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Before the Joint Committee on Transportation, The Commonwealth of Massachusetts

Hearing Held on
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CENTRAL ARTERY/ TUNNEL PROJECT

Cost and Financing

Statement for the Record by
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Chairman Havern, Chairman Cahir, and Members of the Committee:

Thank you for inviting us to provide this statement for the record as part of your hearing on House Bill 6203, An Act Relative to the Removal of Tolls on the Massachusetts Turnpike. This bill would, with some exceptions, prohibit the Massachusetts Turnpike Authority and Massachusetts Port Authority from changing or eliminating tolls at any state toll facilities until the feasibility study for a Boston metropolitan area unified transportation system, mandated in state law in 1995 and due on December 1, 1996, is completed.

You asked us to focus our statement on our May 1996 report on the Central Artery/Tunnel project.[1] In summary, our report found that the estimated total costs of the project are $10.4 billion and could increase if cost containment goals are not met. Furthermore, we concluded that the state and federal funding available to Massachusetts to finance the Central Artery/Tunnel project might not be sufficient to complete the project as scheduled by 2004. Although the amount of federal funding that will be available to Massachusetts after federal fiscal year 1997 is not known, shortfalls exist under all scenarios modeled in the Massachusetts Highway Department's (MHD) February 1996 Central Artery/Tunnel project finance plan. While the finance plan discusses options for addressing the shortfall, state officials told us that a plan has not been selected to date, pending completion of the feasibility study. In selecting a plan, the state faces challenges to both maintain its commitment to its statewide road and bridge improvement program and build the Central Artery/Tunnel project.

Project Costs

Massachusetts' official estimate of the total cost of the Central Artery/Tunnel project, as updated in January 1996, is $7.8 billion. However, that estimate excludes over $1 billion in costs that were included in previous estimates and does not account for the effects of inflation. Our analysis shows that the project's costs would total $10.4 billion if the excluded costs and the effects of inflation were considered. Moreover, the $10.4 billion assumes that the state will be successful in meeting the aggressive cost containment goals established in 1995 for the project. While the MHD's cost containment initiatives demonstrate that it is serious about containing project costs, it is too early to tell whether the state will meet all of its cost containment goals, and the results to date have been mixed.

[1]Transportation Infrastructure: Central Artery/Tunnel Project Faces Continued Financial Uncertainties (GAO/RCED-96-131, May 10, 1996).

The project still faces several risks that could increase its costs. For example, much of the construction work remaining on the project is underground tunneling. Federal Highway Administration (FHWA) and state officials agree that this work is inherently risky, given the uncertainties of underground work in a densely populated urban area. Given these risks, closely monitoring the project's cost performance is important because the total costs could exceed $11 billion if historic patterns of cost growth, rather than the project's cost containment goals, prevail. Moreover, a full disclosure of the project's total costs provides the only basis for the Congress, state leaders, and the public to understand the extent of the federal and state investment in the Central Artery/Tunnel project. Full disclosure is also the only means of providing a consistent baseline for measuring changes in the cost of the project over time.

Project Finance

As of March 1, 1996, federal sources had provided $4.1 billion of the $4.7 billion in funds obligated for the project, while state funds provided about $650 million. However, in the current federal fiscal environment, the amount of future federal funding is uncertain, and Massachusetts plans to increasingly rely on state sources to finance the project. To date, most federal funding for the project has come from the Interstate Construction Program, the program begun in 1956 to build the Interstate Highway System. That program, which had dedicated federal funds for specific interstate projects, has ended, and the Central Artery/Tunnel project received its final federal funds under this program in fiscal year 1995. On June 19, 1996, the Appropriations Committee of the U.S. House of Representatives reported the U.S. Department of Transportation's fiscal year 1997 appropriations bill to the full House. In its report to the House, the Committee warned of the unlikelihood of any further dedicated federal funding for the Central Artery/Tunnel project. The report noted that the federal funds provided in fiscal year 1995

> "...are intended to be the final contributions for construction under the Interstate program. Accordingly, Massachusetts must accept the risks associated with potential cost overruns and possible reductions in future federal-aid apportionment levels..."

The amount of federal funding that will be available to Massachusetts after federal fiscal year 1997 will not be known until the Congress reauthorizes the federal aid highway program sometime in 1997. However, funding shortfalls exist under all scenarios modeled in MHD's finance plan.[2] For

[2]These scenarios included the $600 million in funding provided in state legislation for the Central Artery/Tunnel project in 1995, including the $100 million contribution from the Massachusetts Turnpike Authority.

example, under one scenario modeled at the request of FHWA, Massachusetts would experience a shortfall of $1.9 billion between federal fiscal years 1996 and 2000. These shortfalls could increase if the state does not meet its cost containment goals.

These shortfalls occur in large measure because of Massachusetts' plans to accelerate the project's construction and begin numerous projects within a short period of time, with plans to pay for them over several years. Specifically, Massachusetts plans to award 26 contracts, totaling $3.7 billion, in this manner—including contracts totaling over $2 billion in fiscal year 1996. According to MHD, this strategy will save $1 billion in total costs for the project and 5 years in construction time. The Secretary of the U.S. Department of Transportation must approve these contracts.

The state's finance plan identifies several options to address the shortfall, but none has been selected to date. These options include short-term financing, extending the project's schedule, reducing the project's scope, and reducing the funding for other state transportation projects. MHD considers short-term state financing to be the most viable option. For example, the state's ongoing feasibility study is examining whether to establish a metropolitan highway system in Boston. This system, if established, could lead to the issuance of toll-financed revenue bonds to help finance the Central Artery/Tunnel project. MHD is also considering borrowing funds in the 1998-2001 period and repaying these amounts with federal funds received by the project in 2002 and later. While less than $200 million in new obligations will remain to be incurred by the end of fiscal year 2002, MHD's finance plan assumes that the Central Artery/Tunnel project will continue to receive one-half or more of the federal-aid highway funds apportioned to Massachusetts between fiscal years 2002 and 2005. According to the state's finance plan, these funds could then be used to repay the debt incurred in order to cover funding shortfalls.

State officials told us that an option for addressing projected funding shortfalls would not be selected until the state's feasibility study is complete. Since a finance option has not been selected, FHWA has required Massachusetts, as a condition of further approval of the $3.7 billion in construction contracts the state plans to award, to demonstrate that unencumbered bonding authority or third party financing exists to cover the entire amount of a contract at the time of the contract's award. This will require that appropriate state legislation be enacted to meet the project's contracting requirements.

As part of its overall plan for financing the Central Artery/Tunnel project, Massachusetts must also consider funding sources to maintain its $400 million annual statewide road and bridge improvement program. Between fiscal years 1992 and 1995, the federal contribution to the statewide road and bridge program was over $200 million a year. The state's finance plan shows that the federal contribution could be reduced to $130 million a year by 1998. Massachusetts officials told us that the state is committed to maintaining a $400 million annual statewide construction program and would increase the state's funding in the future if necessary to make up for the reduction in federal funds.

Messrs. Chairmen, this concludes our prepared statement.

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