



## **Testimony to the Joint Committee on Bonding, Capital Expenditures and State Assets**

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Thank you to Chairman Montigny, Chairman Flynn, members of the Committee, and Committee staff for the opportunity to testify today.

My name is Steve Poftak and I am the research director at Pioneer Institute. As I have testified previously, we should be mindful of the overall debt levels, both direct and indirect, of the Commonwealth when reviewing the range of bond authorizations before us. In my previous testimony, I had originally estimated that the Commonwealth, including authorities, had \$36 billion in debt. Administration and Finance reported on Tuesday that the actual number is \$50 billion, meaning that, with contingent liabilities included, there is over \$14,500 in liabilities for each person in the Commonwealth.

Obviously, there are multiple revenue streams associated with this array of debt, but I would note that almost all of them are borne by taxpayers in the form of fees, tolls, rates, and other expenses. Given that authority debt is over 1.5 times that of direct state debt, I would urge you to

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take a holistic approach in your analysis of debt affordability levels.

I remain mindful of Chairman Flynn's request to assess our debt levels relative to other states including counties and quasi-public authorities. Getting the data has proven to be a difficult task but we are currently talking with one of the rating agencies to purchase access to their data.

With that said, I would like to state my general support for the transportation bond bill, House 4562, that is before the committee. Transportation is a basic necessity for the economic vitality of our Commonwealth and this bill funds some of the needed improvements while maximizing our eligibility for federal funding.

I have several critiques of the legislation and several questions about specific provisions of the legislation.

First, I believe that this bill is an appropriate vessel for transportation reforms that have been much discussed but not implemented. There do not appear to be any other options. It is clear from recent statements that the Administration's plans for a centralized transportation authority, released on October 2nd, will not be finalized anytime soon.

I would also note that it has been six months since the Joint Committee on Transportation held its hearing on transportation maintenance and safety in response to the bridge collapse in Minnesota. Given the importance of the issue and the dearth of alternatives, I urge the committee to include reforms related to maintenance of transportation infrastructure in the bill before it.

It is entirely reasonable that a bill authorizing over \$4.8 billion in additional spending contain safeguards that ensure that all new projects will be properly maintained in a cost-effective manner that provides maximum service levels to taxpayers.

A bill that simply relies on 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. More borrowing without accountability for maintenance raises the real possibility of increased spending on new assets that will soon be added to the current maintenance backlog.

The first reform should be to mandate a set of measurements that would allow both experts and casual observers to understand the current and historical conditions of our assets, as well as what our future goals and expenditures would be. I would put forward Washington State's Gray Notebook as a useful example.

Right now, it is extremely difficult for a Secretary, or Governor, or Committee Chair to get a comprehensive understanding of the condition of our transportation assets. We owe it to ourselves to begin reporting on that condition, in order to measure our progress and the effectiveness of our spending.

Properly implemented, a systemic approach to performance measurement will help to reorient our transportation infrastructure strategy as well. Right now, I view much of our transportation infrastructure activity as focused on spending money and creating new assets - without understanding how that affects the higher goals of reduced congestion and greater throughput, and support for population

and economic growth.

Next, we need to be sure that appropriate resources exist to perform maintenance. One way to insure this is to add maintenance provisions to general obligation bond covenants. Many of our authorities already do just this, for their revenue bonds.

Each bond agreement contains covenants that mandate funding of maintenance. Bond buyers are guaranteed that revenue-generating assets will be kept in good condition. Perversely, a authority bondholder has a greater guarantee of good maintenance than citizens of the Commonwealth.

Part of insuring that proper resources are available is prioritizing maintenance over new assets, which is inevitably a difficult political calculus. In several other states, new capital projects cannot be funded until sufficient maintenance funds are appropriated for existing assets. This ends the counterproductive competition between maintenance and new projects over the same pot of money. The Commonwealth should take a similar approach and put the priority on maintenance over new projects.

Lastly, we need to move beyond a myopic focus on initial delivery cost for projects and focus on their life-cycle costs. The project planning process should assess projects on this basis and budget projections should incorporate these outyear costs.

The steps outlined above are not easy to achieve. But it is good policy and good politics to reform our current maintenance practices at the same time we are asking taxpayers to take on additional debt.

I would also like to briefly raise two questions related to specific sections of the bill.

**First**, I wanted to note the disappearance of Section 13 from the bill filed under the Governor's signature, House 4409, on November 29th. That section allowed for the Department of Conservation and Recreation to transfer funds to MassHighway for the purposes of construction and maintenance. On February 19th, Secretary Ian Bowles sent a letter to Representative Rush stating that the Department of Conservation and Recreation would retain all maintenance responsibilities for parkways for the foreseeable future. The letter added that both Secretary Bowles and Secretary Cohen support the removal of Section 13.

Perhaps I fail to grasp some of the subtleties of the situation, but I viewed this section as an initial step towards addressing the backlog at DCR by running some projects through the MassHighway process and knocking down some of the silos that fragment our current transportation system. If we cannot sustain or find a compromise to achieve this small step, how can we hope to break down the larger and more entrenched silos across the system?

**Second**, I was interested in learning more about Section 26, which appeared in House 4562, the transportation bond bill issued by the House Committee on Transportation. This Section authorizes up to \$50 million in bonds to be issued by MassDevelopment that are to be treated as general obligation bonds and paid out of the general fund. However, the section goes on to state that the bonds will be paid out of net new state revenues from the South Weymouth airbase or, failing that, from the development corporation that is working on the airbase.

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This has the potential to be a very interesting project – it appears to be a version of district improvement financing – but I would be interested in its actual implementation. In plainer words, how is net new state revenue calculated and does it actually materialize?

The Governor’s capital plan contains \$500 million in this type of spending over the next five years, so its important that we understand how this mechanism works. If it is successful and implemented properly, it has the potential to open up new streams of revenue for infrastructure. I confess to not fully understanding the structure and would hope that the committee would make appropriate inquiries as to clarify the intent of the section and its future potential.

In closing, I support the efforts of House 4562 to fund the improvement of transportation infrastructure in the Commonwealth and would urge you to include needed reforms that will improve the maintenance and performance of our transportation system.

Thank you for the time and invitation to testify.



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