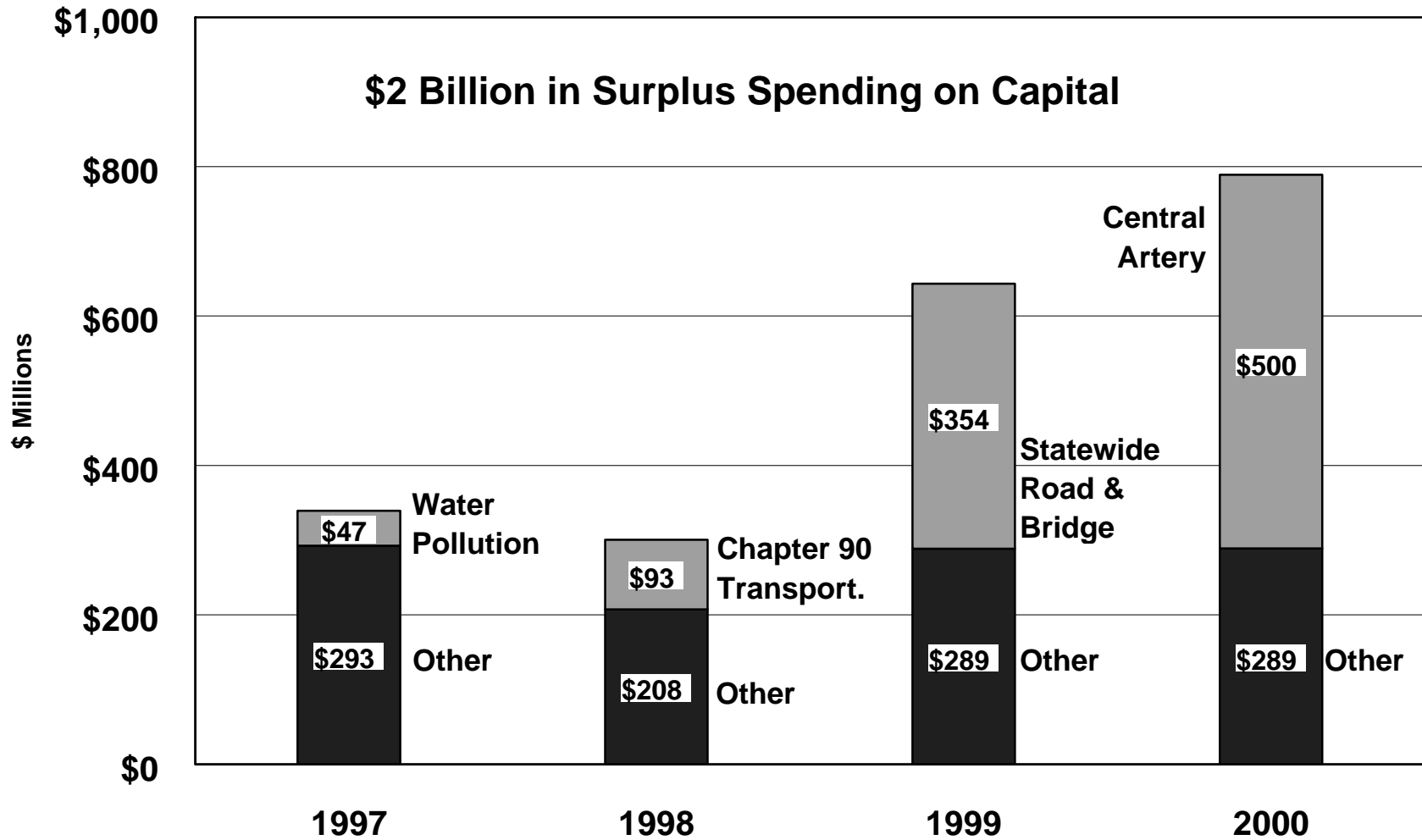
\$ millions

<u>Category</u>	<u>Authorized / Unissued Bonds</u>	<u>Annual Capital Allotment</u>
Transportation	\$4,706	\$513
Environment / Open Space	786	100
Courts	707	40
Higher Education	537	75
Housing	477	72
Corrections	306	21
Information Technology	237	49
Seaports	157	5
<u>Other</u>	<u>862</u>	<u>126</u>
Total	\$8,776	\$1,000

Central Artery Will Continue to Command Major Share of State Capital Resources Long After Project Is Complete

- C 50% of federal highway aid—\$1.5 billion total—between 2004 and 2015 diverted from other projects to repay Grant Anticipation Notes
- C \$100 million per year from reinstated Registry fees dedicated to Artery payments for next 30 years
- C \$25 million in general revenues per year for 40 years—\$1 billion total—will underwrite \$400 million Turnpike contribution to Artery
- C \$600 million in interest on GANs over next 10-15 years paid from general revenues

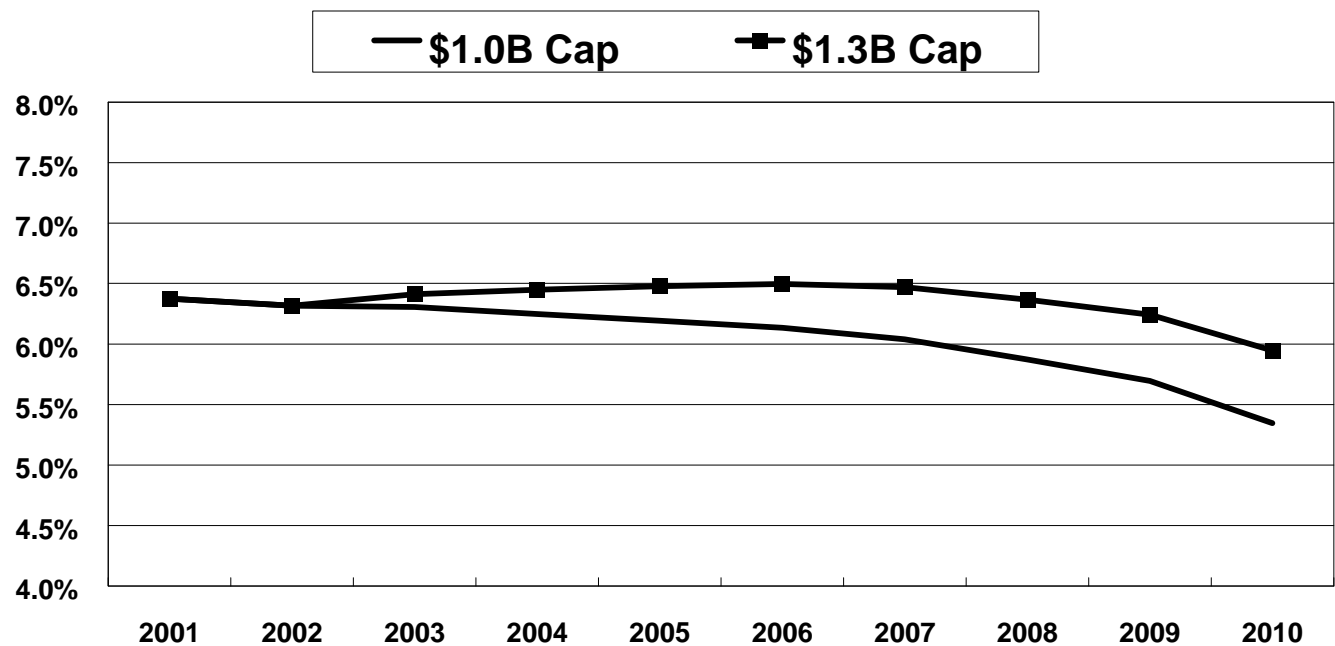
Tax Cuts and Slowing Economy Will Reduce Budget Surpluses That Have Been Critical Funding Sources for Capital



Increasing the Bond Cap?

- Would enable the Commonwealth to meet more of its capital needs while reducing the pressure to fund projects outside of the cap with more costly financing methods
- Increasing bond cap to \$1.3 billion would increase growth in debt and add \$25 million per year to debt service costs
- As share of budget, debt service would still remain flat and even decline over the long term

Projected Debt Service as Percentage of Budget



Assumes Budget Growth of 5% Per Year

Excludes Debt Service Supported By Dedicated Off-Budget Revenues:
GANs, Registry Fee-Backed Artery Bonds and Convention Center

Completion of Artery Will Free Up Quarter of Bond Cap

	\$ millions					
	2001	2002	2003	2004	2005	2006
Bond Cap Funds Dedicated to Artery	\$251	\$171	\$62	\$26	\$23	\$0
Bond Cap Freed Up for Other Projects		\$80	\$189	\$225	\$228	\$251

- C The Central Artery's share of the bond cap is now at its peak
- C Even without an increase in the cap, reduced spending on the Artery as the project is completed will free up \$250 million per year of bond funds for other projects

Other Options for Addressing the Capital Problem

- C Alternatives utilizing project-related revenues, such as public/private partnerships and tax increment financing
- C Increasing operating budget appropriations for maintenance to reduce need to use bond funds for repairs and increase useful lives of capital assets
- C Reducing the high cost of public construction in Massachusetts through construction reform and alternative procurement methods such as design-build
- C Targeting limited capital resources through strategic priority setting for capital investments