



Deval L. Patrick, Governor
Richard A. Davey, Secretary & CEO



February 20, 2014

Honorable Stephen M. Brewer
Chair, Senate Committee on Ways and Means
State House, Room 212
Boston, MA 02133

Honorable Brian S. Dempsey
Chair, House Committee on Ways and Means
State House, Room 243
Boston, MA 02133

Dear Chairmen,

Pursuant to Chapter 46 of the Acts of 2013, Section 78, I am pleased to submit the first semi-annual report due to the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means regarding revenue projections and any changes to fee and fare structure of the Massachusetts Department of Transportation.

The report is organized as follows:

Section I: year-to-date revenues collected and projected revenues and expenditures for the current fiscal year.

Section II: projected revenues and expenditures changes for the next 5 years.

Section III: changes in revenue and expenditure projections from the previous semi-annual report. This Section will be incorporated into the July, 2014 report as this report is the initial report submitted pursuant to this legislation.

Section IV: reasons for any changes from previous projections. This Section will also be incorporated into the July, 2014 report as this report is the initial report submitted pursuant to this legislation.

Section V: progress made toward achieving revenue and savings targets set for fiscal year 2017 and 2018

Section VI: plan detailing how the Department will meet targets established in Section 61 of the legislation, which provides for the amount of funds that shall be contributed by the Department's own source revenues as a percentage of its operating budget. This Section will be included in the report submitted July 15, 2015, as specified in the legislation.

A separate report with the required information for the Massachusetts Bay Transportation has also been filed with the Committees by the General Manager.

I look forward to discussing the enclosed materials with you.

Sincerely,

Richard A. Davey,
Secretary and CEO, Massachusetts Department of Transportation

Section I

YEAR-TO-DATE REVENUES COLLECTED, AND PROJECTED REVENUES AND EXPENDITURES FOR THE CURRENT FISCAL YEAR

Please refer to the attached *MassDOT Statement of Revenue and Expenses – Period Ending September 30, 2013*.

MassDOT has developed monthly and quarterly budget reports, compiled on a cash basis, to ensure that resources are prudently managed. The annual budget and resulting monthly and quarterly reports are designed to provide a transparent, comprehensive overview of how MassDOT is funded and our progress in using those resources to meet common goals and outcomes. The goal is to develop an outcome based budget that relates choices (e.g. lower wait times at the RMV) to the resources and funding necessary to achieve those outcomes. This effort is leading to a more disciplined, focused approach to ensure that we prudently manage our operating budget.

The attached Statement of Revenue and Expenses through the first quarter of 2014, July 1st through September 30th, details line item variances in the department's operating budget, which have resulted in total net revenue of \$73.4 million as of September 30th. On February 25th the department will publically release second quarter results, which we will forward to the Committees for review and comment.

The September report, as presented to the Board of Directors is attached. In summary, here are the highlights.

- Through September, total revenue was \$290.7 million, \$13.0 million or 5% over budget.
- Through September, total expenses were \$217.3 million, or \$30.0 million (12%) below budget. The major items contributing to this variance are:
 - Employee Payroll and Benefit costs (\$7.9 million below budget), primarily from the MassDOT operating budget being approved in September as a result of the passage of the transportation finance bill in August.
 - Snow & Ice (\$13.0 million below budget). The quarterly report represents a significant lag between actual expenses as reported in December. The FY2014 MassDOT budget included \$45.6 million for snow removal, anticipating \$40 million in supplemental funding from the Commonwealth. As of February 19th, the department has expended \$88.8 million for snow and ice removal, resulting in a \$43 million deficiency. This will be resolved through a supplemental funding appropriated by the Legislature. However, without this

supplemental funding the department has been forced to suspend \$38.6 million in payments owed to vendors for costs incurred to date.

- Pay Go Maintenance (\$7.7 million below budget).
- Materials, Services, and Supplies (\$3.2 million below budget),
- Office and Administrative expenses (\$3.1 million below budget).
- Grants, Subsidies and Contract Assistance (\$4.9 million above budget)

Section II

PROJECTED REVENUES AND EXPENDITURES FOR THE NEXT 5 YEARS

Please refer to the attached *Massachusetts Department of Transportation Pro Forma FY2014 – FY2019*.

MassDOT has developed a five year projection of operating revenues and expenses for the Massachusetts Transportation Trust Fund and Motor Vehicle Safety Inspection Fund. This is a consolidated presentation of these two funds, which form the basis of the department's annual operating budget.

MassDOT has made certain assumptions on the amount of available revenues from the Commonwealth that would be provided to the department to balance the budget over the next five year timeframe, including a potential increase in Registry of Motor Vehicle fees necessary to meet the own source targets identified in the 2013 Transportation Finance Legislation. These fees must be appropriated by the Legislature to MassDOT; hence the increase in the Commonwealth Transportation Fund line items. At a minimum, the pro forma assumes that the amount appropriated to MassDOT will increase at a level commensurate with the transfer of previously capitalized employee compensation and other operating expenses.

Tolls collected on the Metropolitan Highway System (MHS), Western Turnpike and Tobin Bridge are projected at a 1.0% increase per year beginning in FY2015. The pro forma includes a 5% toll increase in FY2016 and FY2018. MassDOT has made the assumption that the amount of contract assistance provided for the Metropolitan Highway System bonds will remain constant at \$125 million per year.

There are several significant issues that will affect our operating and capital budgets.

1. The repeal of the gas tax indexing will result in a loss of an estimated \$2 billion in capacity for projects over the next decade. If the repeal is

- passed, the Legislature will need to evaluate and possibly reduce the projected amounts of Commonwealth funding available for transportation.
2. The Federal Highway Trust Fund is scheduled to go into deficiency in August. If not cured, this will likely result in a decrease of federal transportation funds allocated to the Commonwealth. The immediate impact on the pro forma is a potential reduction in the amount of federal reimbursements projected in this pro forma. In addition, the capital investment plan will need to be amended to reflect the loss of federal revenues necessary to fund projects.
 3. MassDOT is required to assume mitigation for the delay in revenue service for the Green Line Extension. Based on ongoing service planning, this may result in expense increases for the department ranging from \$10.5 million to \$22 million for additional bus and Green Line service to mitigate anticipated air quality impacts from continued vehicular traffic that would not have occurred had service been operational as originally forecast.
 4. The pro forma assumes a significant cost containment effort that will hold expenses (other than debt service and infrastructure investments) to a minimum. Please see Section V for more information on ongoing and planned cost containment activities within the department.

Regarding debt service expenses, the pro forma reflects increased debt service costs for a series of Capital Appreciation Bond (“CABs”) that were issued in the late 1990’s for the purpose of financing the Central Artery/Tunnel project. The increase is not due to any additional borrowing or refinancing by MassDOT. For infrastructure, the pro forma reflects the projected pay go funding necessary to support the investments outlined in the draft FY2013 to FY2018 Capital Investment Plan as well as other programs supported by federal grants.

Section III

CHANGES IN REVENUE AND EXPENDITURE PROJECTIONS FROM THE PREVIOUS SEMI-ANNUAL REPORT

This Section will be incorporated into the July, 2014 report as this report is the initial report submitted pursuant to this legislation.

Section IV

REASONS FOR ANY CHANGES FROM PREVIOUS PROJECTIONS

This Section will also be incorporated into the July, 2014 report as this report is the initial report submitted pursuant to this legislation.

Section V

PROGRESS MADE TOWARD ACHIEVING REVENUE AND SAVINGS TARGETS SET FOR FISCAL YEAR 2017 AND 2018

MassDOT is required to manage closely to an annually approved budget that must be balanced. For prudent financial planning purposes and consistency with the 2013 Transportation Finance legislation, the department manages its overall finances over a five year period, reflected in the attached 5 year Pro Forma, which is frequently reviewed, updated and evaluated throughout the fiscal year.

As a part of this process, MassDOT will project any actual as well as expected increases and/or decreases in its various revenue sources and expense categories over a five-year period. The department is currently working to incorporate the revenue and savings targets included in the legislation set for Fiscal Years 2017 and 2018. This includes plans for raising tolls, expanding advertising revenues and managing real estate assets to generate funds from leasing activities, sponsorships and periodic sale of real property.

Additional funding will allow us to significantly improve the daily commute of millions of people across Massachusetts. MassDOT, however, must and will continue to improve its business practices and take advantage of new technology to deliver more efficient, cost-effective service. MassDOT is implementing a number of additional reforms to meet this goal.

- All-Electronic Tolling - MassDOT has reached a tentative agreement with labor on the transition, initiated a request for proposals on the project and begun construction on the pilot program on the Tobin Bridge. When fully implemented, statewide All-Electronic Tolling (AET) will replace the existing toll plazas on the Massachusetts Turnpike and Harbor Tunnels with overhead gantries to be installed along the highways, allowing all traffic to travel at normal highway speed through the tolling areas. Cash will be eliminated from the system entirely, as all transactions will be conducted using either the current E-Z Pass system or through video tolling (in which invoices are sent to customers whose license plates are recorded by the AET camera system).
- Capital to Operating Transfer – As required by the Transportation Finance Legislation, following recommendations in the Administration's Way Forward plan, the department is beginning the process of transitioning all personnel and other operating costs from the capital budget to the operating budget. The attached pro forma captures this transition, which

will when fully implemented, provide nearly \$2 billion in capacity for capital projects over the next decade.

- Registry of Motor Vehicles Modernization - The public is increasingly performing Registry transactions – including license, registration renewals, and bill payment – online rather than in person. For those who still wish or need to visit a Registry branch, our modernization program would replace current branch offices with a smaller network of superior regional and commercial centers, including centers at insurance agencies and AAA branches. Additionally, significant investments have been made to improve phone transactions, including virtual hold technology that has an agent call a customer at a time convenient for them. The division is also exploring self-service options available at appropriate commercial/retail establishments, including upcoming agreements to expand the successful partnership with AAA to additional branches. These new facilities would offer a comprehensive menu of essential services, providing customers with shorter wait times and reducing Registry operating expenses.
- Leveraging Real Estate Assets - MassDOT is one of the largest owners of real estate in the Commonwealth, and we recently completed a statewide inventory of all of our parcels and other assets. A review of all MassDOT property to identifying all non-essential, non-transportation parcels is underway and several dispositions of property have occurred.
- Further Partnerships with Massport - The 2009 transportation reform legislation directed MassDOT to take over the Tobin Bridge (formerly owned by Massport), and gave management responsibility to Massport for Worcester Regional Airport and Hanscom Field. Since then, Massport, MassDOT, and the MBTA have partnered in numerous ways to reduce costs and improve customer service. In 2012, the MBTA and Massport launched a pilot program offering free MBTA Silver Line service between Logan Airport and South Station in order to reduce the number of private vehicles at Logan. This service is now permanent. MassDOT, MBTA and Massport are working to identify further areas of collaboration.

Section VI

PLAN DETAILING HOW THE AUTHORITY WILL MEET TARGETS ESTABLISHED IN SECTION 61 OF THE LEGISLATION WHICH PROVIDES FOR THE AMOUNT OF FUNDS THAT SHALL BE CONTRIBUTED BY THE AUTHORITY'S OWN SOURCE REVENUES AS A PERCENTAGE OF ITS OPERATING BUDGET

This Section will be included in the report submitted July 15, 2015, as specified in the legislation.