KEEPING ON TRACK

Our Progress in Reforming and Funding Transportation since Passage of the Massachusetts Transportation Finance Act of 2013

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MASSPIRG Education Fund

With assistance from

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EXCLUSIVE SUMMARY

IT HAS BEEN almost eight months since the passage of the historic Transportation Finance Act of 2013. The Act was an excellent step towards a modern and safe transportation system for the Commonwealth of Massachusetts. It is projected to raise an average of $600 million per year for the next five years. These new funds will help fill a gap in transportation funding that has repeatedly been estimated to be over $1 billion per year over the next 20 years. Clearly, available funds cannot meet all of the state’s pressing transportation needs. Therefore, full and timely implementation of the Act is imperative for this law to achieve its goal of addressing the most burning needs of the state’s transportation system and to set the stage for future legislatures and administrations to continue their work to fund the transportation needs of all our residents.

Transportation for Massachusetts will issue regular progress reports evaluating the health of the Commonwealth’s transportation system and the implementation of the Act to help ensure the success of the new law. In its first seven months, the Legislature and administration have met the expectations of the law in most respects. And, small, but significant additional transit services have come online as a result of this new law. The actual transportation budget for FY13 has matched last year’s projections fairly closely, but fell about $84 million short.

Because available funds can’t meet all our priorities, it is critical that the 2013 Act is thoroughly implemented to meet our most burning transportation needs.
AChIEvEmENTs Of ThE TRANsPORTATION fINANCE ACT TO dATE

New Funding: The three-cent increase in the gas tax and reinstatement of tolling on the westernmost portion of the Massachusetts Turnpike has already started to bring in some important new funding for the state’s transportation system. In addition, the Massachusetts Bay Transportation Authority (MBTA) launched a Corporate Partnership Program and issued a request for proposals seeking to sell station naming rights and associated sponsorship opportunities.

Sounder business practices: Massachusetts Department of Transportation (MassDOT) is shifting operating expenditures from the capital budget, though somewhat more slowly than anticipated. The regional transit authorities (RTAs) are beginning to develop comprehensive regional transit plans. The MBTA plans to increase its fares by 5% on average in FY15, beginning a pattern of smaller, planned fare increases every two years, which should be more predictable for both riders and the MBTA.

Capital Improvements: As required by the Act, MassDOT has released a financially constrained five-year Transportation Capital Investment Plan (CIP) that includes many, but not all of the transportation projects originally outlined in last year’s transportation

In its first seven months, most aspects of the new law have been implemented and the new revenues raised are close to what was projected.
needs assessment, *The Way Forward*. Examples of investments included in the plan are new Red and Orange Line cars for the MBTA, the conversion of tolls on the Massachusetts Turnpike to an electronic tolling system, the Green Line Extension, the I-91 Viaduct in Springfield, reconfiguration of the I-93/I-95 Canton Interchange, 76 additional road and bridge projects, and early action items for South Coast Rail.

**Operational Improvements:** This month, the MBTA is launching a one-year pilot to reintroduce late night bus, subway, and light rail service. A dozen of the RTAs have or will soon expand service as a direct result of the increased funding in the Act.

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**Threats to the Success of the Transportation Finance Act and the Commonwealth’s Transportation System**

Funding is inadequate, some has already been repealed, and some funding is under siege. While the Act has raised significant new revenue, some of the new revenue sources have already been reduced or targeted for repeal. Specifically, the computer and software service sales tax was repealed two months after the Act was passed, and a question that will likely be certified for the November ballot will, if passed, repeal the indexing portion of the gas tax. Other financial changes that were not projected by the architects of the Transportation Finance Act of 2013 include the rollback of MBTA paratransit fares and the MBTA labor arbitration decision that will likely increase the MBTA’s labor costs annually by approximately $26.4 million and include a retroactive payment for previous years in the amount of $27 million.

Many projects do not have funding, or sufficient funding, to go forward. Many of the projects included are funded at a lower amount and slower pace than previously proposed—so much so that some important projects are practically left out. For example, replacement of Green Line cars was estimated in *The Way Forward* to cost about $732 million, but only $2.6 million has been reserved for

A major threat to the promise of the new law is a November ballot initiative to repeal a portion of the gas tax. The Commonwealth stands to lose $1B in transportation investments in the next decade if it is passed.
that purpose. In a similar vein, the 15 Regional Transit Authorities are now slated to receive $170 million instead of $200 million for capital improvements—alarmingly, however, 48% of the money will only become available in FY18. So, instead of receiving $40 million next year, they will receive about $20 million, most of which will be needed for infrastructure improvement, leaving little money, if any, for bus replacement. These differences will have a significant impact on the Green Line and on the RTAs’ ability to deliver safe, reliable service.

MassDOT, the MBTA, and the RTAs have made admirable progress over the last six months. As you will see below, however, the state’s transportation system is still underfunded and unable to meet the needs of its citizens. Over the next few months, the Commonwealth will have to maintain this pace and catch up on a few of the deadlines imposed by the Transportation Finance Act to keep us on track. It is our hope that this progress report will enable transportation advocates, the administration, and the Legislature to clearly identify the unmet needs of our transportation system and then take action that addresses them.

The additional funding provided by the Transportation Finance Act enabled some of the Regional Transit Authorities to expand their operations.

Replacement of aging transit vehicles, such as the MBTA’s Orange Line fleet, will be made possible by the funding from the Transportation Finance Act.
IN 2007, the Transportation Finance Commission, an independent body created to evaluate the financial health of the state’s transportation agencies and authorities, put the residents and decision makers of the Commonwealth on notice that the current funding streams for transportation in the state were woefully inadequate. Without additional transportation funding, the threat of transit service cuts and the serious deterioration of roads and bridges was unavoidable. Five years later, the MBTA identified an operating budget gap of $130 million for FY2014, although it had already increased fares by an average of 23% in July 2012. Public hearings for another round of service cuts and fare increases were expected. The RTAs were also lacking the means to meet demands for service. Despite the great success of the state’s Accelerated Bridge Program (ABP), the average age of bridges in the Commonwealth was still 43 years, i.e., nearing the point at which significant reconstruction can be expected. Even with the ABP being brought to a successful conclusion by 2016, it was estimated that Massachusetts would still have more than 500 structurally deficient bridges. Likewise, maintenance of local roads—which is the responsibility of municipalities, but generally funded with state dollars—lagged behind and the long list of projects needed to bring the MBTA’s infrastructure into a state of good repair was growing, rather than shrinking.

On July 24, 2013, the Massachusetts Legislature enacted the Transportation Finance Act of 2013 (“the Transportation Finance Act” or “the Act”). The Act is a finance package that is projected to raise an average of $600 million per year over the next five years to support needed transportation improvements, while ensuring that sound business practices are followed in managing the Commonwealth’s transportation system.1 The legislation includes $519 million per year in new taxes, of which $390 million per year is dedicated to transportation. The Act counts on another approximate average of $210 million per year in additional funding to be raised through revenue sources under the control of the MassDOT and the MBTA, such as fares, fees, and tolls.2
Prior to passage of the Act, analysts estimated that the gap between the state’s pressing transportation needs and the funding to meet those needs was over $1 billion per year over the next 20 years. There is general agreement among most transportation policy experts that the $600 million a year raised by Transportation Finance Act was a step forward, but not a complete solution to the problem. In other words, the patient has been stabilized, but not healed. Decision makers and elected officials who championed the Act’s passage also indicated it was not intended to be a one-time solution. Indeed, drafters of the Act expressed their intention to regularly revisit the problem of sufficiently funding the state’s transportation system. Full and timely implementation of the Act is therefore imperative for this law to achieve its goal of addressing the most burning needs of the state’s transportation system and to set the stage for future additional solutions.

Transportation for Massachusetts will issue regular progress reports evaluating the health of the Commonwealth’s transportation system and the implementation of the Act to ensure the success of the new law. The progress reports will follow the advances the Commonwealth has made in carrying out transportation reforms and raising the revenue anticipated in the Transportation Finance Act. We will assess whether these reforms and new funding streams are meeting the needs of the transportation system. These reports will also evaluate whether deadlines set in the law have been met, commissions and advisory boards have been formed, reports have been published, and performance standards have been achieved. In addition, the progress reports will compare revenue projected to be raised by the Act with actual revenue received. We will also track expenditures. Our second progress report will be issued during the summer of 2014.

The $600 million per year raised by Transportation Finance Act was a step forward, but not a complete solution to decades of chronic underfunding of transportation.
OUR PROGRESS IN IMPLEMENTING THE NEW LAW

THIS SECTION OUTLINES the requirements of the Transportation Finance Act of 2013 that have been completed, which deadlines in the Act have been missed, and identifies upcoming deadlines.

COMPLETED REQUIREMENTS

Gas tax raised: A three-cent gas tax increase went into effect on July 31, 2013. In FY14, the additional three cents is expected to raise almost $80 million, although it went into effect after the fiscal year had already started. The increase of the gas tax is expected to raise over $95 million in FY15 (the first full year of the tax) after the indexing of the tax to the consumer price index goes into effect.5

Tolls restored: Tolls were reinstated on the first six interchanges in western Massachusetts on the Massachusetts Turnpike on October 15, 2013. MassDOT devised a fee structure for tolls between Exit 1 (in West Stockbridge) and Exit 6 (in Springfield) and filed it with the Legislature as required.6 The tolls were set at the same rates as when they were eliminated in 1996. The cost for cars entering the Turnpike at Exit 6 and exiting at Exit 1 is $1.75. The tolls

While the prices of gasoline and most other goods have increased dramatically since 1991, Massachusetts’ gas tax remained the same for 12 years, enabling inflation to eat away at its purchasing power. In July 2013, a three-cent gas tax increase went into effect, providing additional revenue for transportation.
are expected to generate about $12 million each year, which must all be spent in the western part of the state. By law, the money cannot be spent on construction or maintenance on any part of the Turnpike east of Interstate 95 and Route 128. MassDOT has stated that the funds could pay for bridge deck replacement and resurfacing, bridge cleaning and painting, and bridge and culvert repairs, as well as service plazas and maintenance depot roof projects.

MassPike tolls collected from Exits 1 – 6 must all be spent in the western part of the state.

**Shift of daily operations off capital budget started:** One of the goals of the Transportation Finance Act is to end the fiscally irresponsible practice of paying for MassDOT’s operating costs by issuing bonds. Over the last two decades, the Massachusetts Highway Department has been paying for some routine operations, such as mowing the grass along highways, by borrowing money. As required by the legislation, on August 15, 2013, Secretary Richard Davey filed a report with the Legislature addressing the status of MassDOT’s employees whose salaries and benefits are funded by borrowing. Significant progress has been made—so far, 198 full-time equivalent employees (FTEs) out of 1,903 FTEs with salaries funded by capital expenditures have been moved from capital to operating expenditures. This shift amounts to a total of almost $20 million in salaries and fringe benefits that are no longer funded by capital expenditures. It is worth noting that this approach is significantly less aggressive than the Governor’s original proposal in *The Way Forward*, which planned to remove over $178 million from the capital budget by FY14, and is a direct consequence of the lower amounts in revenue raised by the Act compared to the total gap in funding identified. When it comes to reducing borrowing, it takes money (operating money to be precise) to save money. It is also worth noting that this shift is somewhat slower than the proposal underlying the legislation assumed. The Joint Ways and Means Committee proposal expected that over $35 million would be shifted from the capital to the operations budget by FY14, $15 million more than...
was actually accomplished. In FY15, MassDOT intends to move an additional 1,142 FTEs off of the capital budget, which MassDOT estimates will remove over $110 million in salaries and fringe benefits from the capital budget. The remaining 563 FTEs are expected to be moved in FY16 and will eliminate another $56 million in operating costs from the capital budget.

Regional bus service planning started: The Transportation Finance Act requires each of the 15 RTAs to develop a comprehensive regional transit plan with input from a variety of stakeholders. Each plan will assess existing bus service (including ridership trends and performance) and evaluate alternative service scenarios. The comprehensive service plan will recommend how to better align service with regional and local demand, the Commonwealth’s environmental policies, fare rates and collection methods, and the region’s job creation goals and employment needs. The comprehensive service plan will also determine whether service is deployed in the most effective way to accommodate the needs of the region’s workforce. Development of each plan will include public hearings and the opportunity for the public to comment on a draft report. At least two RTAs (the Pioneer Valley Regional Transit Authority and Southeastern Regional Transit Authority) have already begun collecting data in order to meet this requirement. Led by the Merrimack Valley Regional Transit Authority, 10 RTAs have banded together and issued one request for proposals on October 15, 2013 to receive assistance in preparing the comprehensive regional transit plans. This group of 10 RTAs is currently evaluating the proposals received. Working together with a single consultant should help these RTAs develop better plans, more efficiently and cost effectively.

MBTA fare increase planned: Historically, the MBTA has implemented fare increases on an as-needed basis. This has resulted in relatively infrequent, but steep and significant, changes in fares that were often

So far, 198 employees have been moved off the capital budget to the operations budget.
Regular and measured fare increases will avoid loss of ridership on the MBTA’s bus and subway lines.

largely a result of the desperate need to catch up on increased costs and expenses since the previous fare change. Such erratic fare increases, particularly when large, can result in a loss of ridership and have a significant impact on low-income riders, who simply can no longer afford to take trips to school, work, or medical appointments when fares become too costly.

A better approach to fare policy—as the experience of other transit agencies around the country has shown—is planned or scheduled fare increases designed to keep up with expenses on a regular basis. Programmed fare increases can offer benefits to both transit agencies and riders. Customers experience modest fare increases that, though more frequent, are more predictable. Agencies experience less of an adverse impact on ridership and the predictability of these regular increases facilitates capital programs, service improvements, and financial planning. To encourage this more prudent approach to fare increases, the Transportation Finance Act permits the MBTA to raise its fares by an average of only 5% every two years. The MBTA announced that it intends to increase its fares by 5% starting in FY15. This will raise an additional $27 million per year in revenue for the transit agency. The law permits another fare increase in FY17, which would raise an additional $30 million per year.

Bid issued to raise MBTA revenue from naming rights: On December 26, 2013, the MBTA launched a Corporate Partnership Program for all subway, bus, and commuter rail stations or other assets it operates and owns. Through this program, the MBTA is seeking partnerships with a limited number of sponsors for selected MBTA naming opportunities. The program includes not only station naming rights, which were required by the Transportation Finance Act, but also offers branding, station advertising, and online and onsite promotions. Bids were due on February 27, 2014. The MBTA simultaneously issued a request for proposals for corporate partnerships for specific stations and subway lines. Bidding starts at $1
million annually for five years for South Station, Airport, Downtown Crossing, Park Street, Back Bay, North Station, State Street, and Boylston stations. The Yawkey station’s the minimum bid is $500,000 per year for five years. The minimum bids for the subway lines are $1.2 million for the Blue Line, $1.6 million for the Red Line, and $2 million for the Green Line, respectively. Advertisers in certain sectors, such as alcohol and tobacco products, as well as religious groups and advertisers of adult content, are not eligible for participation. The MBTA has previously sought to sell naming rights to stations, but with limited success.

*Multiple required reports and recommendations filed:*

- MassDOT filed a report on progress towards funding all employees with operating expenditures by August 15, 2013.16

- The MBTA completed a report on revenue collected through sponsorship agreements, meeting the August 30, 2013 deadline.17 In FY13, corporate sponsorship programs brought in about $16 million in revenue for the MBTA.

- MassDOT prepared a comprehensive tolling plan by December 31, 2013.18 The plan analyzed potential tolling of 21 additional routes. The return on investment from these routes, i.e., how much revenue could be generated in tolls per dollar of cost, ranged from 2.2 to 6.2. If all the routes were tolled, which would require legislative approval and federal waivers, an additional $6.66 billion per year in revenue could be raised. MassDOT estimated that tolling of I-93 alone would raise $1.75 billion per year. I-95 and I-495 would generate over $1 billion each.
• MassDOT also prepared a border toll feasibility study by December 31, 2013. The study estimated tolls for 12 border locations and found return on investment rates ranging from 1.9 to 3.4. If all the border locations identified were tolled, assuming legislative approval, federal waivers, and a $1 per car charge, $1.18 billion could be raised each year.

• The first set of semi-annual meetings between the Secretary of Transportation, General Manager, Secretary of Administration and Finance, and Joint Ways and Means Committees regarding the fiscal status of MassDOT and MBTA required by the Act were held on February 20, 2014. (12/31/13 deadline)

• MassDOT submitted recommendations on policies and reimbursement mechanisms for the relocation of utility infrastructure necessary due to Highway Division or MBTA construction projects. The recommendations, filed in form of proposed legislation, if accepted, would remove the annual maximum total cost for utility relocation reimbursements, raise the existing 80% cap for such reimbursements to 100%, and make these new standards applicable to projects regardless of how they are funded.

• MassDOT and MBTA were required by the Act to issue preliminary annual reports on operating budget savings (so-called own source targets) by October 1, 2013. The reports were submitted in February of 2014.

Commissions and councils formed:

• The Tax Fairness Commission established by the Act held its first meeting in September 2013 and presented its report to the Legislature on March 3rd.

• The Project Selection Advisory Council created by the statute was required to meet for the first time no later than January 14, 2014. The first meeting was held on January 28, 2014. The Project Selection Advisory Council is tasked with the development of uniform project selection criteria for transportation projects. This council, chaired by the Secretary of Transportation, consists of eight members appointed by the Governor and the leadership of the House and Senate. The council is required to publish its project selection criteria by December 31, 2014. One appointment, the Speaker’s, is still outstanding.
PAVING THE WAY FOR THE 2013 TRANSPORTATION FINANCE ACT: THE 2009 TRANSPORTATION REFORM LEGISLATION

In 2009, the Legislature enacted significant reforms to the state’s transportation system, consolidating many different transportation departments into one streamlined Massachusetts Department of Transportation. Transportation reform was motivated by several factors, including the need to consolidate transportation funding mechanisms, make all of the transportation departments more transparent, and save money. MassDOT and the MBTA are now run by the same board of directors and chaired by the Secretary of MassDOT.

Several important cost-saving measures occurred as a result of the 2009 transportation reforms. The MBTA saw significant cost savings when it eliminated the practice of allowing retirement after 23 years, regardless of age. The MBTA also saves $36 million annually from the requirement that MBTA employees be moved to the state Group Insurance Commission health plan. There was also a marked reduction in employee headcount when the MBTA eliminated two-person operators on all Red and Orange Line trains, saving nearly $7 million. Some now consider the MBTA to be one of the leanest transit agencies in the country. Reform also streamlined the way that transportation is funded in Massachusetts, creating two new funds that serve as a sort of lockbox for transportation revenue. The Commonwealth Transportation Fund, which is subject to appropriation by the Legislature, receives revenues from gas taxes, Registry of Motor Vehicles (RMV) fees, and the motor vehicle sales tax. Reform required that revenues in the Commonwealth Transportation Fund first be used to pay for debt, with leftover funds available to pay for part of the MBTA’s operating budget and part of the RTA operating budget. The Massachusetts Transportation Trust Fund became the depository for all other transportation revenues, including the Tobin Bridge and the Turnpike tolls and remaining funds from the Commonwealth Transportation Fund. It is used to pay for MassDOT operations, the Turnpike, the Tobin Bridge, and Turnpike debt.

Implementation of the 2009 reforms was critical to passage of the 2013 Transportation Finance Act, enabling the Legislature to raise significant new revenue for transportation.
MISSED DEADLINES

1. MassDOT analysis of the air quality impacts of the Central Artery project and associated transit commitments completed to date was due on January 24, 2014, but is expected to be released later in March.

2. The Value Capture Commission required by the Act has not been formed yet, although it had a report due on March 1, 2014.

3. The Performance & Asset Management Advisory Council required by the Act has not been formed yet, although it had an annual progress report to the Legislature due on October 1, 2013. It was also required to develop and recommend to the MassDOT Board procedures and requirements for the administration of the performance and asset management system by November 1, 2013.

4. MassDOT review of rights of way and proposed legislation was due on March 1st.

UPCOMING DEADLINES

An integrated asset management system, which continuously updates physical inventory, condition assessments, and performance information of all transportation assets, is required to be complete and operational by July 1, 2014.
THE FINANCIAL STATE OF OUR TRANSPORTATION SYSTEM

COMPARISON OF ACTUAL REVENUES AND EXPENSES TO PROJECTIONS

ACTUAL RECEIPTS OF REVENUE
Compared to Projections for FY13: Last year’s revenue projections from taxes, fees and tolls for MassDOT were a little lower than the actual revenues received. For The Way Forward, MassDOT projected that it would take in about $2.155 billion in tax, fee, and toll revenues.\(^{31}\) The actual total for such revenues was almost $2.198 billion in FY13,\(^{32}\) an additional amount of about $43 million, which means that taxes, fees, and tolls increased up by about 2%.

Actual Expenses Compared to Projections for FY13: Last year’s projections for operating expenses and debt service were a little lower than the actual expenses in FY13. For The Way Forward, MassDOT projected that its expenses in these categories

Figure 3. Projected versus Actual Transportation Revenues and Expenditures, FY13
Revenues for FY13 were $43 million higher than projected, while expenditures were $127 million more than estimated, creating an overall shortfall of $84 million.

would be $2.155 billion. The actual total for such expenses was just over $2.282 billion. As a result MassDOT spent about $127 million more than projected, creating an overall shortfall of $84 million, after taking the higher revenue receipts into account.

**Own Source Targets**: The Act requires MassDOT and the MBTA to raise a portion of the new revenue for transportation through their own sources, which include revenue sources under their own control or cuts to expenses. The revenue sources include transit fares, motor vehicle registry fees, and tolls. Pursuant to these so-called “own source targets” set by the new law, MassDOT is required to contribute 51% of its operating budget by FY17, and 47%, 48%, and 50% in fiscal years 2014 through 2016, respectively. These percentages translate into required additional revenue from own sources of $56 million, $146 million, $91 million, and $93 million respectively in fiscal years 2015 through 2018. To help achieve these goals, MassDOT in The Way Forward proposed to increase I-90 tolls 5% every two years starting in FY15 and RMV fees 10% every five years starting in FY16. After raising tolls, RMV fees, and taking into account automatic electronic tolling savings, casino licensing fees, and expected contributions from Massport and the Convention Center, MassDOT still will have a gap to fill of $39 million and $74 million in FY15 and FY16, respectively. To meet its immediate own-source targets, MassDOT is considering a proposal to raise RMV fees as early as FY15.

The benchmarks set in the Act require the MBTA to raise 31.5%, 33%, 33.25%, 33.75 and 34% of its operating budget in fiscal years 2014 through 2018, respectively. Assuming fares are raised 5% every two years, the maximum amount permitted by the Act, the MBTA is expected to need to raise an additional $8 million, $36 million, $38 million, and $79 million respectively over the next four years starting in FY15, not taking into account the additional labor costs associated with the arbitration decision. These own source targets put considerable pressure on the MBTA to cut service starting in FY16 or earlier, an outcome the Commonwealth has actively sought to avoid.
UNEXPECTED FINANCIAL DEVELOPMENTS SINCE PASSAGE OF THE LAW

Only seven months have passed since the Act became law and already unanticipated events have changed the circumstances of the state transportation system’s finances. Following are the most significant developments, including those for which a final outcome is still pending:

Repeal of the Computer and Software Services Sales Tax: On September 27, 2013, only two months after the transportation finance law was passed, the Massachusetts Legislature repealed Section 48 of the law, which had extended the state’s 6.25% sales tax to a number of computer and software services. This sales tax extension was estimated to raise $161 million per year of the $519 million per year in new taxes the law raised (only $390 million of the $519 million per year in new taxes was dedicated to transportation). While none of the software services tax revenues were specifically dedicated to transportation, the money would have backfilled the General Fund’s contributions to transportation.

The Commonwealth intends to fill the hole created by the repeal of the extended sales tax through available budgetary surpluses in FY14. There are no plans yet for how this revenue will be replaced for the following four years of the five-year plan. While the problem caused by the repeal of the computer and software services sales tax has been solved in the short term, additional revenue must be found for FY15 and subsequent years.

Ballot Initiative to Repeal Indexing of the Gas Tax Launched: Massachusetts had a long history of tying the gas tax to the price of gas in order to keep up with inflation. If the gas tax had still been tied to inflation, it would have generated over $170 million more in revenue this past year alone. Since 1991, however, the gas tax has not been increased, resulting in a 41% depreciation of purchasing power. The 21-cent gas tax in 2012 was therefore equivalent to only 12.4 cents in 1991. To stop the continuing erosion of the value of the gas tax due to inflation, the Transportation Finance Act of 2013 included a provision to once again index the gas tax, this time to the Consumer Price Index.40 The Commonwealth is not alone in this approach; 15 other states set their gas tax to either increase with inflation or the price of gas to keep up with the rising costs of fixing, maintaining, and improving our roads and bridges and public transportation. Without indexing, the gas tax would be the exception to the

The Legislature’s requirement for the MBTA to raise a significant portion of its own budget will put considerable pressure on the MBTA to cut service in the future.
rule that taxes automatically increase with inflation. The sales tax, income tax, and property tax all rise with inflation.

In August, a small group of conservatives launched an effort for a statewide ballot question to eliminate this provision, wrongly claiming that a repeal would not reduce transportation funding. Supporters submitted the certified petition signatures as required, and while there is another signature hurdle, it is likely that a ballot question to repeal the gas tax indexing will be placed before the voters in the November 2014 election. If the ballot initiative succeeds, Massachusetts would lose over $1 billion in revenues over the next ten years.

**MBTA Labor Arbitration Decision:** On August 26, 2013, a labor arbitration decision awarded increased and back pay to the MBTA’s largest union. This changed many of the assumptions made regarding labor costs at the time the Act was passed. The MBTA has estimated that the raises outlined in the arbitrator’s decision would cost the transit authority approximately $26.4 million annually and include a retroactive payment for previous years in the amount of $27 million.

**Rollback of MBTA Paratransit Fares:** In January 2014, the MBTA rolled back the basic fare for The Ride, the agency’s paratransit service, from $4 to $3. In July 2012, as part of other fare increases, the MBTA had doubled the paratransit fare from $2 to $4. At that time, the MBTA had estimated that ridership would decrease by about 10% as a result. Instead, records showed that ridership went down by 18.5%, prompting the MBTA to take corrective action after being urged to do so by paratransit users and advocates. The MBTA estimates that the paratransit fare rollback will cost the agency $3.6 million per year as a result of decreased revenue and increased costs due to a higher number of trips, but considers it a worthwhile investment because it will provide additional mobility to a significant number of transit-dependent riders.

Massachusetts had a long history of tying the gas tax to the price of gas to keep up with inflation, but this was changed in 2000 and cost the state $170 million just last year. The new law included a provision to once again index the gas tax.
The state will invest $6.3 billion over the next five years, which is $1.5 billion more than would have been possible without the new law.
### Table 1: Comparison of Projects Listed in *The Way Forward* and Draft FY14-FY18 Capital Improvement Plan

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<th>Capital Improvement Plan compared to <em>The Way Forward</em></th>
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</thead>
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<td>Continued Accelerated Bridge Program</td>
<td>included but only with $323 million instead of $1.175 billion</td>
</tr>
<tr>
<td>Multimodal Highway Program</td>
<td>included but only with $323 million instead of $1.25 billion</td>
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<tr>
<td>I-91 Viaduct in Springfield</td>
<td>included on a more aggressive schedule than in <em>The Way Forward</em></td>
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<tr>
<td>I-93/I-95 Interchange in Canton</td>
<td>included at roughly the same pace of spending</td>
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<tr>
<td>I-93/I-95 Interchange in Woburn</td>
<td>not included, deferred to FY19-FY23</td>
</tr>
<tr>
<td>Bike &amp; Ped Facilities</td>
<td>included but only at $26 million per year instead of $43 million per year</td>
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<tr>
<td>Highway Preservation Facilities &amp; Systems</td>
<td>included at roughly the same pace of spending</td>
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<tr>
<td>RTA Capital Assistance (vehicles and facilities upgrades)</td>
<td>included but only with $170 million instead of $200 million and 48% of the money only becomes available in FY18</td>
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<tr>
<td>Red &amp; Orange Line Cars</td>
<td>included at increased pace of spending</td>
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<tr>
<td>Green Line Cars</td>
<td>included but only with $2.6 million for initial planning and design instead of $732 million</td>
</tr>
<tr>
<td>MBTA Buses</td>
<td>included but only with $355 million instead of $450 million</td>
</tr>
<tr>
<td>Red Line #3 Overhaul</td>
<td>not included; <em>The Way Forward</em> listed critical need as $110 million</td>
</tr>
<tr>
<td>MBTA Power, Facilities, and Operations</td>
<td>included but only with $25 million instead of $300 million; focus will be on energy efficiency projects, adjustments for next CIP are being explored</td>
</tr>
<tr>
<td>Modernization Pilot Projects (DMUs)</td>
<td>$190 million over 5 years, instead of $200 million over 10 years</td>
</tr>
<tr>
<td>Aeronautics Program</td>
<td>included at roughly the same pace of spending</td>
</tr>
<tr>
<td>RMV Capital (modernization)</td>
<td>included but only with $43 million instead of $75 million</td>
</tr>
<tr>
<td>South Coast Rail</td>
<td>included with $254 million for early action items only, instead of $1.03 billion</td>
</tr>
<tr>
<td>Green Line Extension</td>
<td>included at roughly the same pace of spending</td>
</tr>
<tr>
<td>South Station Expansion</td>
<td>included but with $200 million, for land acquisition and development only, instead of $510 million</td>
</tr>
<tr>
<td>Inland Route</td>
<td>included with $5 million, for early action items only, instead of $181 million</td>
</tr>
<tr>
<td>Berkshires to NYC</td>
<td>included with $34 million, for early action items only, instead of $57 million</td>
</tr>
<tr>
<td>Knowledge Corridor</td>
<td>included with $42 million, to upgrade rails only, instead of $57 million</td>
</tr>
<tr>
<td>Rail to Cape Cod</td>
<td>included with $31 million, up from $20.8 million in <em>The Way Forward</em></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Projects not Included in <em>The Way Forward</em></th>
</tr>
</thead>
<tbody>
<tr>
<td>Springfield Union Station</td>
</tr>
<tr>
<td>Allston/Brighton I-90 Straightening</td>
</tr>
</tbody>
</table>

Green=Funded at or above amount/pace of spending in *The Way Forward*; Yellow=Funded at reduced amount/pace of spending; Red=Not included.
included, however, are funded at lower levels than in The Way Forward because less revenue was raised by the Act than was identified as necessary to meet the state’s critical transportation needs.

In addition, MassDOT currently lacks authorization to initiate many of these capital projects because a transportation bond bill has not yet passed. The House and Senate each passed different versions of the transportation bond bill which will have to be reconciled in a conference committee. Until a transportation bond bill passes, a number of significant transportation projects will have to wait. The procurement of new Red and Orange Line cars, the extension of the Silver Line to Chelsea, and the first major phase in the rehabilitation of the I-91 viaduct in Springfield, for example, are all deferred. The Highway Division alone has advertised work that is worth approximately $564 million but cannot yet get under way. There is an additional $400 million worth of work on 81 highway projects ready to be advertised as soon as the bond bill passes.

Significant Projects Included in The Way Forward and CIP (but not necessarily fully funded):

- **MBTA Bus Replacement**: The MBTA bus fleet consists of more than a thousand vehicles in active use, over 10% of which are already beyond their useful life of 12 years. By FY19, about 85% of the MBTA buses will be beyond their useful life. The remaining 15% will be 11 years old at that time. Last year’s MBTA Capital Investment Program (MBTA CIP) put aside $272 million between FY14 and F18 and another $178 million beyond FY18 to procure new buses. The Way Forward identified a critical need of $450 million between FY14 and FY17. Nevertheless, the draft MassDOT CIP listed no funding for MBTA bus replacement. This year’s draft MBTA CIP included two grants for bus replacement totaling about $15 million for FY14, but no other funding for bus replacement between FY15 and FY18. For FY19, a little over a million dollars was set aside. This problem was highlighted in the comments MassDOT received on the draft CIPs. In response to the
comments received, MassDOT and MBTA largely rectified this problem. The final MassDOT CIP now contains $150 million in additional state funding for MBTA bus replacement and another $205 million from MBTA’s own capital sources, for a total of $355 million between FY15 and FY19.

- **I-91 Viaduct:** This elevated viaduct carries I-91 through Springfield. It has an average daily traffic volume of approximately 75,000 vehicles per day and 90,000 vehicles on the I-91/291 Interchange. The viaduct is the primary north-south route between Connecticut, Massachusetts, and Vermont. The I-91 Springfield viaduct decks are currently in poor condition and in need of replacement. In November 2013, MassDOT announced that construction for this project is slated to begin in November 2014.

MassDOT has proposed to pursue a more aggressive spending schedule for this project than previously planned and intends to take advantage of the department’s recent successful experience with expedited bridge projects with the goal of concluding these repairs more quickly. The CIP set aside $260 million for the project, which has a total estimated cost of $360 million.

- **Continuation of Accelerated Bridge Program:** The draft CIP partially funds a new program to repair bridges across the Commonwealth modeled after the Accelerated Bridge Program which will end in FY17 or FY18. Instead of dedicating $1.175 billion over 10 years towards this program, as described as the need in *The Way Forward*, the CIP will invest $323 million over five years, which will include the use of federal funding.

- **Capital Assistance for Regional Transit Authorities:** The draft CIP includes $170 million in capital assistance for the state’s 15 RTAs, which is intended to cover regionally significant projects such as the design and construction of maintenance facilities, replacement and new service vehicles, and repair of current facilities, equipment and systems. The amount in the draft CIP is a 15% reduction from the critical need identified in *The Way Forward* and is significantly backloaded, with almost half of the funding only becoming available in FY18, the last year of the draft CIP. This will likely pose significant challenges.
for the RTAs. For example, in FY15 regionally significant projects will take up almost $16 million of the $20 million set aside for RTA capital assistance, leaving only $8 million to be shared by 15 RTAs for all other capital needs, at a time when bus replacement will be important. The average age of the RTAs’ bus fleet is well into the 12-year useful life of buses. MassDOT recently has pre-approved a joint purchase of 206 buses by eleven of the RTAs.

- **Acquisition of new Red and Orange Line Cars**: The MBTA will use a portion of the new transportation funding to procure Red and Orange Line cars for the MBTA. This procurement is expected to cost $1.3 billion and will replace 74 Red Line cars that were built in 1969, which currently make up about one-third of the MBTA’s Red Line stock, as well as all 120 of the cars on the Orange Line, which were built in 1981 and are beyond their useful lives. This is an important investment, because the old Orange and Red Line cars break down frequently, causing delays on the system. Maintenance costs for the new cars will also be lower. MassDOT is requiring that all new Red and Orange Line cars be assembled in Massachusetts, which is permissible because this procurement will not involve any federal dollars. The MBTA has issued a request for proposals and bids were due on February 27, 2014. This project includes infrastructure improvements necessary for the new cars. The CIP accelerates the spending on this project, as compared to *The Way Forward*, with the goal of getting the infrastructure improvements in place more quickly, which stands to benefit riders even before the new cars go into service.

- **Electronic Tolling System**: The Governor announced a timeline for the introduction of electronic tolling. The switch to an automated tolling system, which eliminates toll booths and instead uses EZ-Pass and license plate recognition cameras to bill drivers, will begin on the Tobin Memorial Bridge by the spring of 2014. This is a few months later than the timeline originally proposed. Construction will begin this coming summer to convert the tolls on the Massachusetts Turnpike
MassDOT has previously estimated that automated electronic tolling will save the Commonwealth more than $50 million per year starting in FY16. Installing electronic tolling systems will also reduce traffic, increase safety, and likely reduce air pollution.

- **I-93/I-95 Canton Interchange**: This project involves the reconfiguration of the I-95/I-93 interchange. The primary goal of the project is the elimination of two weaving maneuvers on I-95, which are considered the cause of more intense traffic slowdowns and longer traffic backups in congested traffic conditions. In addition to eliminating these weaving movements, the project intends to improve roadway geometry in a way that would help reduce truck rollovers. The estimated cost of this project is $238 million over five years. MassDOT intends to undertake this project without the assistance of any federal funding. Funding for the project was set aside shortly prior to, and in anticipation of, passage of the Transportation Finance Act.

- **Statewide Road and Bridge Projects**: The Commonwealth has made an additional commitment of $200 million in spending on statewide road and bridge projects. This work will include bridge painting, resurfacing, and other maintenance and preservation projects statewide. Over the next year MassDOT intends to advertise an additional 76 projects that would not have been possible without the additional transportation funding.

- **South Coast Rail**: The administration has committed the resources necessary to complete the state environmental review and design process for the South Coast Rail project, which would restore passenger rail transportation from South Station in Boston to the South Coast of Massachusetts. In addition, in November 2013, MassDOT announced the beginning of construction to rehabilitate the Fall River and New Bedford railroad lines, which the Commonwealth purchased to secure the right-of-way for South Coast Rail service. For now, this project will improve existing freight service and allow for planned freight expansion.
**Diesel Multiple Units:** The CIP includes funding for introducing Diesel Multiple Unit trains (DMUs) to the Boston region. DMUs are independently powered vehicles that run on commuter rail tracks and require no separate locomotive, as the engines are incorporated into one or more of the carriages. This project will provide faster, more frequent service on the Fairmount Line and potentially also a pilot of such service between Back Bay and the Convention Center in the Seaport District.

**Significant Projects Added to CIP**

- **Allston-Brighton Turnpike Straightening:** The overhaul of the Allston-Brighton section of the Massachusetts Turnpike was not explicitly mentioned in the Governor’s 21st Century Transportation Plan. As currently planned, the I-90 Turnpike straightening project would replace a nearly half mile long structurally-deficient viaduct including 29 bridge structures built in the mid-1960s. The project would straighten existing turns on both sides of the existing Allston-Brighton toll area, opening up about 60 acres for future development in the Beacon Park Yards area. The project might also recreate the Back Bay U-turn. The current schedule calls for construction to begin in fall 2016 with completion in 2020. The preliminary estimated cost of the project is $260 million.

**Significant Projects Omitted from CIP**

- **Overhaul of No. 3 Red Line Cars:** There is no funding in the MassDOT and MBTA CIPs set aside for repairs to the youngest Red Line cars, which are 20 years old and constitute over 40% of the line’s active fleet, although such overhaul is due. Failure to overhaul these cars will result in increased breakdowns and shorten their useful life.

- **Replacement of Green Line Cars:** The draft CIP also sets no funding aside for replacement of Green Line vehicles. It includes only $2.6 million to support initial planning and design work to replace the existing Green Line fleet, with anticipated delivery of new vehicles beginning in FY2021. At that point almost half the Green Line cars will be beyond
their useful life. This is investment was included in *The Way Forward* at $427 million over five years.

- **MBTA Power, Facilities and Operations: The Way Forward** identified a need for $150 million MBTA infrastructure upgrades over five years. The CIP funds this work at a total of only $25 million over the same time period. Leaving out these necessary repairs and upgrades will cause the system to continue to fail and increase the costs of future upgrades.

- **Chapter 90 Funding:** Last year, the Legislature set aside $300 million in funding for local roads, known as Chapter 90, from the Governor's bond bill, an increase of $100 million compared to the previous year. The Governor signed the bill but only released $150 million pending passage of the Transportation Finance Act. After the Legislature passed the Act, the administration increased the Chapter 90 funding back up to $200 million, but not all the way to the $300 million proposed in *The Way Forward*. The administration cited the smaller amount of revenue raised by the Act as compared to the need identified in *The Way Forward* as the reason for maintaining level funding at $200 million.

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**OPERATIONS IMPROVEMENTS ANNOUNCED**

- **Introduction of MBTA Late Night Service:** The MBTA will launch a one-year pilot program for late-night bus, subway, and light rail service beginning March 28th. Service on all subway lines, light rail, and the 15 key bus routes will run until 2:30 a.m. on Friday and Saturdays, roughly an extra hour and one-half as compared to current service schedules. Service will not be extended on the commuter rail or ferry. Late-night service during the pilot will be subsidized by financial sponsorships from *The Boston Globe* ($500,000) and possibly other businesses. Service is expected to cost an estimated $20 million annually (not accounting for offsetting fares or sponsorships). During the pilot program, fares will remain at the same level as those during regular service. In the future, the MBTA may adjust fare prices during the later hours. The addition of the Late Night Service pilot program will benefit third-shift workers.
workers and people who work in the hospitality industry, as well as those enjoying the city’s night life.

- **RTA Service Improvements:** Since passage of the Transportation Finance Act, additional service has been added by almost all of the RTAs. For example:

  - The Brockton Area RTA has increased frequency on existing routes to the Ashmont MBTA Station and extended and added Express Service to Massasoit Community College.

  - The Berkshire RTA reopened Route 7 bus service in January 2014, connecting three colleges from Pittsfield to Williamstown. This route is the first in the Berkshire RTA area to provide Wi-Fi service.

  - The Cape Cod RTA is in the process of adding weekend and evening service throughout its system and expanding service hours on two of its routes.

  - The Franklin RTA is adding a shuttle service to the new Court House location.

  - The Greater Taunton Attleboro RTA has increased the frequency of the existing routes in Taunton, added demand response service in Marshfield, Hanover and Scituate, and expanded demand response service hours in Plymouth.

  - The Lowell RTA has upgraded its Saturday service, extended the hours of its weekday service, added Saturday service to Route 129, and added paratransit service for Saturdays and weekdays.

  - The MetroWest RTA added a last mile shuttle service and added service to Westboro.

  - The Nantucket RTA added a week of service.

  - The Pioneer Valley RTA improved the frequency of its Sunday service, added Sunday service to routes that did not have Sunday service, and added service to four holidays, including New Year’s Day. The Act has also allowed the PVTA to avoid a fare increase.

  - The Southeast RTA has increased service to UMass Dartmouth.

  - The Worcester RTA has expanded fixed routes into Westborough, Northbridge, Southbridge, Charlton, and Dudley, extended service hours until midnight on selected routes, revived the trolley service in downtown Worcester, and implemented a community service initiative in the towns of Northborough, Paxton, and Grafton.
THE TRANSPORTATION FINANCE ACT of 2013 has helped address some of the state’s most pressing transportation finance challenges and spurred the implementation of important policies. In its first seven months, the new law has met expectations in most respects and revenue and cost projections have matched up relatively closely with actual funds received so far. MassDOT has already begun important reforms, such as removing operating expenses from the capital budget, and has announced critical capital projects, such as statewide road and bridge projects and the replacement of old Red and Orange Line cars, which could have never been tackled without the additional resources provided by the Act. Likewise, small but significant operations expansions, such as introduction of late night service at the MBTA and reopening of bus service on Route 7 in the Berkshires, were made possible by the new law.

Prior to passage of the Act, the state’s transportation system was in decline and the Commonwealth was not investing enough to stop that trend. Without additional funding, progress
made on bridge rehabilitation and roadway quality investments would have been lost and the condition of trains, buses, and signaling systems would have continued to deteriorate. However, the Transportation Finance Act did not provide enough funding to repair, maintain, and modernize all of the Commonwealth’s transportation system. Current funding is still not sufficient to sustain the critical needs of the state’s entire transportation system.

The challenge of making necessary improvements in transportation has become even greater due to the repeal of the computer and software services sales tax and increases in expenses. There is also the potential for further loss of revenue if the effort to repeal the gas tax indexing is successful, which would hurt the state’s transportation system now and for years to come. By the time of the next progress report, we expect that the Commonwealth will have made further headway in the implementation of the new law and have new insights on how far transportation reform and finance have come since the passage of the Transportation Finance Act.

Investments made under the Transportation Finance Act support a wide variety of transportation options throughout the Commonwealth.

Current funding is still not sufficient to meet the needs of the state’s entire transportation system.
Sources marked with an asterisk are available for review and download at the Transportation for Massachusetts website, http://www.t4ma.org/resources/publications/.

1 See Joint Ways and Means Transportation Finance Framework, April 2, 2013, updated April 13, 2013.

2 Id.


5 Based on Joint Ways and Means Transportation Finance Framework, April 2, 2013, updated April 13, 2013.

6 * Proposed Fee Structure for Collecting Tolls on Turnpike Interchanges 1-6 (As required by Chapter 46 of the Acts of 2013, Section 62), Report, Secretary Richard A. Davey (October 30, 2013).


8 Id.

9 Id.

10 Id.

11 The 188th General Court of the Commonwealth of Massachusetts, Chapter 46 of the Acts of 2013, Section 63.

12 The 188th General Court of the Commonwealth of Massachusetts, Chapter 46 of the Acts of 2013, Section 61(d).


15 * MBTA Corporate Partnership Program, MBTA No. 11031, Request for Interest (December 26, 2013).


19 Chapter 46 of the Acts of 2013, Section 74. Id. at 71.

20 The 188th General Court of the Commonwealth of Massachusetts, Chapter 46 of the Acts of 2013, Section 78.

21 The 188th General Court of the Commonwealth of Massachusetts, Chapter 46 of the Acts of 2013, Section 65.

22 See Section 32G of H.3867 (Governor's Supplemental Budget) and Amendment No. 133 of S. 2033 (Transportation Bond Bill).

23 The 188th General Court of the Commonwealth of Massachusetts, Chapter 46 of the Acts of 2013, Section 73.


25 The 188th General Court of the Commonwealth of Massachusetts, Chapter 46 of the Acts of 2013, Section 77.

26 Section 64 of the Acts of 2013.


29 The 188th General Court of the Commonwealth of Massachusetts, Chapter 46 of the Acts of 2013, Section 65.

30 The 188th General Court of the Commonwealth of Massachusetts, Chapter 46 of the Acts of 2013, Section 69.


35 The 188th General Court of the Commonwealth of Massachusetts, Chapter 46 of the Acts of 2013, Section 60.


38 The 188th General Court of the Commonwealth of Massachusetts, Chapter 46 of the Acts of 2013, Section 61.


40 The 188th General Court of the Commonwealth of Massachusetts, Chapter 46 of the Acts of 2013, Section 44.


42 Id.