Paying the Bills: The Costs of Transportation Debt

- Massachusetts, like most states, issues bonds to pay for transportation maintenance and capital expenses. Such borrowing to pay for transportation is fiscally responsible if
  - Adequate, dedicated sources of funding are available to pay off the debt service and
  - The proceeds are used for capital, rather than operating, expenses
- In fiscal year 2014 (see chart below), even if no additional borrowing occurs, the Commonwealth will spend nearly $1.6 billion to pay the principal and interest on past borrowing for the statewide road and bridge program, the Big Dig, the MBTA and the Mass. Turnpike
  - The majority of this debt service is not for the MBTA or the Big Dig
  - The $1.1 billion owed on non-MBTA debt service requires expenditure of more than half of all dedicated transportation revenues from gas taxes, Registry fees and tolls
  - The $431 million owed by the MBTA represents 25% of MBTA revenues for FY14
- The majority of the transportation debt service that the Commonwealth will need to repay over the next decade (see chart on the next page) is either for
  - Borrowing that has already occurred and must be paid for ($10.1 billion in FY13-23), or
  - Borrowing already planned to occur for maintenance and capital expenditures by MassDOT and the MBTA ($3.5 billion in FY13-23), while
  - Principal and interest on bonds issued to fund the proposed 21st Century Plan would total $2.9 billion in the period FY13-23
Paying Operating Expenses with Borrowed Funds

At least since the 1990s, the Massachusetts Department of Transportation (MassDOT) and its predecessor agencies have shifted operating expenses to the capital budget.

- In fiscal year 2014 MassDOT has a “hidden operating deficit” of $233 million in operating funds being paid out of the capital budget.
- Over one-third of the bond cap funds allocated to transportation for FY14 are slated to be spent on operating costs.
- For each $1 borrowed to pay for salaries and even office rents, the Commonwealth will pay $1.75 in principal and interest over the next 25 years.
- The bond cap cannot easily be increased, so each dollar of the bond cap spent on operating costs is not available for needed maintenance and capital projects.