



Fixing Maintenance in Massachusetts

by Steve Poftak

The horrifying spectacle of the Minnesota bridge collapse has prompted a national reevaluation of the condition of our public infrastructure. In Massachusetts, two recent reports have found a multi-billion dollar backlog of deferred maintenance.

This fall there will be legislative hearings to set a policy direction that seeks to maintain our infrastructure. It is increasingly recognized that regular, sustained maintenance improves the performance, extends the life, and maximizes the safety of public assets. As a result, a consensus is emerging that maintenance needs to be the centerpiece of a reformed public capital investment process.

Unfortunately, current proposals for reform appear to start and end with a call for “more money”—much of it borrowed. We believe this would be a mistake. The solution to our maintenance backlog cannot simply be new long-term debt to be spent on short-term fixes.

Additional resources are needed, but the immediate rush for new taxes and more borrowing forfeits the opportunity to fundamentally reform how the state cares for its assets. It avoids the question of how best to allocate and organize our existing resources. The focus on new resources also raises the very real possibility of increased spending on new assets that will only exacerbate the current maintenance backlog.

Before we burden taxpayers with additional costs, we should put reforms in place to assure them that their funds will not be diverted and will be spent wisely. We should focus on maintenance of existing infrastructure and prioritize public interest over politics in the selection of new projects.

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Addressing the problem of maintenance of public infrastructure in Massachusetts will require the following steps:

1) Clean Off the Cap

The current bond cap, set at \$1.5 billion for the upcoming year, contains at least \$200 million in spending on items inappropriate for the capital budget, such as payroll, vehicles, computer equipment, and software. These expenditures should be paid for out of the operating budget and the newly freed-up \$200 million should be dedicated to maintenance.

2) Prioritize Maintenance Over New Assets

In Utah, new capital projects cannot be funded until sufficient maintenance funds are appropriated for existing assets. The Commonwealth should take a similar approach and put the priority on maintenance over new projects.

3) Base Appropriations on Life-cycle Costs

New capital projects are analyzed based only on their cost of construction. They should be assessed and appropriations made on the basis of their total life-cycle cost, which considers maintenance as well as construction. Agencies should incorporate the life-cycle cost of new assets into their budgets.

4) Spend the Surplus on Maintenance

State government often ends the year with surplus funds. A significant portion of these funds should go towards maintenance of public assets, rather than funding new state programs that create a recurring expense and exacerbate the structural deficit. For individual agencies with year-end surpluses, maintenance should be exempted from public construction laws to allow greater flexibility in contracting.

5) Budget for Maintenance

The state accounting system allows budget staff to allocate funds for maintenance and to ensure that this funding is not transferred for other purposes. Budget staff should begin allocating funds for maintenance, preventing transfers, and measuring agency spending on maintenance. In addition, the identification of maintenance staff in the state payroll system will allow greater precision in the measurement of maintenance expenditures.

6) Report on State-Wide Maintenance Progress

It is currently almost impossible to determine the condition of all our assets. A detailed, but digestible, report on the condition of our assets and changes in their condition should be produced regularly. Washington State's Gray Notebook series provides a useful example.

7) Pay for Regular Maintenance out of the Operating Budget

Each agency should be required to spend 2% of the replacement value of its assets on maintenance activities. Currently, the total value of the state's assets (after depreciation) is \$24.9 billion, so a regular allocation of operating funds for maintenance would be close to \$500 million. This allocation is a long-term goal. In the short run, we should seek to begin the practice of allocating agency operating funds for maintenance, and fully allocating 2% of asset value for any new assets.

8) Establish a Maintenance Reserve Fund

The fund would consist of 0.1% of the General Fund, and then rise by 0.1% per year to a total of 1% of the general fund in its 10th year. For Massachusetts in fiscal year 2008, 0.1% of the General Fund is equal to \$17.85 million and 1% of the General Fund is \$178.5 million.

9) Fund the Division of Capital Asset Management

DCAM, which has responsibility for a great deal of the state's vertical assets, has no budget for operations, outside of bond funds. The Legislature should adequately fund DCAM out of the operating budget, increase their funding for maintenance activities, and support their efforts to enforce maintenance standards.

10) Centralize Responsibility for Maintenance

Currently, responsibility for state assets is spread across a number of agencies and authorities. The maintenance oversight responsibilities (and budgets) for DCAM and the Executive Office of Transportation should be expanded to encompass all state assets.

11) Divest Useless Assets

The Commonwealth currently owns thousands of square feet of outdated and abandoned buildings for which it must spend money on security and nominal maintenance. Legislation regarding the sale of surplus assets has been stalled for several years. Surplus assets should be sold as soon as possible and the resulting funds should be spent on maintenance.

12) Issue An Executive Order to Utilize CAMIS

The state has an asset management system in place for many of its non-transportation assets. However, the level of usage varies greatly from agency to agency. The Governor should require all public entities, including authorities, to utilize CAMIS across all its dimensions for relevant assets.

13) Add Maintenance Provisions to General Obligation Bond Covenants

Surprisingly, many of the Commonwealth's authorities have assets in good condition, particularly those assets which generate revenues. Most of this revenue is utilized to back revenue bonds and each bond agreement contains covenants that mandate funding of maintenance. Bond buyers are guaranteed that revenue-generating assets will be kept in good condition. In other words, bond buyers have a greater guarantee of good maintenance than citizens of the Commonwealth.

The steps outlined above will not be easy to achieve. But borrowing alone will not solve the maintenance backlog, as it will reduce the long-term ability of the state to sustain a maintenance program.

There are multiple reasons for changing the way we do business:

- (1) to avoid having one of our own infrastructure assets fail;
- (2) to avoid putting the state in the position of having to spend significantly more in the future to rebuild its assets; and
- (3) to convince a skeptical public that real reform, not just new spending, is occurring.

Implementation of the steps listed above will provide hundreds of millions of dollars for maintenance, create an ongoing platform for accountability and transparency, and finally demonstrate a commitment to real reform, not just "more money."

