



Massachusetts Taxpayers Foundation

July 18, 2008

The Honorable Mark C. Montigny
Senate Chair
Committee on Bonding, Capital Expenditures & State Assets
State House, Room 109-D
Boston, MA 02133

Dear Mark:

Thank you for the opportunity to testify at yesterday's hearing on the question of Commonwealth backing of Turnpike debt. The purpose of this letter is to summarize my comments.

I view the administration's proposal with grave concern. In the context of the turmoil in the credit markets, this is the most fiscally risky proposal being given serious consideration by the Legislature during my 16 years as head of the Taxpayers Foundation. The rush to action without any understanding of the consequences is particularly alarming. At a time that the Commonwealth should be focusing on retrenchment, we are instead proposing to assume this large additional obligation which, in combination with other events such as a sharp drop in our capital gains tax collections, could put the state's finances at peril. If one were to survey the past half century and determine the perfect time not to take this action, this would be the moment of perfect ill timing.

Massachusetts is already carrying more debt per capita than almost any other state. The administration has raised the annual bond cap from \$1.25 billion to \$1.5 billion in 2008 with plans to increase that to \$2 billion over the next four years. In addition, the administration has proposed and the Legislature is about to pass a \$3 billion bridge repair bill whose only source of funding is to borrow against planned future spending. And now the administration proposes to in effect assume the Turnpike's \$2.3 billion in debt.

We are not risking a credit downgrade, we are virtually inviting it.

The Commonwealth is going on this debt binge at the very moment that the floor may drop out of our finances. We already face a \$1 billion deficit in the fiscal 2009 budget. With an almost certain decline in capital gains taxes, the budget gap is likely to turn out to be much larger.

The best case that can be made is that it will cost the Commonwealth several tens of millions of dollars to back the Turnpike debt. But it could get much worse. Given what is happening on the national scene where the unimaginable has become commonplace, it takes little imagination to visualize the Turnpike dragging the Commonwealth into a fiscal morass.

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And for what? Bailing out the Turnpike does absolutely nothing to address the Authority's underlying problems, of which the swaptions are merely a symptom.

Several successive administrations have all gotten cold feet when it came to raising tolls enough to allow for the Turnpike to pay for the Artery debt, maintain the system and produce a balanced budget. The most recent squandered opportunity came last January when this administration chose, despite clear warnings from staff and others, to raise tolls only enough to cover the Authority's debt service. The Executive Director confirms the agency is running a \$70 - \$100 million deficit.

One of the many ironies of this sad saga is that for several years the swaptions generated cash which masked the fact that the Authority was operating with a large and growing structural deficit. Now the worm has turned and the Authority is looking for a bailout with absolutely no accountability. The Executive Director's public comments make clear that he is taking no responsibility for the Turnpike's problems. And with the Commonwealth's backing of the Authority's debt, the Authority will have absolutely no incentive to address those problems.

It is astonishing that the administration is proposing to give a blank check to the Authority with no reforms, no transparency, and in particular no plan to address the Authority's huge fiscal problems that have nothing to do with the swaptions.

It is the height of irresponsibility to pledge the full faith and credit of the Commonwealth – its most precious asset – to an agency with a \$100 million deficit in these treacherous economic times. This is not a life line, it's a credit card with no limit.

The focus now should be on finding an alternative to assist the Authority without exposing the Commonwealth to such large and unnecessary risk. We must step back from this rush to action which we will surely regret for a long time.

Bailing out the Turnpike with no accompanying reforms, no transparency, and no comprehensive plan to address its underlying problems will be remembered for years as the other bookend to the Big Dig fiasco.

Thank you for your leadership on this extremely important issue.

Sincerely,

Michael J. Widmer

cc: Senate President Therese Murray