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MTF Analysis: Expansion Threatens T's Fiscal Independence

The MBTA cannot pay for expansion projects without risking its recently won fiscal independence, according to a major new report released today by the Massachusetts Taxpayers Foundation.

The report, prepared by MTF with important contributions from Pioneer Institute for Public Policy Research, concludes that the MBTA "cannot afford to build proposed expansion projects without sacrificing critical maintenance and modernization of the existing system or incurring an even higher mountain of debt and undermining its still-fragile finances."

MTF President Michael J. Widmer praised the administration and Legislature for passing and implementing landmark "forward funding" legislation which has overhauled MBTA finances, but warned that "the continued drive for expansion without the dollars to support the new services is threatening to undermine the success of forward funding." The old system of unlimited state support provided little reason to control spending, but the T now operates in a tight fiscal box, with finite revenue sources, a heavy debt load and high operating costs.

The study, *MBTA Capital Spending: Derailed by Expansion?*, emphasized that "continued expansion of the T promises a host of transportation, economic and environmental benefits," and recommends that the Commonwealth, in addition to the current state subsidy of 20 percent of the sales tax, assume financial responsibility for expansion projects as part of a statewide transportation strategy. With limited capital resources, the state needs to weigh the merits of competing transit and highway projects and move forward with those that provide the greatest benefits. The T is under pressure to build a host of expensive new rail lines, ranging from the Greenbush and New Bedford/Fall River commuter rail extensions to an Urban Ring around Boston and a northward extension of the Green Line, at a total cost in excess of $4.5 billion.

Based on a detailed analysis of MBTA finances and projections of capital spending under various scenarios, the report concluded, "The T can continue to transform itself into a first-class, fiscally responsible transit system or it can try to accommodate the demands for expansion, but it cannot do both."

The report's analysis of the T's financial capacity concluded that the only way the T could afford to spend on expansion is to continue to underfund maintenance and modernization of the existing system. Under the T's own funding assumptions, spending $500 million per year on repair and replacement projects—which would address the annual needs identified in the T's State of Good Repair report
but not the $3 billion backlog—would leave the T with a $1.7 billion capital funding shortfall over the next ten years, even before considering any of the $4.5 billion in proposed expansion projects.

If the T spends the $350 million per year budgeted in its 2002-2006 capital plan—a level under which it will fall further behind in meeting its maintenance needs—and a minimal $200 million per year from 2007 through 2011, the T would still have only $600 million to spend on expansion between now and 2011. Under best-case funding assumptions, the T could barely afford the $500 million maintenance and modernization spending level, but still would have no money for expansion.

Charlie Chieppo, Director of the Shamie Center for Restructuring Government at Pioneer, said, "In order to achieve the goal of fiscal stability at the heart of forward funding, the Authority must invest in capital improvements that lower operating costs, such as new fare collection equipment, rather than those that increase expenses, such as new transit lines. Also, the T's rights to effectively manage personnel and contract for services must be restored."

The report also concluded that it is "clearly unrealistic" to expect that the MBTA will be able to pay for at least $3 billion in Central Artery mitigation requirements within its fiscal constraints. The mitigation requirements, which stem from the 1991 environmental permit for the Central Artery project, must be the responsibility of the Commonwealth, which will have to identify a strategy for financing them.

The study emphasized that maintenance and modernization of the current system must be the T's highest priority. The combination of a decade of aggressive expansion and some of the oldest infrastructure in the nation has left the MBTA with an enormously expensive system to maintain. The T has to make major investments to keep its current system running, increase capacity, improve customer service and cut costs.

If the MBTA is to achieve the primary purposes of forward funding -- improved services and stronger finances, it must:

- resist pressure to expand beyond what it can afford;
- invest in system maintenance and modernization;
- reduce debt during these critical first years of forward funding;
- get control over spending costs; and
- take steps to build its own revenues.

The Massachusetts Taxpayers Foundation is an independent, nonprofit organization that conducts research on state and local taxes, government spending, and the economy. Founded in 1932, MTF ranks among the largest and most effective organizations of its kind in the country. The Foundation has won six prestigious national awards in as many years for its work on capital spending and the Central Artery, business costs, management of state budget surpluses, reform of the MBTA, and, most recently, the cost impact of Question 5, the universal health care ballot proposal rejected by voters in 2000.

Founded in 1988, Pioneer Institute publishes research that focuses on the application of free-market principles to Massachusetts public policy issues.

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