Report on Capital Spending & Borrowing in the Commonwealth of Massachusetts 2013-2014

House Committee on Bonding, Capital Expenditures & State Assets

Representative Antonio F.D. Cabral, Chairman

Contents

A Message from the Chairman

The House Committee on Bonding, Capital Expenditures and State Assets ("House Bonding") is pleased to release this Report on Capital Planning and Spending that details the capital needs, authorizations and expenditures of the Commonwealth during the 2013-2014 legislative session. Massachusetts' capital budget is an often overlooked part of state government, but it plays a vital role in our economy and the long-term fiscal health of our state government.

This report is a product of the research and analysis conducted by House Bonding pursuant to House Rule 17G, which establishes the mandate of the House Bonding Committee. I hope this report informs our ongoing debates about the Commonwealth's investments in its future. Our Recommendations, detailed in Chapter 5 of this report, focus on the critical need for the Legislature and the next Administration to cooperate to bring all capital asset and spending data from across the Commonwealth together into a unified, standardized and publicly available database. Achieving this goal would save taxpayers money, while increasing transparency and obviating the need for regular reporting to the Legislature.

I would like to thank all of the agency and authority leaders and their staffs, particularly Undersecretary Scott Jordan and Director of Intergovernmental Affairs Lori Hindle at the Executive Office of Administration and Finance, Deputy Comptroller Howard Merkowitz and Assistant Treasurer for Debt Management Colin MacNaught for collaborating with us to make the Committee's research on the capital budget a success. Their expertise, candor and industry have improved the dialogue between the Legislature and the Administration and resulted in better borrowing and spending decisions for the Commonwealth. I would like to thank Speaker Robert DeLeo and House Ways and Means Chairman Brian Dempsey and their staffs for their assistance and support. I would also like to thank Committee Vice Chair Thomas Golden as well as all of the members of the Bonding Committee for their contributions to our hearings and their thoughtful questions. Finally, my appreciation to Committee Counsel Arthur Kimball-Stanley for his hard work and dedication and to my Staff Director Mark Merante and Research Analyst Mackenzie Chase for their valuable insights and assistance.

If you have any questions about the information in this report, please do not hesitate to contact me. Thank you.

Tony Cabral

Antonio F.D. Cabral
State Representative, 13th Bristol District
Chairman, House Committee on Bonding Capital Expenditures and State Assets

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Executive Summary

The House Committee on Bonding, Capital Expenditures & State Assets (the "Committee") is charged by House Rule 17G with overseeing the capital spending and borrowing practices of the Commonwealth and with issuing a report to summarize the findings of its oversight and make recommendations regarding future Commonwealth borrowing and capital spending.

Over the course of the 2013-2014 legislative session, the Committee conducted a series of public hearings to review the planning and operations of the various agencies and authorities that execute large capital expenditure budgets. Committee staff worked with the Executive Office of Administration & Finance ("A&F") and the Office of the Comptroller to develop an overall picture of the Commonwealth's borrowing and capital spending practices during fiscal years 2012 ("FY2012") and 2013 ("FY2013"). In addition, the Committee reviewed seven bond bills during the 2013-2014 legislation session that authorized new capital spending for the next five fiscal years, or, in the case of transportation expenditures, the next ten fiscal years.

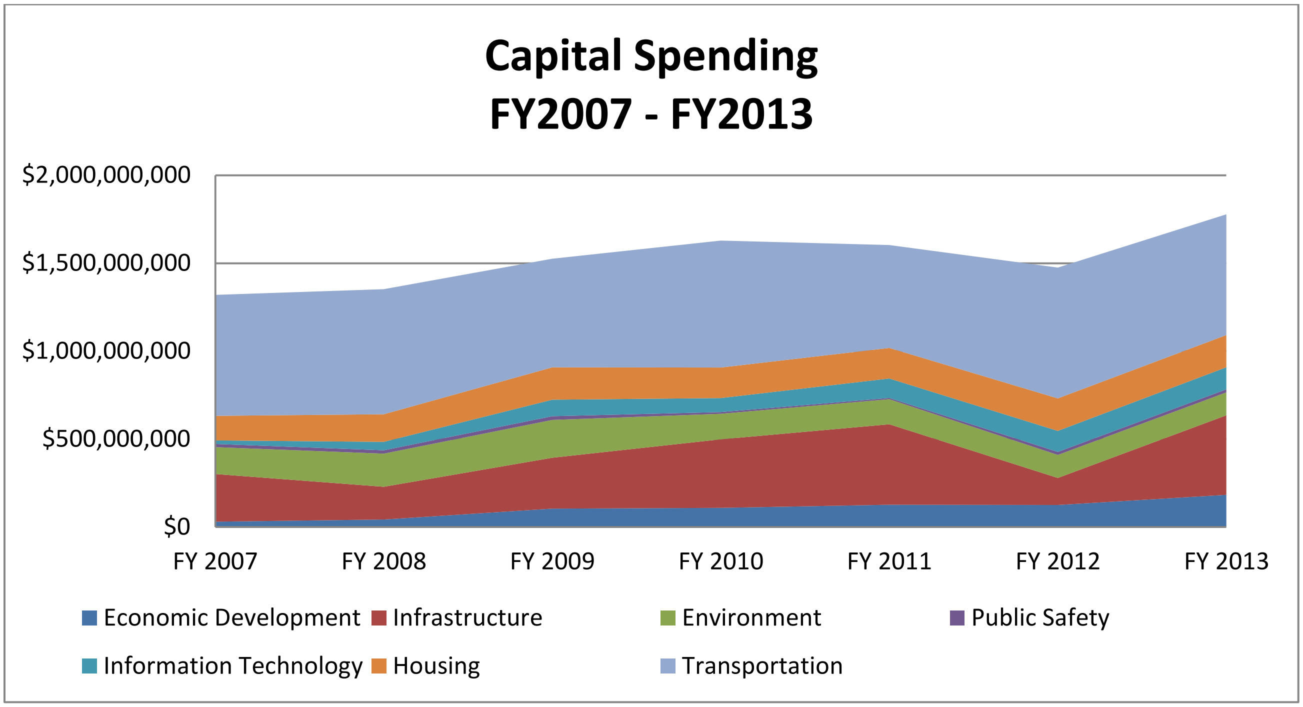
The Committee's objectives during these hearings and in our subsequent study of the Commonwealth's borrowing and capital spending were to:

- Understand the capital needs of the Commonwealth several secretariats;
- Review the transparency and efficiency of the Commonwealth's capital planning and identify ways to improve both;
- Inform members of the General Court and the public about the Commonwealth's capital planning and spending.

An abbreviated discussion of the Committee's findings during the 2013-2014 legislative session is provided below. The body of this report that follows is organized to first familiarize readers with the Commonwealth's general capital spending practices and procedures and then to review the Committee's findings in detail as they relate to secretariat capital programs, 2013-2014 bond bills and the activities of the Capital Debt Affordability Committee, a new standing inter-governmental committee created pursuant to Chapter 165 of the Acts of 2012. This report concludes with the Committee's detailed recommendations regarding potential changes to Commonwealth's capital spending policies that would improve these programs.

<u>General Overview of Recent Capital Spending</u>

Over the last several fiscal years, the Commonwealth's capital expenditures have grown with the improvement of the state economy and corresponding state tax revenues. From FY2007 to FY2013 the Commonwealth's capital spending increased by 35%, with transportation's share fluctuating between 52% of capital spending in FY2007 and FY2008 and 37% of total capital spending in FY2011. At the same time, the portion of the Commonwealth's capital budget devoted to spending on information technology and economic development has consistently grown over the last several years. Capital spending on Economic Development increased from 2% of the Commonwealth's capital budget in FY2007 to 10% in FY2013. During the same period, capital spending on information technology grew from 2% of the capital budget to 7%. The growth in spending related to economic development initiatives is attributable to the efforts by state government to fuel recovery from the 2007-2009 recession. The growth in spending related to information technology, in contrast, is attributable to an under investment in technology by previous administrations and the Commonwealth's need to update its enterprise software systems. As will be discussed in more detail in this report, the Commonwealth was not well prepared to increase its capital spending on information technology. This lack of preparation resulted in inefficient spending on several projects and a breakdown in the delivery of certain government services.



Executive Branch Control Over Commonwealth Borrowing and Capital Spending

The sets of bond bills passed over the last two decades have provided increasingly broad capital budgeting choices for the Administration. In addition, the amount of authorized but unused bonding authority available to the Administration is now at record levels. Taken together, these developments mean that the Legislature has provided the executive branch with more control over the Commonwealth's capital spending choices. Drafting and executing a capital budget requires a level of coordination between the executive and legislative branches. The Committee believes, however, that the Legislature should note the broadening scope of executive branch authority in this area and inquire as to whether the current balance between the branches reflects best practice.

Capital Spending & Asset Management Transparency

The Patrick Administration has succeeded in making portions of the Commonwealth's capital process more transparent. The Administration's annual publication of its updated five-year capital plan has provided the public and the Legislature with a road-map of the Administration's capital planning priorities. While these priorities do not necessarily result in the specific spending detailed in that plan, they do provide a basis for understanding how the Administration hopes to move forward with its capital program.

In addition, the creation of the state Open Checkbook system and the creation of the Capital Debt Affordability Committee provide the public and the Legislature with vital tools to track and contextualize the Administration's actual capital spending decisions. The result is that the Commonwealth's capital spending programs are more transparent than ever before. Such transparency provides taxpayers and outside budget analysts the ability to question and ultimately improve the quality of capital budget choices.

One of the key points of this report is the need to continue the Patrick Administration's move towards a more transparent and data driven capital budgeting process. As discussed in more detail below, the publication of an annual debt affordability analysis and the discipline of a rigorous set of rules to limit growth in the Commonwealth's outstanding debt have proven to be valuable tools for rationing state borrowing capacity. The next step in this process must now be adopting a system for projecting and monitoring project costs in a way that allows the Legislature and the public to understand how a particular basket of capital budget projects will impact the services provided and revenue required by the state. In addition, the state must work to continue the Patrick Administration's efforts to develop a database of ongoing capital projects as well as a capital asset database that is able to project the future capital spending needs of the Commonwealth.

Capitalized Operating Costs

The Commonwealth continues to include a number of operating expenses on its capital budget. This problem is most acute at the Department of Transportation, but other secretariats also continue this practice to varying degrees. As discussed in detail in this report and in previous reports issued by the Committee, the capitalization of operating costs is a problem that should not be underestimated. Borrowing to pay operating expenses reduces the capacity of the Commonwealth to borrow for needed capital projects and pushes off the cost of meeting this year's expenses into the future, costing the taxpayer money.

The good news is that the passage of the Chapter 46 of the Acts of 2013 – An Act Relative to Transportation Finance – provides the Commonwealth with the revenue necessary to place all Department of Transportation employees on the state's operating budget. To the extent this reform is instituted as envisioned at the beginning of this legislative session, it will save taxpayer money and provide the funds necessary to make needed investment in infrastructure. The Committee will monitor the implementation of this reform closely.

Committee Recommendations

1. **The Commonwealth should develop and implement a single database for use by all agencies to track all capital spending in real time and at the project level and should make this database publically available.**
2. **The Commonwealth should develop and implement a single database for use by all agencies to track all capital assets, their condition and projected future maintenance needs and should make this database publically available.**
3. **Using the data made available by these proposed capital spending and asset databases, the Legislature should revisit bond bills each session and use those opportunities to shrink outstanding, unused capital spending authorizations.**
4. **The Legislature should provide more information on the expected future effects on operating budget expenses of capital spending decisions.**
5. **The Legislature should expand the membership, mandate and resources of the Capital Debt Affordability Committee.**
6. **The Legislature should avoid decentralizing the Commonwealth's capital market activities.**
7. **The Commonwealth should end the practice of paying operating costs with borrowed funds.**

Chapter 1: Capital Spending & Borrowing Practices

The Commonwealth builds and maintains most of the public infrastructure enjoyed by residents of Massachusetts. The cost of roads and highways, courthouses and prisons, drinking water and wastewater pipes, airports and train stations, schools and universities are all financed by Massachusetts state government or instrumentalities of the state. These investments include public support for economic development and environmental protection. The Commonwealth manages spending on these vital initiatives through its capital budgeting process.

The Commonwealth's capital budget is separate and distinct from the annual operating budget. While the operating budget is mostly funded through revenue collected from taxes and fees, the capital budget is funded almost entirely from the proceeds of bonds and by grants from the federal government. Nevertheless, the capital budget and the operating budget are closely connected because the Commonwealth must pay principal and interest with its operating budget on the credit hired to make capital investments. One way of thinking about the relationship between the operating budget and the capital budget is to view debt service payments as the mechanism through which users of Massachusetts' public infrastructure make their annual contribution to pay down the large one-time costs of building such infrastructure. In contrast, the large one-time costs of building such infrastructure are expended using the capital budget.

This section provides a short overview of the purpose and methods that make up the capital planning and spending process for the Commonwealth of Massachusetts. It will describe the uses of state government capital funds, the facilities used to access the capital markets to raise public funds and the process through which Massachusetts policy makers attempt to ensure that the servicing of state debt remains affordable and the purchase of capital assets provides value to the residents of the Commonwealth.

The Assets: What Does Capital Spending Buy?

Capital assets are, first and foremost, an accounting concept: assets that are used in operations and that have a useful life in excess of one year.[1] Some types of capital spending create new assets, while other types of capital spending prolong or maintain the useful life of an existing capital asset. To the extent that the value of an expenditure creates or maintains an asset that will be used in more than one standard period—the Commonwealth typically uses a fiscal year running from July 1 to June 30—the expenditure is a candidate for the capital budget.

Make no mistake: the strength of the Commonwealth's economy is directly related to the condition of its capital assets. Capital spending makes the most basic forms of government service possible. A

[1] Stephen J. Gautier, Governmental Accounting, Auditing & Financial Reporting, 439 (2012).

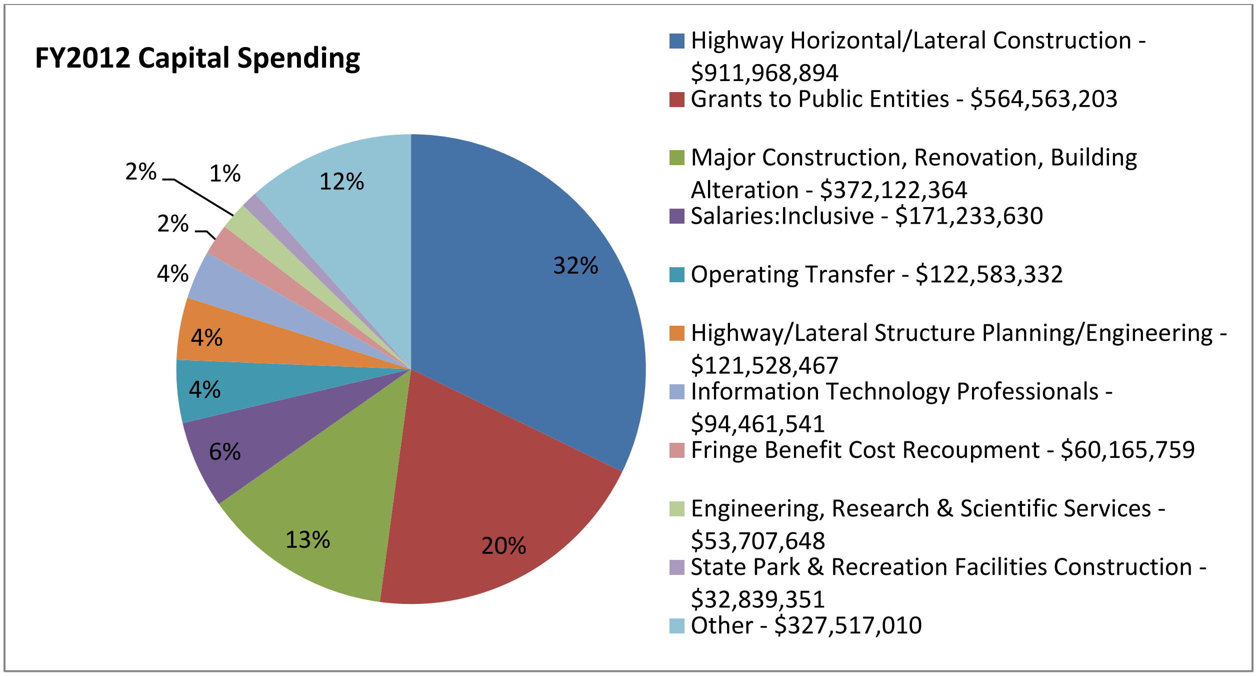
Commonwealth with crumbling roads, drafty schools and bursting sewer pipes is one where commuters can't get to their jobs, schools budgets are overwhelmed by heating costs, and tap water requires boiling. Public spending on roads, bridges, trains, airports and sewers provide the means through which the private sector can deliver the goods and services that make our standard of living possible.

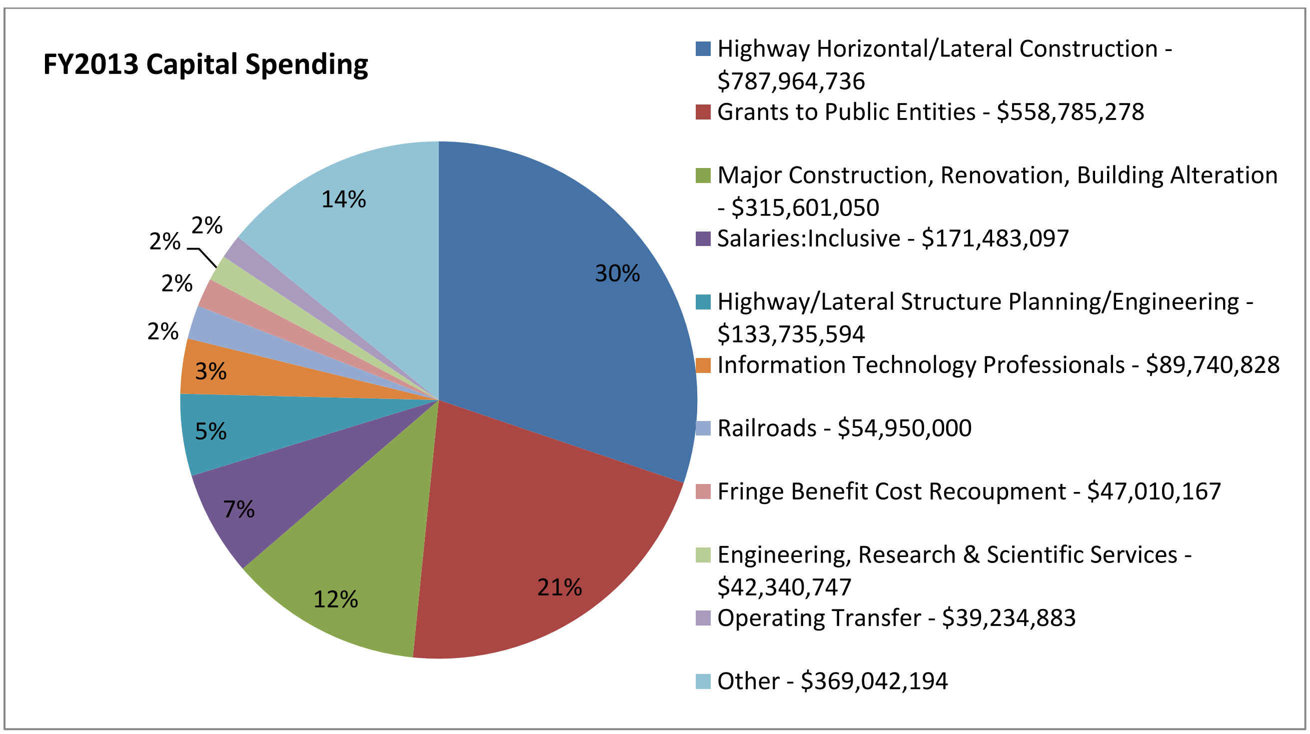
This report seeks to describe the Commonwealth's capital spending during FY2012 and FY2013. During that period the Commonwealth spent approximately $5.5 billion—$2.7 Billion in FY2012 and $2.8 Billion in FY2013.[2] As a practical matter, the Commonwealth's capital budget is used for a wide variety of purposes that meet the criteria for capital expenditure outlined above to differing degrees. Indeed, the extent to which such liberal use of the capital budget is appropriate is a major theme of this document.

However, in a very basic sense the capital budget can be viewed as a device for measuring the execution of spending to procure and service road, rail, bridges and related equipment, to construct and maintain state buildings and to provide grants to public or quasi-public entities that dedicate the funding to the same or similar uses. As detailed in the capital spending charts for FY2012 and FY2013, the top three capital spending categories for the Commonwealth were in order of magnitude: (1) highway construction, where the Commonwealth consistently spends nearly $1 billion per year, including non-borrowed spending and grants from the federal government; (2) capital spending grants to public entities, such as the Commonwealth's state-wide and regional transportation and housing authorities; and (3) the construction and maintenance of state owned facilities, such as court houses, state offices and hospitals.[3]

[2] Information Statement, Commonwealth of Massachusetts (January 2014).

[3] The Commonwealth categorizes spending according to a variety of classification codes. These pie charts reflect each agency's ten largest categories of capital spending, with any remaining capital spending represented in the chart as "other." The largest categories of capital spending differ between agencies, for example the category "Highway Horizontal/Lateral Construction" comprises the largest segment of capital spending by the Executive Office of Transportation, but is not a top ten capital spending category for any other agency. On the other hand "Grants to Public Entities" and "Salaries: Inclusive" appear in almost every agency's pie charts. The titles of other spending categories are taken directly from the MMARS database.



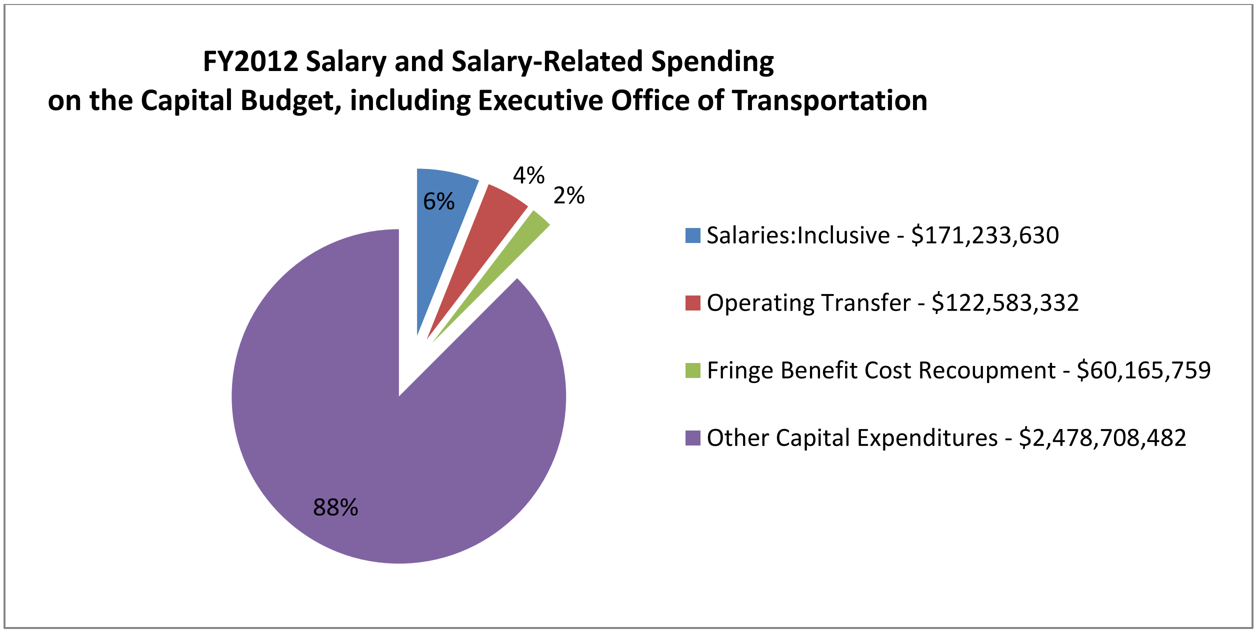


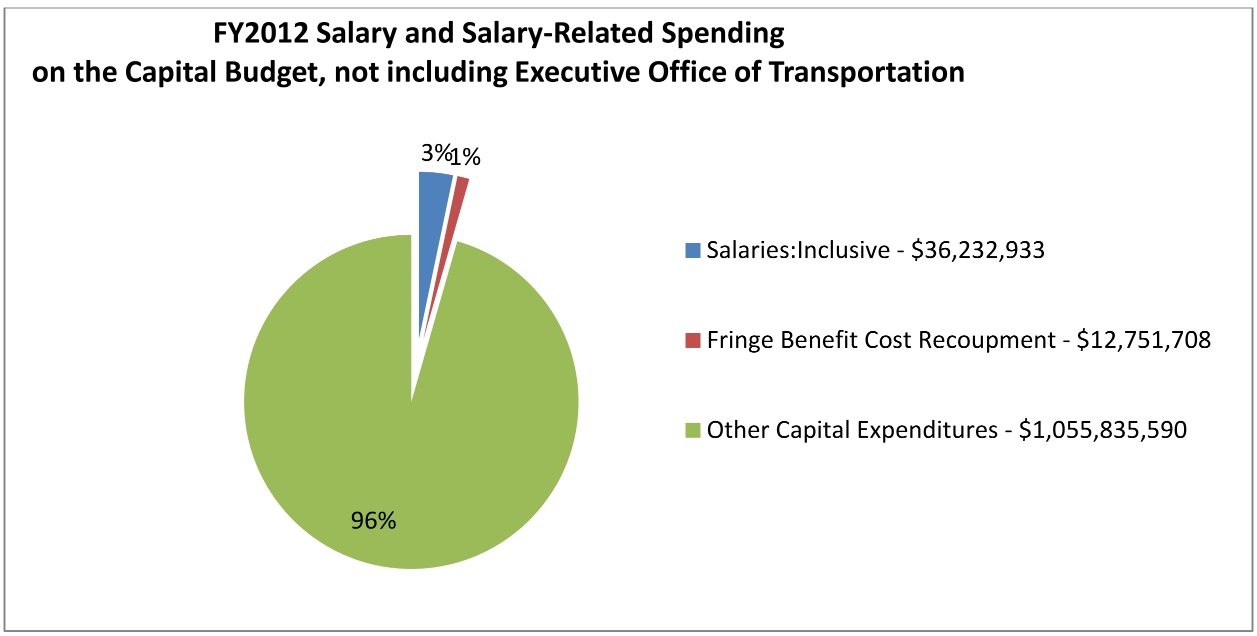
There is a tendency to think of the capital budget as the funding available for building big and building new. Some of the most critical projects included in the capital budget, however, are those small projects that result in nothing more than a new coat of paint or an update that transforms software from version 2.0 to version 2.1. Such maintenance projects do not typically result in press releases or ribbon cuttings, but they do result in financial savings because such projects preserve the quality and useful life of public infrastructure in Massachusetts. Civil engineers often use what they call the 'rule of fives' when discussing the cost of failing to maintain infrastructure: deferred maintenance typically results in repair costs that are five times as expensive as the initial maintenance would have been and deferred repairs often result in levels of asset deterioration that are five times as expensive as the initial repair would have been because such levels of deterioration often requires complete reconstruction. In other words, postponing maintenance shortens the usable life of public infrastructure such that it must be rebuilt. Failing to care for public infrastructure compounds the cost of such infrastructure and turns what were initially minor liabilities into budget busting problems.[4] Many of the projects included within the highway or building construction categories are small projects that keep state assets in working condition and prolong their useful life.

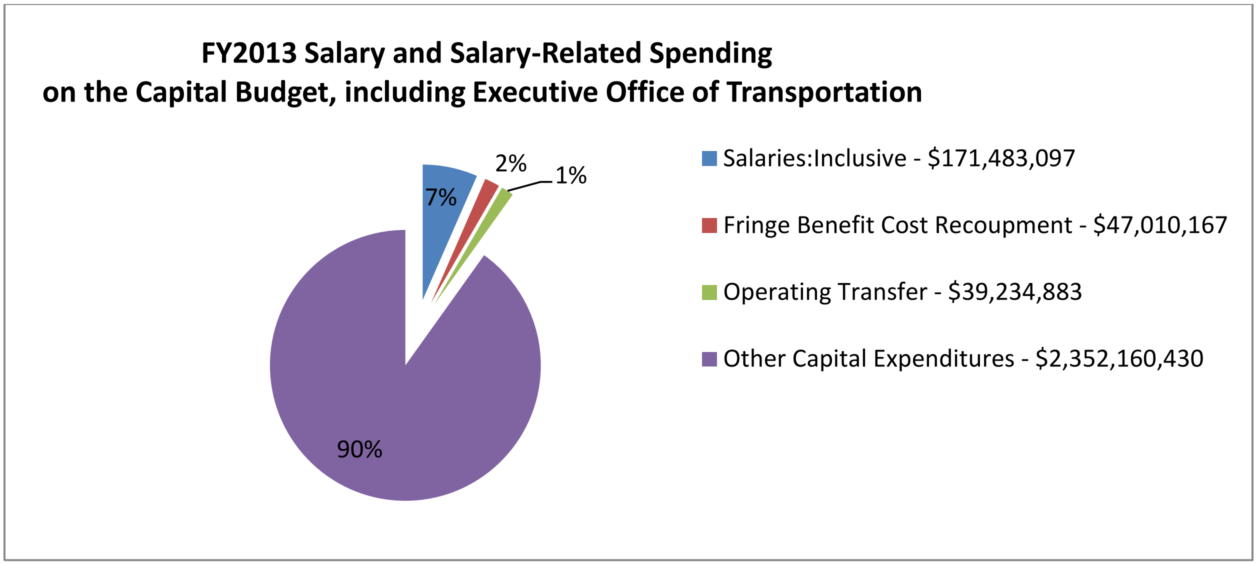
However, the fact that an expenditure relates to a capital asset does not require the conclusion that the spending is properly classified a capital expenditure. To the extent that an expenditure is necessary to government operations with or without the acquisition or maintenance of a particular capital asset, the expenditure is not properly included in the capital budget because it is part of the normal and continuing operations of the Commonwealth.

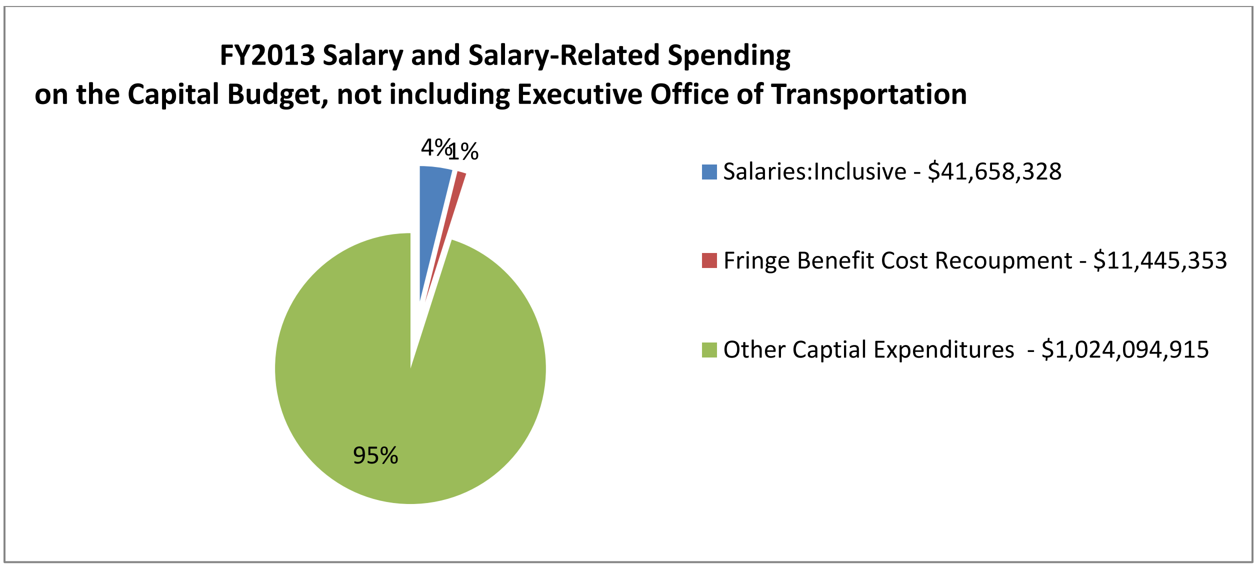
Over the last two decades the Commonwealth has allowed operating costs to take up a large part of its capital budget. In FY2012 and FY2013, the Commonwealth continued to include salary and benefit costs totaling nearly $200 million in its capital budget. This problem has been concentrated at the Massachusetts Department of Transportation, but other secretariats have also followed this practice. A comparison of the operating costs included in the capital budget with and without the Department of Transportation included is available in the charts below.

[4] For a detailed discussion of the compounding effect of deferred maintenance, see David Westerling & Steve Poftak, *Our Legacy of Neglect: The Longfellow Bridge and the Cost of Deferred Maintenance*, Pioneer Institute: Public Policy Research (July 2007). For a more technical discussion of the same issue, see Dana J. Vanier, Asset Management: "A" to "Z", APWA International Public Works Congress (2001).


FY2012 Salary and Salary-Related Spending
on the Capital Budget, including Executive Office of Transportation
6%
4%
2%
88%
Salaries:Inclusive - $171,233,630
Operating Transfer - $122,583,332
Fringe Benefit Cost Recoupment - $60,165,759
Other Capital Expenditures - $2,478,708,482


FY2012 Salary and Salary-Related Spending
on the Capital Budget, not including Executive Office of Transportation
3%
1%
96%
Salaries:Inclusive - $36,232,933
Fringe Benefit Cost Recoupment - $12,751,708
Other Capital Expenditures - $1,055,835,590





The Liabilities: Why Does the Commonwealth Borrow?

The Commonwealth funds capital spending using long-term debt in order to align the cost of a capital asset with the term of its useful life. Such capitalization of the cost of long-term assets allows those that benefit from the use of a long-lived capital asset to participate in the financing of the long-term asset and helps to smooth the tax burden over time in order to promote equity between consumption of public goods and production of tax revenue. To the extent such capital spending maintains or replaces public assets vital to sustain the current economic capacity of the Commonwealth, such spending represents not only an exercise in fiscal smoothing but also responsible stewardship of the Commonwealth's sustainable fiscal capacity.

Some types of capital spending create improvements that grow the capacity and/or sustainable demand of the Commonwealth's economy such that GDP growth raises tax revenue sufficiently to pay the debt service of the borrowing that financed the new capital asset. The classic example of this kind of capital spending is the building of a bridge that facilitates commerce between communities in the Commonwealth. A more modern example might be the installation of broadband wiring through the Commonwealth or the connection of communities with high-speed rail service.

Similarly, some types of capital spending create assets that reduce the operating expenses of the Commonwealth, thereby creating capacity within the operating budget to repay the funds borrowed to finance the new capital asset. For example, the installation of more efficient lighting systems in Commonwealth buildings can lower electricity costs and the money saved on electricity can service the debt issued to finance the new lighting system. Once that debt is paid, the Commonwealth can apply the funds that would have been spent on electricity to fund new public programs or to lower taxes. The financing of these latter two categories of capital assets constitute new investment in the Commonwealth because they don't merely transfer costs from the present to the future, but they also pay for themselves by increasing the common wealth of Massachusetts.[5]

The Process: How Does the Commonwealth Borrow?

Article 62 of the Amendments to the Massachusetts Constitution governs all borrowing executed in the capital budget and requires that any borrowing by the Commonwealth be approved by a vote of two-thirds of the members of each house of the General Court. Several provisions contained in Chapter 29 of the General Laws build upon the constitutional requirements contained in Article 62. In particular, Section 9G of Chapter 29 of the General Laws provides the Administration with the authority to determine the extent to which capital budget authorizations become capital appropriations. In short, Section 9G of Chapter 29 of the General Laws allows the Governor to decide the scope and content of the capital budget on a year-to-year basis based on the options made available by the Legislature in bond bills.

Section 60A of Chapter 29 of the General Laws limits the annual growth in newly issued general obligation debt of the Commonwealth to 5%. While the General Court often exempts borrowing authority from this statutory bond cap, Section 60A sets forth the only legal limit on the Governor's ability to spend bond authorizations.

When a capital project and the corresponding borrowing authority are approved by the Legislature, the Comptroller's office creates an account corresponding to the amount of the authorization. The Administration allocates to the project a portion of the total authorization for the fiscal year. This allocation is the amount of the authorization available to be spent on the project by the relevant agency

[5] For more information on the relationship between public infrastructure investment and economic growth, see James Heintz, Robert Pollin & Heidi Garrett-Peltier, *How infrastructure Investments Support the U.S. Economy: Employment, Productivity and Growth*, Political Economy Research Institute (2009).

for that fiscal year. When the Administration chooses not to allocate funds for a particular project, the project does not get executed.

The Commonwealth spends against capital accounts prior to issuing bonds by borrowing cash from the general fund. When a negative cash balance becomes sufficiently large to make the transactional cost of borrowing economical (typically $300 million or more) the Commonwealth will sell bonds in an amount sufficient to bring the consolidated negative cash position of capital accounts to zero. In short, the capital budget is first spent and then borrowed.

Section 14 of Chapter 29 of the General Laws provides that the unused portions of bond authorizations expire upon reaching their fifth full fiscal year. Bond authorizations are designed to live a standard life based on following one of two separate tracks: they are either transformed by the Governor into capital spending or they expire after five years.

However, the General Court, often but not always at the request of the Governor, has consistently seen fit over the last two decades to extend the expiration dates of authorized but unissued borrowing authority such that the actual expiration of authorized capital spending is rare. The result has been a steady growth in the outstanding balance of borrowing authorized by the General Court that has yet to be spent. The chart below sets forth the balance of authorized but unissued debt over the last five fiscal years, a figure that will likely hit a new record in FY2014 and FY2015 after the recent passage of several new bond bills:

Authorized But Unissued Debt[6]	
FY2008	**$7,043,446**
FY2009	**$19,517,272**
FY2010	**$18,516,310**
FY2011	**$15,870,432**
FY2012	**$13,893,469**
FY2013	**$13,762,257**

The growth in the balance of authorized but unissued bonding authority operates to transfer control over the capital budget from the legislative branch to the executive branch because it provides the Governor an ever growing set of choices to determine the scope and scale of the capital budget. For a detailed accounting of the remaining authorizations for each bond bill passed since 2008, see Appendix 3 of this report.

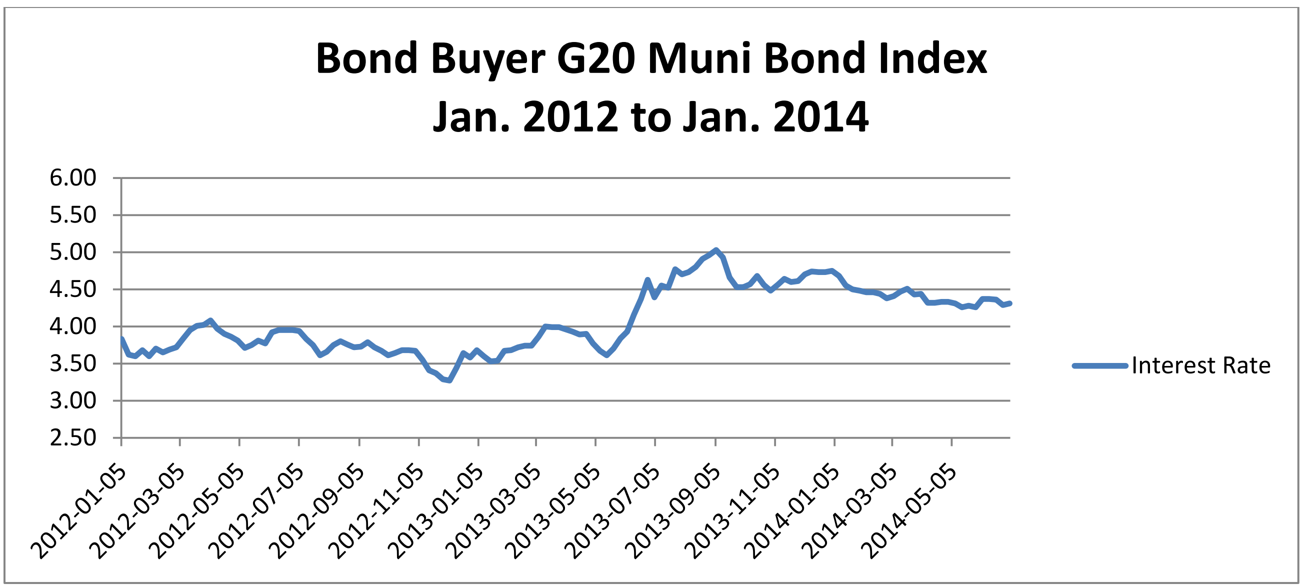
The Market for Massachusetts Bonds

As a general matter, Massachusetts bonds are marketed, bought and sold in the tax-exempt municipal bonds market. This $3.7 trillion dollar market consists of financial instruments issued by a variety of state and municipal entities that benefit from the federal tax exemption for debt issued by the several

[6] Information Statement, Commonwealth of Massachusetts (January 2014).

states and their instrumentalities. This tax exemption has existed since the adoption of federal income tax in the second decade of the last century and has provided, arguably, the most important federal subsidy to the development of robust public infrastructure under state or local control in the nation's history.[7] The value of the subsidy to all states and municipalities, according to Congress' Joint Committee on Taxation, will amount to $191 billion between 2012 and 2017.[8]

The last two years have seen moderate fluctuations in the cost of borrowing for investment grade municipal borrowers. The City of Detroit's filing for bankruptcy in July of 2013—the largest municipal bankruptcy in the history of the United States—reminded investors that the quality of large municipal issuers can vary dramatically. Interest rates on investment grade state and municipal debt spiked somewhat during the summer of 2013, but have trended down since that time. At the end of 2013, Massachusetts issued bonds that paid an annual interest rate of 4.05% for 20-year callable debt. Almost exactly a year earlier, the Commonwealth issued the same type of general obligation bonds that paid an annual interest rate of 3.14%.



Those who follow the market find that the improving national economy and resulting increase in state tax revenues has meant more comfort for municipal issuers. The rapid recovery of major investment asset classes since the 2009 market lows has resulted in an improvement in the portfolios of most pension funds and a corresponding decrease in the unfunded pension liabilities of many borrowers,

[7] For a short discussion of the evolution of this cornerstone of the federal system in the United States, see James E. Spiotto, *The Renewed Battle Over Tax Exemption of Interest on State and Local Government Debt Obligations*, Government Finance Review (February 2013).

[8] Estimates of Federal Tax Expenditures for Fiscal Years 2012-2017, The Joint Committee on Taxation, Congress of the United States (February 1, 2013).

including Massachusetts.[9] In addition, the slowing increase in medical costs has also been viewed by investors as a positive turn for the long-term budget outlooks for most states, where Medicaid and other healthcare programs typically represent 25% - 30% of budgeted expenses.[10] However, the uneven pace of economic recovery has meant that certain parts of the country continue to suffer high real unemployment, low property values and sagging tax revenues. The problems these issuers face look even more severe, given the headline economic strength of the last two years. To the extent that different parts of the country continue to experience such disparate economic conditions, it will become increasingly difficult to generalize about the state of the tax-exempt municipal bond market.

Capital Budget Planning

For the last eight years the Patrick Administration has published an annual capital investment plan that allocates capital spending among different departments and programs using a five-year horizon. The capital investment plan published by the Executive Office of Administration & Finance is an attempt to provide the public with an outline of the Administration's capital spending priorities. Each of the capital plans published by the Administration have budgeted more capital spending for the next fiscal year than the state actually spent. Much of the difference can be attributed to delays in the transition from project design to project implementation and fluctuation between planned capital needs and actual capital needs.

Bond Cap Budget- Proposed v. Actual (in millions)			
Year	**Proposed**	**Actual**	**Surplus/(Deficit)**
FY 2008	$1,556	$1,353	$203
FY 2009	$1,727	$1,525	$202
FY 2010	$1,650	$1,629	$21
FY 2011	$1,765	$1,603	$162
FY 2012	$1,898	$1,475	$423
FY 2013	$1,968	$1,778	$190

The Patrick Administration developed its capital plan in order to manage what had previously been a nearly ad-hoc system of responding to the capital needs of state departments and agencies, while managing the size of the Commonwealth's outstanding debt. The adoption of a formal administrative debt cap provided the several secretariats a clear view of the funds available for new capital projects. While the allocation of these funds remains somewhat of an opaque process, the fact that taxpayers, investors and the Legislature are provided a clear picture of the Administration's priorities means that informed discussion of capital budget choices can take place. Since 2007, the Patrick Administration has required that debt service not exceed 8% of budgeted revenues and that the growth in outstanding debt

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9 2014 Credit Outlook, Breckinridge Advisors (December 2013), http://www.breckinridge.com/insights/whitepapers/2014_credit_outlook/.

10 2014 Credit Outlook, Breckinridge Advisors (December 2013), http://www.breckinridge.com/insights/whitepapers/2014_credit_outlook/.

not exceed $125 million per year (in following this rule the Patrick Administration allows itself to roll forward the unused portion, if any, of its $125 million cap on new debt).[11]

These rules, which are merely Patrick Administration policy and are not required by statute, require the Administration to take into account both the aggregate amount of debt outstanding and the payments required to service that debt in relation to the operating budget as part of the capital budgeting process. Most of the capital plans issued by the Patrick Administration have been limited by the restraint on growth caused by the requirement that new debt cannot exceed $125 million per year because this requirement operates to limit the capital budget to debt retired by the Commonwealth plus $125 million. As the Patrick Administration has observed on several occasions, these capital spending limits are in many ways the product of the state of Massachusetts' debt service obligations when the capital spending limits were adopted and, as a result, are very much arbitrary. But, the point of limits is to encourage a formal mechanism for fiscal restraint and if such restraint is to be achievable it must be structured pragmatically. To a large extent, the Patrick Administration's administrative bond cap has achieved the goal of restraint with regard to borrowing without neglecting the capital requirements of the Commonwealth.

At the same time, it is unclear whether the restraint has resulted in optimal policy outcomes for the Commonwealth. Indeed, the Patrick Administration's own commitment to tracking the need for capital investment has revealed the extent to which the Commonwealth's recently restrained approach to expanding the capital budget has left certain needs unmet. In transportation, public housing, state buildings, water infrastructure and port facilities, the Commonwealth has deferred maintenance bills that total, taken together, in the billions of dollars.[12] This bill has grown during the Patrick Administration, but at a slower pace than it had been growing for the last three decades. This problem is exacerbated by the Commonwealth's lack of a uniform and comprehensive database to track the condition of its assets and the cost of maintaining them. In some areas, the Patrick Administration has made progress towards building an asset management database. To the extent that the Commonwealth continues to build upon the work done by the Patrick Administration, it might also consider creating a capital budgeting process that allows for more flexibility in the size of the capital budget on an annual basis in order to ensure the Commonwealth's capital spending can respond adequately to the condition of the state's vital capital assets as well as the cost of borrowing at any given time.

The most recent capital budget published by the Administration rations $2.1 billion financed by general obligation bonds issued by the Commonwealth. Of that amount, 25% is projected to be spent on transportation projects, 16% is projected to be spent on community investment, 11% is expected to be spent on state government infrastructure, 10% on higher education, 10% on energy and environment and 9% on housing.[13] Over 90% of the Commonwealth's bond funded capital plan is dedicated to fund

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[11] Commonwealth of Massachusetts, Five Year Capital Plan FY 2015-FY2019 (July 2014).

[12] *See* Massachusetts's Water Infrastructure: Toward Financial Sustainability, Water Infrastructure Finance Commission (February 7, 2012); Transportation Finance in Massachusetts: An Unsustainable System, Massachusetts Transportation Finance Commission (March 28, 2007); Carole J. Cornelison, DCAMM Commissioner, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (May 8, 2013).

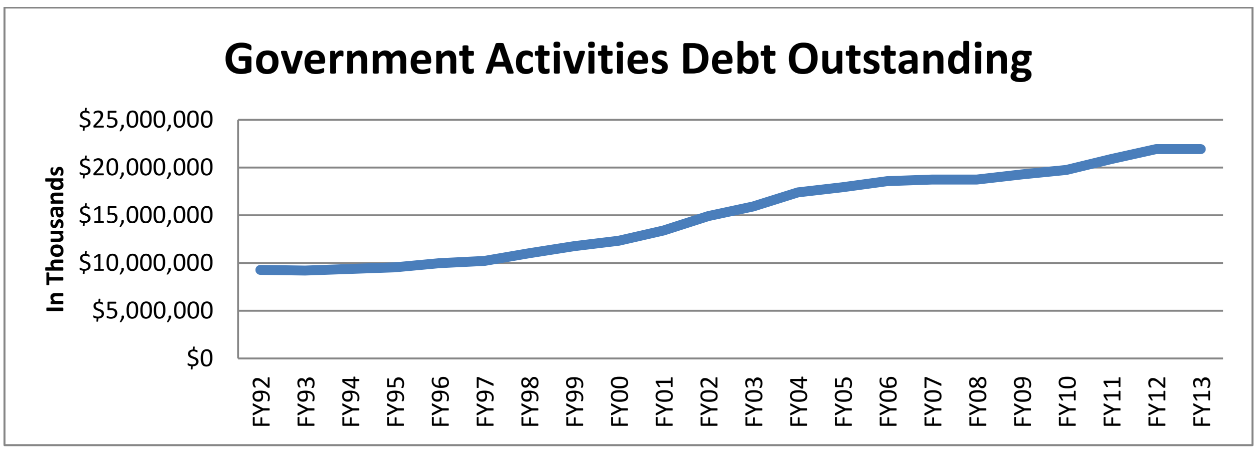
[13] Commonwealth of Massachusetts, Five Year Capital Plan FY 2015-FY2019 (July 2014).

projects that are ongoing.[14] Much of these allocations are the result of programmatic spending decisions whereby large portions of the capital budget are expended through regular distribution mechanisms, such as the formula funding capital distribution to local public housing authorities or the Chapter 90 municipal road maintenance program. This spending is required in order to maintain the large inventory of existing capital assets that the Commonwealth and its instrumentalities own. In addition, large multi-year infrastructure projects, such as the extension of a rail line or construction of a courthouse, require that space be allocated on annual capital budgets for multiple years.

This means that new capital spending initiatives represent a very small portion of funded projects and that reform of the capital budgeting process cannot easily occur within one legislative session or even in one four-year governor's term. In other words, the inertia of the capital budget can operate to prevent genuine debate about capital budgeting practices and choices from taking place.

Massachusetts Debt Affordability

By many measures, Massachusetts is a high debt state and the nominal amount of that debt has increased on an annual basis nearly every year for more than two decades, as shown in the chart below.[15] As described above, the nature of issuing debt means that the Commonwealth trades the promise of payments in the future in order to finance production in the present. The extent to which debt service costs are able to increasingly limit future budget choices depends on whether the Commonwealth grows its sustainable revenues more quickly than its debt service costs. If such a forward transfer of the tax burden continues over the course of the economic cycle such that the tax burden transferred outpaces the Commonwealth's economic growth, the Commonwealth will increasingly have less revenue to allocate to other public needs.



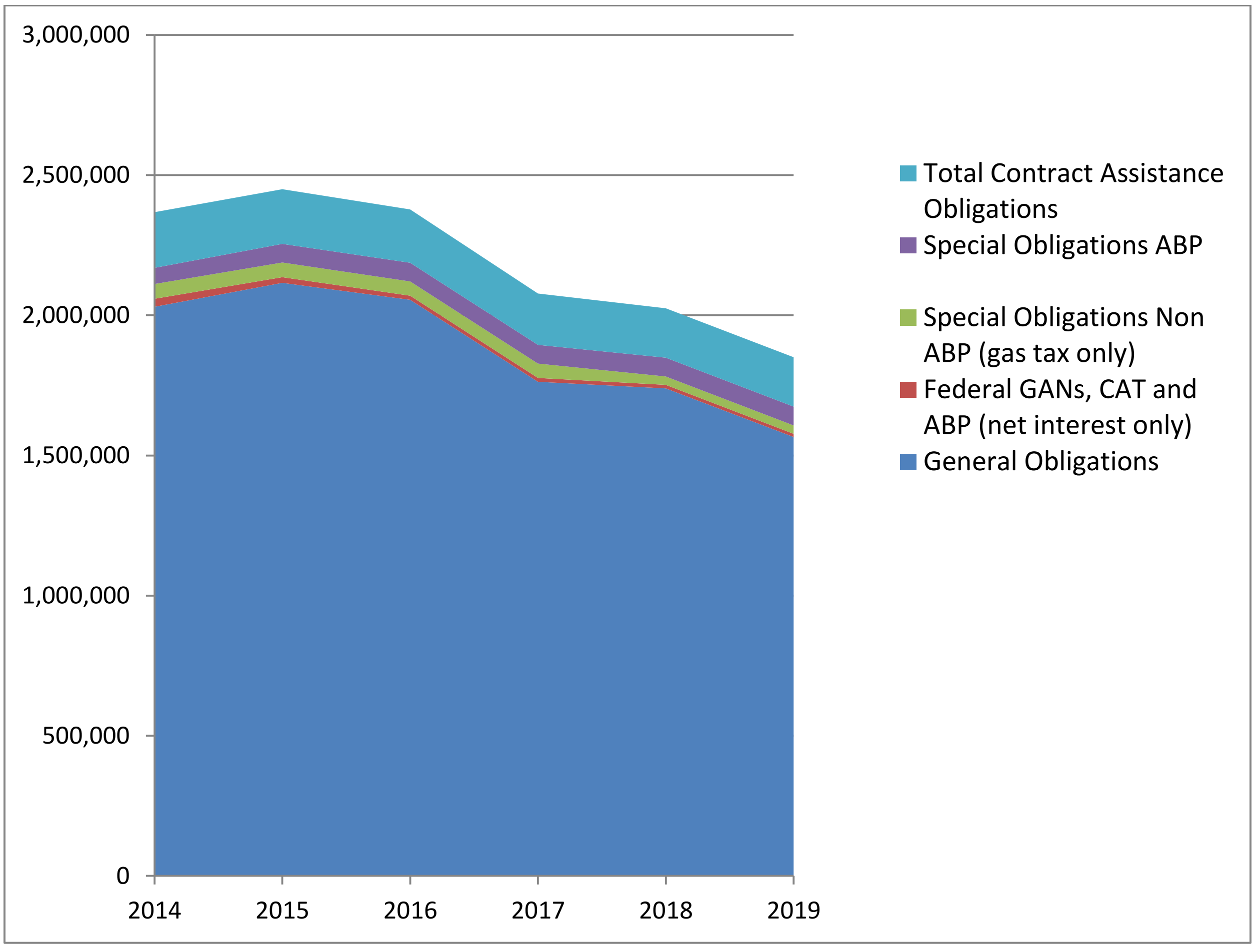
Prudent debt management policy will avoid subjecting the Commonwealth to fiscal scenarios that require policy makers to choose between maintaining the Commonwealth's access to the capital

[14] Commonwealth of Massachusetts, Five Year Capital Plan FY 2015-FY2019 (July 2014).

[15] For a comprehensive overview of the analysis applied in reviewing the debt burden of the several states, *see* Jennifer Weiner, Research Report: Assessing the Affordability of State Debt, New England Public Policy Center (December 2013).

markets and drastic cuts in expenditure to meet public needs. Stated simply, the quantity of Commonwealth borrowing that is prudent or affordable is the quantity that balances the Commonwealth's capital spending needs with the risk that the growth in Commonwealth debt service costs will outpace the cyclically adjusted growth in Commonwealth revenues. The debt affordability framework applied by both the Patrick Administration and the Capital Debt Affordability Committee minimizes the possibility that Massachusetts debt issuance will cause undue strain on the operating budget by applying limits to both new debt issuance and overall debt service.

While the majority of this report focuses on capital spending financed by the issuance of general obligation bonds, it is important to realize that Massachusetts funds its capital investments using a variety of long-term obligations. These include both capital market instruments and contract assistance or pledges of state revenues provided to several of the Commonwealth's largest quasi-public authorities. The chart below shows the proportion of overall debt service required by the Commonwealth's several outstanding capital market instruments or contractual obligations over the next several years.[16]



[16] Commonwealth of Massachusetts, Five Year Capital Plan FY 2015-FY2019 (July 2014).

A description of each of the non-general obligation bond capital market instruments or contractual obligations issued by the Commonwealth or its instrumentalities is provided below:

Grant Anticipation Notes (GANs) are a mechanism of using federal grants to advance highway construction.[17] Highway construction reimbursement payments and a contingent pledge of gas tax are used to secure the debt.[18]

- In FY2013, $187 million in debt service was paid for GANs. Annual debt service for GANs may not exceed $216 million unless rating agencies confirm that exceeding $216 will not affect the credit rating of outstanding GANs.[19]

Special Obligation Debt relies on a specific pledged revenue source for the repayment of debt service, in comparison to general obligation debt which is guaranteed by the full faith and credit of the Commonwealth.[20] Examples of this, as are:

- Motor Fuels Tax Bonds
- Bonds issued to fund construction of the Massachusetts Convention Center Authority's facilities

Special obligation bonds secured by a gas excise have been used to finance transportation construction, primarily for highways. As of June 2013, approximately $296 million in principal was outstanding.[21]

- Commonwealth Transportation Fund

Special obligation bonds secured by all or some of the funds in the Commonwealth Transportation Fund (comprised of a gas excise tax and fees collected by the Registry of Motor Vehicles) have been used for the Accelerated Bridge Project. As of June 2013, $989 million of principal for CTF bonds was outstanding.[22]

- Convention Center Fund

In 1997, the Legislature authorized $694 million in special obligation bonds for the construction of the Boston Convention and Exhibition Center, the Springfield Civic Center and the Worcester Convention

[17] Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2013, Commonwealth of Massachusetts (2013).
[18] Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2013, Commonwealth of Massachusetts (2013).
[19] Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2013, Commonwealth of Massachusetts (2013).
[20] Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2013, Commonwealth of Massachusetts (2013).
[21] Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2013, Commonwealth of Massachusetts (2013).
[22] Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2013, Commonwealth of Massachusetts (2013).

Center. These bonds are secured primarily by hotel taxes in Boston, Cambridge, Springfield and Worcester. In June 2004, $686.7 million of special obligation bonds were issued and as of June 2013, $638.9 million in principal was outstanding.[23]

Contingent Liabilities are created when debt is issued by authorities and agencies that are independent of the Commonwealth. While the Commonwealth does not have a direct obligation to pay for these debts, the state has some obligation if the agency or authority does not have the resources for the payment of debt service in the future.[24]

- Massachusetts Bay Transit Authority

The Legislature passed Forwarding Funding legislation for the MBTA in 1999. Debt issued after this date is the responsibility of the MBTA, but debt issued prior to this time is backed by the full faith and credit of the Commonwealth. As of June 2013, $389 million of this debt was outstanding.[25]

- University of Massachusetts Building Authority

As of June 2013, the Commonwealth was responsible for approximately $30 million of the University of Massachusetts' Building Authority's $2.127 billion in outstanding debt.[26]

- Massachusetts State College Building Authority

As of June 2013, the Commonwealth had guaranteed approximately $25 million of the Massachusetts State College Building Authority's $1.169 billion of debt.[27]

- Massachusetts Housing Finance Agency

Although the Commonwealth has not legally pledged its credit to the Massachusetts Housing Finance Agency, the Commonwealth is expected to replenish the capital reserve funds securing the Agency's debt should such reserve fund fall below certain thresholds.[28]

Contract Assistance can be either general obligation contract assistance or budgetary contractual assistance. General obligation contract assistance exists when the Commonwealth has a statutory requirement for payment of a portion of another entities' debt service, such as the Massachusetts Water Pollution Abatement Trust. These statutory requirements constitute a pledge of the

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[23] Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2013, Commonwealth of Massachusetts (2013).
[24] FY2015-2019 Five-Year Capital Investment Plan, Commonwealth of Massachusetts (July 2014).
[25] Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2013, Commonwealth of Massachusetts (2013).
[26] Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2013, Commonwealth of Massachusetts (2013).
[27] Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2013, Commonwealth of Massachusetts (2013).
[28] Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2013, Commonwealth of Massachusetts (2013).

Commonwealth's credit. Budgetary contract assistance exists where debt has been issued by an independent agency or authority and where the entity is expected to pay for the debt service itself but the Commonwealth may have some obligation if the entity is unable to pay the debt service, such as the Saltonstall Building Redevelopment.[29]

- General Obligation Contract Assistance

The Commonwealth has pledged to pay a portion of the debt service on outstanding bonds held by MassDOT, MWPAT and MassDevelopment, constituting a full pledge of the Commonwealth's credit.[30]

- Saltonstall Building Redevelopment

The Massachusetts Development Finance Agency was authorized to issue bonds for the redevelopment of the Saltonstall State Office Building. The building is leased by MassDevelopment for a minimum of 50 years under the bond authorization. Presently half of the building has been leased back to the Commonwealth for use as office space. Although this obligation does not constitute a pledge of the Commonwealth's credit, the Commonwealth is contractually obligated to make lease payments to MassDevelopment for the utilized space.[31]

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[29] Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2013, Commonwealth of Massachusetts (2013).

[30] Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2013, Commonwealth of Massachusetts (2013).

[31] Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2013, Commonwealth of Massachusetts (2013).

Chapter 2: Capital Needs and Issues by Agency

This chapter will review the capital spending responsibilities and priorities of the Commonwealth's several secretariats and departments. Where appropriate, this chapter will also review the capital spending practices and plans of quasi-public agencies whose capital budgets are closely aligned with the capital budget of the Commonwealth. Much of the information contained in this chapter is the product of the several hearings on capital spending organized by the Committee over the course of the 2013-2014 legislative session.

Administration & Finance

The Executive Office of Administration and Finance ("A&F") develops and oversees the execution of the state's fiscal policy.[32] Under the current legal framework governing the Commonwealth's fiscal operations, A&F effectively controls the overall capital budget of the Commonwealth, both through its ability to set an *Administrative Bond Cap* and its management of 16 state agencies, including the Division of Capital Asset Management & Maintenance ("DCAMM") and the Information Technology Division ("ITD").[33] DCAMM is the state agency responsible for overseeing the Commonwealth's portfolio of buildings and real estate,[34] which consists of 87 active buildings, nearly 600 active leases and 250 vacant or surplus buildings.[35] ITD is the state agency responsible for overseeing all of the Commonwealth's computer and data management systems an information technology capital-spending budget that has exceeded $150 million for the last several years.

[32] The history of A&F begins in 1922 with the creation of the Commission on Administration and Finance, which was designed to centralize the management of state budgets by requiring all salaries and payment schedules be approved by a single and independent department of the Governor's Administration. For a detailed history of the Commonwealth early 20th Century fiscal reforms, *see* Benjamin L. Young, *The Budget System As a Preventative Measure Against Public Extravagance*, 17 National Tax Association 104 (1924).

[33] Other A&F controlled agencies include: the Appellate Tax Board, the Civil Service Commission, the Department of Revenue, the Division of Administrative Law Appeals, the Group Insurance Commission, the Human Resources Division, the State Library of Massachusetts, the Massachusetts Developmental Disabilities Council, the Massachusetts Office on Disability and the Operational Services Division.

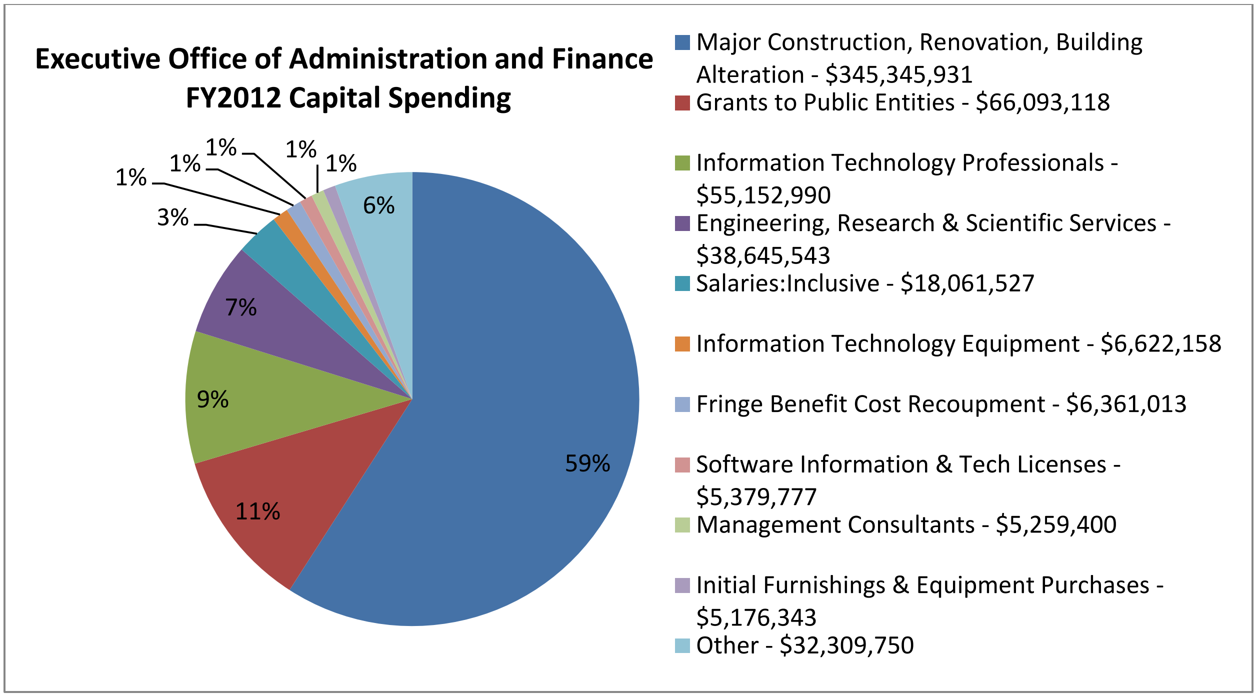
[34] Chapter 579 of the Acts of 1980 amended the Massachusetts General Law to create a professional building design and construction agency called the Division of Capital Planning & Operation, as well as an independent board organized to select design consultants, known as the Designer Selection Board. Chapter 127 of the Acts of 1999 changed the name of the agency to the Division of Capital Asset Management & Maintenance and Chapter 159 of the Acts of 2000 eliminated the Designer Selection Board as an independent entity. In November 2012, the agency was merged with the bureau of State Office Buildings as part of an effort to make state facilities management more streamlined and efficient.

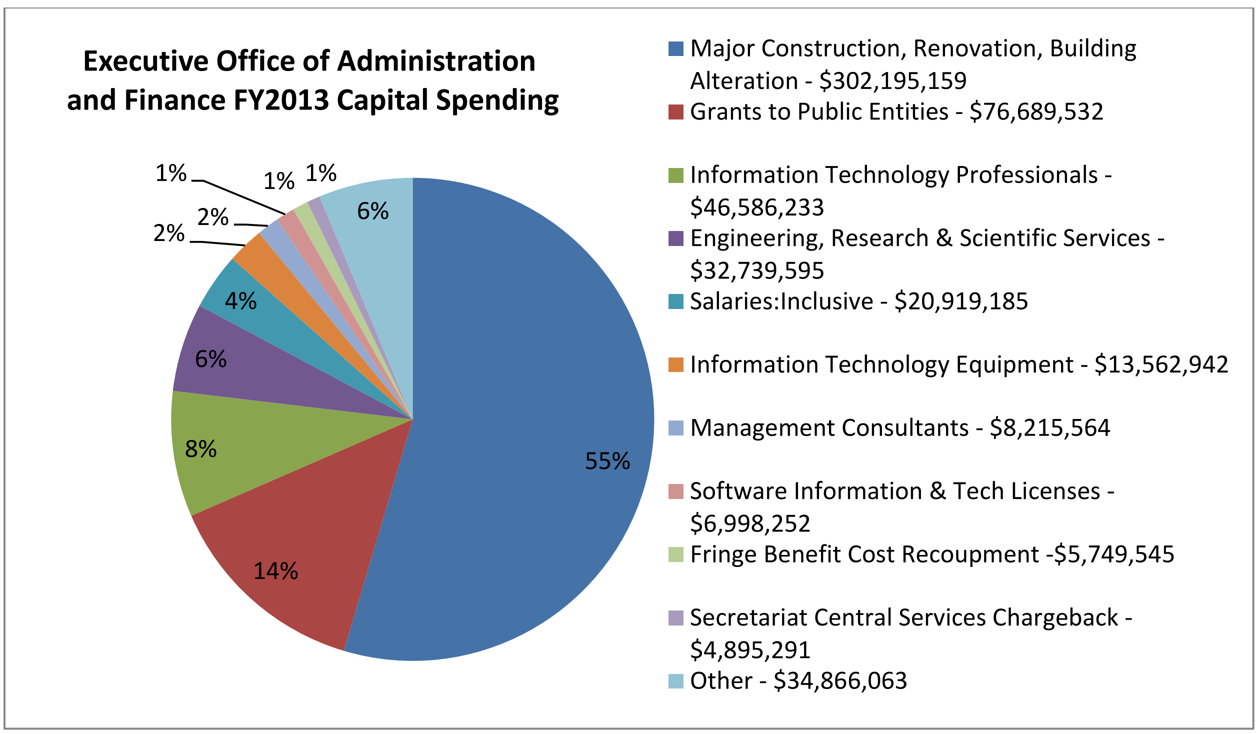
[35] Carole J. Cornelison, Testimony before the House Committee on Bonding Capital Expenditures & State Assets, May 8, 2013.

The Committee works closely with A&F to monitor the various state capital spending programs initiated by the Administration using the authorizations contained in bond bills. One of the challenges presented to both A&F and the Committee over the last several years has been monitoring estimated project spending and actual spending over the life-cycle of a given project or program. A&F is tasked with providing updates on the status of capital spending programs funded by bond authorizations every six months.[36] These updates have not been filed by A&F since November 2011. A&F has reported that they do not have confidence in their ability to reliably determine spending for every program or project because they often have difficulty obtaining correct or up-to-date information from the various departments and agencies for which A&F sets the capital budget. Specifically, A&F reported to Committee staff that software available to budget capital expenditure on a project level basis and software available to track spending on a bond authorization basis had yet to be coordinated such that project level spending could be precisely paired with the drawdown of bond authorizations. In March 2014, A&F provided the Committee with what it represented was its most up-to-date estimate of project and program level spending on an annual basis since 2008. However, A&F acknowledges the need to improve its ability in this area and has committed to working closely with the Committee over the next several months to determine how best to improve the collection and centralization of actual, as opposed to budgeted, capital spending data.

To a large extent, A&F's capital team play a role in all of the capital spending choices made by the agencies and departments of the Commonwealth. The diversity of the major expenditures included on A&F's capital budget are reflective of the fact that the secretariat oversees programs that range from construction projects and information technology initiatives to major grant programs.

[36] *See* Chapter 86 of the Acts of 2008, §17; Chapter 119 of the Acts of 2008, §9; Chapter 233 of the Acts of 2008, §16; Chapter 233 of the Acts of 2008, § 20; Chapter 258 of the Acts of 2008, § 13; Chapter 303 of the Acts of 2008, §64; Chapter 304 of the Acts of 2008, § 25; Chapter 312 of the Acts of 2008, § 34; Chapter 165 of the Acts of 2012, § 62.





Scott Jordan, Undersecretary for Capital Finance & Intergovernmental Affairs at A&F, testified before the Committee regarding the state capital budget and long-term state fiscal policy on April 3, 2013. In his testimony, Undersecretary Jordan highlighted the Patrick Administration's several capital spending priorities and the results of these initiatives over the last five years.

- **Higher Education**: the Administration has completed or is currently building new facilities on 26 of the 29 public university campuses in the Commonwealth. These facilities include; new laboratories at the University of Massachusetts (UMass) Boston, UMass Lowell, UMass Amherst, Bridgewater State, Fitchburg State, Framingham State and the Massachusetts College of Liberal Arts; new libraries at UMass Dartmouth, Salem State University and the Massachusetts Maritime Academy; and new classrooms at UMass Amherst and UMass Boston.
- **Accelerated Bridge Program**: the Administration has reduced the number of structurally-deficient bridges by nearly 20%, creating nearly 17,000 construction jobs and improving the safety of hundreds of bridges.
- **Accelerated Energy Program**: the Administration has reduced energy consumption by 20% to 25% at 700 state sites, creating 4,000 'clean energy' jobs and saving the Commonwealth and estimated $43 million in annual energy related expenses.[37]
- **Improved Transparency & Oversight**: The establishment of a five-year capital plan and a debt affordability policy have helped inform the public and the legislature as to how the capital budget is set, while highlighting to capital market investors the strength of the Commonwealth's fiscal management.

DCAMM

Carole J. Cornelison, commissioner of DCAMM, testified before the Committee on May 8, 2013 and provided an overview of the work DCAMM has performed to date to manage the state's portfolio of office buildings and facilities. In July of 2012, Governor Patrick issued Executive Order 543 to create an Integrated Facilities Management program for the state's various real estate assets. The purpose of the new program was to begin centralizing the management and execution of capital maintenance programs related to state buildings and facilities. The program was designed to allow agencies to focus on operating issues, while standardizing the state's approach to building maintenance. By the end of FY2015, DCAMM will be responsible for managing 36 state facilities, comprised of over 261 buildings and 11 million square feet.[38]

The Patrick Administration estimates that there is approximately $2.9 billion in deferred maintenance required to ensure that state office buildings can be used for the entirety of their projected useful life.[39] The number is not known precisely because it is dependent on the extent to which the state chooses to retire certain buildings. There are 87 surplus buildings in the Commonwealth's real estate portfolio, of which only five are managed by DCAMM. Much of this deferred maintenance balance is the result of the management system for state-owned facilities that existed prior to the establishment of DCAMM. Under the previous system, the several departments and agencies that used state office buildings managed the maintenance of these buildings and systematic under-reporting of capital needs was common, perhaps, because these agencies and departments were required to choose between new capital initiatives and

[37] Scott Jordan, Undersecretary of for Capital Finance & Intergovernmental Affairs at A&F, Testimony before House Committee on Bonding Capital Expenditures & State Assets (April 3, 2013)

[38] Commonwealth of Massachusetts, Five-Year Capital Investment Plan FY 2015-2019 (July 2014).

[39] Carole J. Cornelison, DCAMM Commissioner, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (May 8, 2013).

stewardship of their existing capital assets. Under the new DCAMM asset management model, agencies will be able to request funds to address maintenance needs in their facilities and those projects will be overseen by DCAMM and charged to DCAMM's capital budget. DCAMM plans to continue to grow the capital budget to address the backlog of deferred maintenance using the new approach, which incentivizes agencies and departments that use state facilities to report maintenance issues.[40]

Over the next several years, the current Administration has expressed a desire to transfer an increasing number of buildings to DCAMM's control. The precise schedule for transfer of facility responsibility is not known because agencies are often given discretion by DCAMM with regard to when they choose to transfer the management of facilities. As the number of buildings under DCAMM management expands, DCAMM may be better able to coordinate routine maintenance on a regional basis to minimize redundancies, while increasing actual capital investment. A list of the facilities and buildings under direct supervision by DCAMM at the time of this writing is below:

REGION	**FACILITY**	**SURPLUS PROPERTY**	**CURRENTY IN PORTOFOLIO OR PLANNED FOR FY2015**
Central	Brian Building – Worcester	X	
Central	Worcester Campus		X
Central	Milford		X
Central	Lancaster	X	
Central	Westborough	X	
Central	DFW Headquarters		X
Central	Police Barracks – 1		X
Central	Police Barracks – 2		X
Central	Police Barracks – 3		X
Central	Police Barracks – 4		X
Central	Police Barracks – 5		X
Central	Police Barracks - 6		X
MetroBoston	EJS Courthouse	X	
MetroBoston	State Transportation Building		X

[40] Committee staff interviews with DCAMM Staff (February 14, 2014); Carole J. Cornelison, DCAMM Commissioner, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (May 8, 2013).

MetroBoston	Hurley Building		X
MetroBoston	Lindemann Building		X
MetroBoston	McCormack Building		X
MetroBoston	MA Info Tech Center		X
MetroBoston	State Medical Examiner – Albany Street		X
MetroBoston	JP / Hinton Labs		X
MetroBoston	Quincy Mental Health Center		X
Northeast	William X. Wall Experiment Station		X
Northeast	Harry Solomon Mental Health Center		X
Southeast	State Medical Examiners – Sandwich		X
Southeast	Taunton State Hospital		X
Western	Springfield Data Center		X
Western	Maxx Expo Building – Big E		X
Western	Pittsfield – Allen House	X	
Western	Pittsfield State Office Building		X
Western	Springfield – Liberty Street		X
Western	Springfield – Dwight Street		X

DCAMM is budgeted to spend over $660 million on improvements to Commonwealth facilities in FY2015 using funds allocated under the bond cap.[41] In addition, DCAMM has been provided an addition $176 million in available capital budget expenditure that falls outside of the Administrative Bond Cap.[42] Of that amount, $118 million is dedicated to the Accelerated Energy Program.

[41] Commonwealth of Massachusetts, Five-Year Capital Investment Plan FY2015-2019 (July 2014).
[42] Commonwealth of Massachusetts, Five-Year Capital Investment Plan FY 2015-2019 (July 2014).

ITD

Over the last several years the portion of the Commonwealth's capital budget devoted to spending on information technology has increased by more than 300%. The increase is partly the result of a consistent under-investment in the Commonwealth's information technology budget during the previous two decades and partly the result of a belief by the Patrick Administration that major strategic investments in information technology would result in efficiencies that would, over time, save the Commonwealth money.

The rapid increase in the procurement of information technology services proved difficult for at least three state agencies to manage. The result was large discrepancies in actual costs compared to projected costs and significant delays. In at least one case, poor planning for the integration of new technology created dramatic hardship for unemployed Commonwealth residents.

The details of these failures to properly execute and oversee capital investment in information technology are contained in a report published by the Senate Committee on Post Audit and Oversight: Massachusetts Information Technology Projects – Looking Back, but Moving Forward.[43] This report detailed several general issues with the execution of major information technology projects, including: (i) the failure of departments or agencies seeking to procure new software platforms to adequately plan for such procurements; (ii) the failure of departments and agencies to adequately oversee the work performed by contractors tasked with fulfilling the requirements of large, multi-faceted contracts; (iii) the drafting of procurement contracts that are overly broad in scope and that do not provide adequate flexibility to account for changes in need or leadership at agencies or departments; and (iv) the use of procurement criteria that needlessly narrow the field of eligible bidders such that project cost are increased, while the solutions provided to the Commonwealth fail to meet expectations.

Darrel S. Harmer, Chief Capital Planning Officer for ITD, testified before the Committee on July 17, 2013. His testimony outlined a continued effort on the part of the Administration to improve state operations by upgrading the software and systems on which agencies and departments depend. The FY2015 capital plan published by A&F budgeted $44.1 million in spending that falls under the statutory bond cap for technology related projects and an additional $135.3 million in such spending that falls outside of the statutory bond cap.[44] These projects include:

- Modernization of the Registry of Motor Vehicle's Automated Licensing and Registration System to allow the Registry to provide more services online;
- Continued development of the MassTax program at the Department of Revenue, which will provide a more secure, flexible and user-friendly system that will integrate all Department of Revenue tax administration functions.
- Continued development of an improved E-Procurement system to simplify the state's procurement process by implementing a single system to provide improved service for

[43] Massachusetts Information Technology Projects: Looking Back, but Moving Forward, Senate Committee on Post Audit & Oversight (April 2014).
[44] Commonwealth of Massachusetts, Five-Year Capital Investment Plan FY 2015-2019 (July 2014).

vendors, state agencies and municipalities. The new system is scheduled to generate additional revenue for the Commonwealth by increasing the use of statewide contracts.[45]

The Committee believes that maintaining the state's capacity to efficiently serve its residents requires consistent and informed investment in information technology tools that improve the ability of state employees to serve the public. However, given the rapid changes in technology and the large variability in costs that arise from these changes, state technology procurement should be executed such that it avoids exchanging long-term financial commitments on the part of the Commonwealth for assets that are not expected to remain adequate for more than one or two fiscal years.

Energy & Environmental Affairs

On May 8, 2013, Richard K. Sullivan, Secretary of the Executive Office of Energy and Environmental Affairs (EOEEA), testified before the Committee regarding the agency's capital planning process, capital spending and major initiatives. EOEEA consists of six agencies[46] and manages thousands of acres of parks, forests, conservation land, dams, beaches and trails. Capital funds pay for infrastructure such as flood control measures, dam rehabilitation, wildlife habitat protection, hazard remediation, open space acquisition and improvements to recreational facilities. Capital money also contributes to programs that provide clean water, air, energy and agricultural resources.

EOEEA's capital budget is dominated by the capital spending of one of its agencies, the Department of Conservation and Recreation. Nearly $18 million of EOEEA's capital budget finances the salaries and benefits of state employees. While the dollar figure that these operating costs are minor when compared with such spending by other secretariats, as a proportion of EOEEA's capital budget EOEEA's capitalization of operating expenses stands out as shown in the charts outlining EOEEA capital spending in FY2012 and FY2013.

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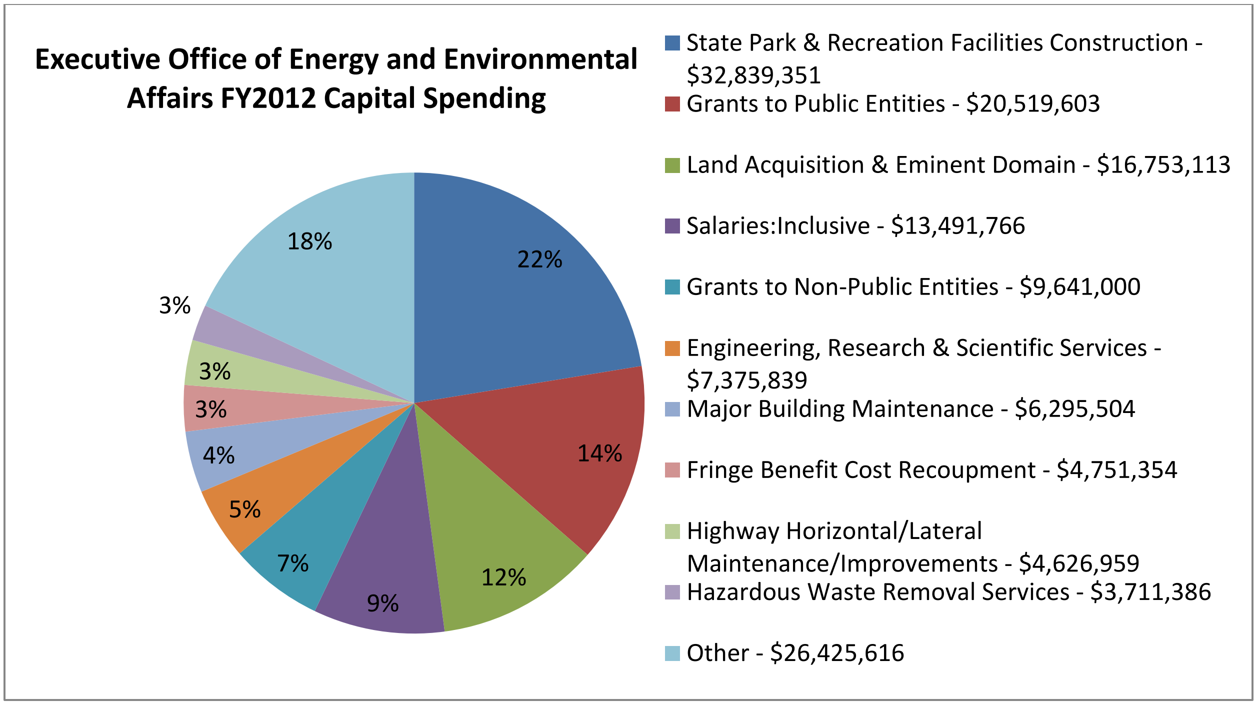
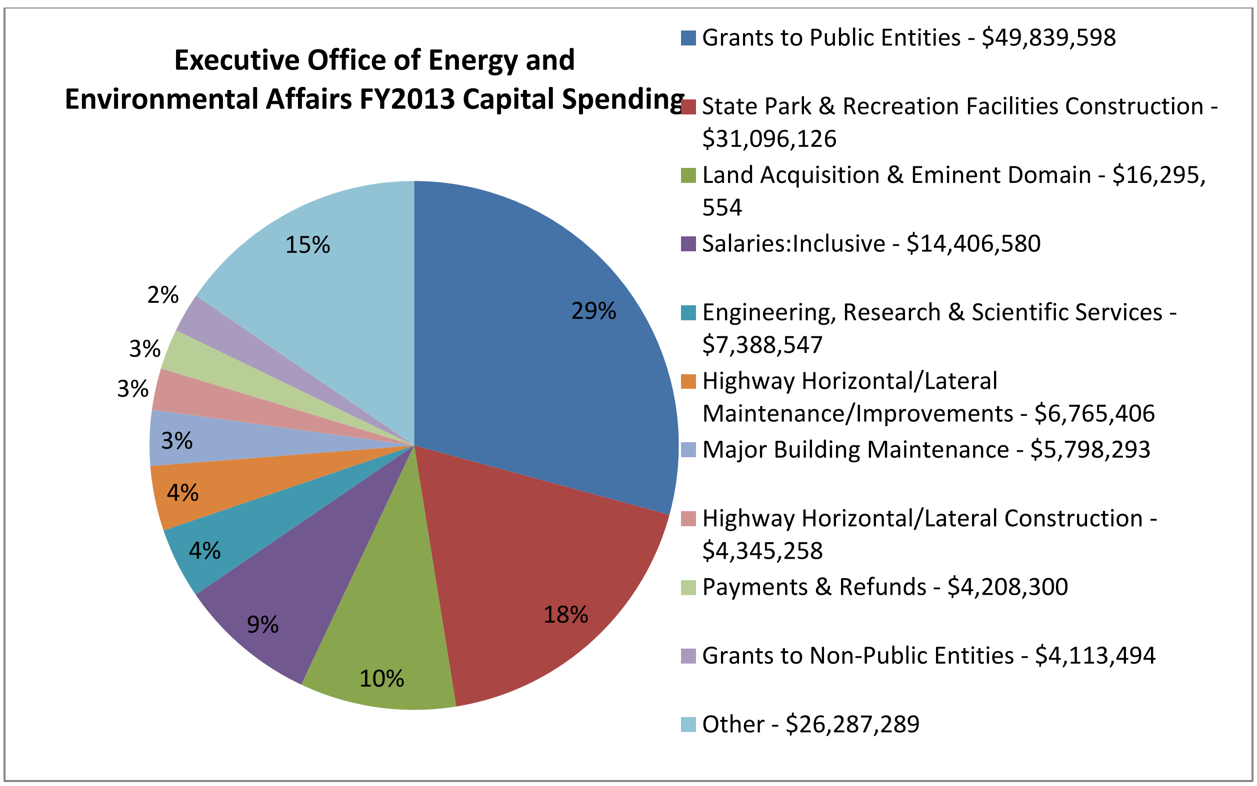
[45] Darrel S. Harmer, Information Technology Division Chief Capital Planning Officer, Testimony Before the House Committee on Bonding, Capital Expenditures & State Assets (July 17, 2013).

[46] Including: the Department of Conservation and Recreation (DCR), the Department of Environmental Protection (DEP), the Department of Agricultural Resources (DAR), the Department of Fish and Game, the Department of Public Utilities (DPU) and the Department of Energy Resources (DER).





The Secretariat's budgeted capital spending, subject to the Commonwealth's bond cap, peaked in FY2009 at $214,977,455, which represented a nearly 30% increase from FY2007. But budgeted spending subject to the bond cap has declined steadily since that time, falling to $130,398,157 in FY13, back to

FY07 levels. The Administration projects this spending to increase in FY14, but projects total budgeted capital spending for this Secretariat to fall back below FY13 levels in FY15 and continue to decline gradually through FY18.

EOEEA Capital Spending - Economic Development and Job Creation

Since FY2012, EOEEA has focused capital spending on job creation, supporting projects such as alternative energy development and construction of environmental facilities and parks in urban areas and Gateway Cities.

One of the largest such projects is the construction of the New Bedford Marine Commerce Terminal ("South Terminal"), a specially designed dock and staging area which is strong enough to provide a staging ground for offshore wind projects. In addition to the hardened concrete dock necessary to bear the weight of turbine components, the adjacent water is dredged to a depth sufficient to allow vessels to pull up to the dockside. The Administration budgeted $56.4 million for this project for FY14 and $18 million for FY15.

Land Conservation

Since FY07, EOEEA and its supporting agencies have made a historic $300 million capital investment in land conservation, permanently protecting more than 120,000 acres of land and leveraging nearly $200 million in additional non-state funds.[47] Focusing on three priorities – investing in urban parks, preserving working farms and forests, and protecting large natural landscapes – EOEEA has invested approximately $50 million annually through competitive grant programs to municipalities, non-profit land trusts, and EOEEA's environmental agencies. Through these investments, the Commonwealth has pushed the total amount of protected open space in the Commonwealth past the 1.2 million acre mark, for the first time exceeding the amount of developed land.[48]

Department of Environmental Protection

The Department of Environmental Protection (DEP) uses capital funds to help local communities recover from devastating events or circumstances. For example, DEP used capital funds to pay 10% of the cleanup costs for superfund sites, leveraging the remaining 90% of the cleanup costs from the U.S. Environmental Protection Agency. For FY15, the Commonwealth projects spending $1.4 million to meet its 10% match for federal Superfund Clean-Up program dollars.[49]

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[47] Richard K. Sullivan, Secretary of Energy and Environmental Affairs, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (May 8, 2013).
[48] Richard K. Sullivan, Secretary of Energy and Environmental Affairs, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (May 8, 2013).
[49] Richard K. Sullivan, Secretary of Energy and Environmental Affairs, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (May 8, 2013).

DEP is also using capital funds to complete the Environmental Information and Public Access System (EIPAS) which is intended to allow parties required by law to file information with DEP to do so more easily, provide more detailed and more easily accessible neighborhood level data of the sort DEP collects and allow DEP to more efficiently conduct its inspection and compliance activities. The Administration spent $447,000 in capital funds on EIPAS in FY13 and expects to spend $1.4 million in FY14 and $10 million in FY15.[50]

Department of Conservation and Recreation

The Department of Conservation and Recreation (DCR) invests capital funds to improve public safety and increase recreational opportunities enhancements throughout the Commonwealth. DCR's capital spending prioritizes pool maintenance, deferred maintenance, environmental remediation and other programs to enhance DCR pools and parks throughout the Commonwealth.[51] In FY15, the Administration plans to spend $30 million in municipal urban parks, including new municipal playgrounds and spray parks in environmental justice neighborhoods. Highlights in DCR's FY 2015 capital spending plan include:

- $13.2 million for the Winthrop Shores restoration;
- $7 million for trails, rail trails and multi-use greenways;
- $10 million to leverage $33 million in federal funds for the restoration of the Herring River in Wellfleet and Truro;
- $7 for the Walden Pond Visitor Center in Concord;
- $6.5 million for Fort Independence at Castle Island; and
- $17 million for DCR rink maintenance, rehabilitation and improvements.[52]

Department of Agricultural Resources

The Department of Agricultural Resources uses capital funds to support, regulate and enhance the Commonwealth's agricultural facilities and communities. For example, through the Farm Viability Program, DAR seeks to improve the economic viability and environmental impact of participating farms by offering farmers technical, environmental and business planning assistance to expand, upgrade and modernize their existing operations. In FY14 and FY15, the Commonwealth allocated $1 million for this program.[53]

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[50] Richard K. Sullivan, Secretary of Energy and Environmental Affairs, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (May 8, 2013).

[51] Richard K. Sullivan, Secretary of Energy and Environmental Affairs, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets, (May 8, 2013).

[52] Commonwealth of Massachusetts, Five-Year Capital Investment Plan FY 2015-2019 (July 2014).

[53] Commonwealth of Massachusetts, Five-Year Capital Investment Plan FY 2015-2019 (July 2014).

DAR is also managing and funding the creation of a permanent year-round local market in Boston, the Boston Public Market, which will provide greater access to local agriculture, seafood, aquaculture, dairy and specialty foods produced in the Commonwealth. DAR anticipates that this investment will create nearly 100 construction jobs and an estimated 200 permanent jobs once the market is in full operation.

Department of Fish and Game

Exercising responsibility over the Commonwealth's marine and freshwater fisheries, marine wildlife species, plants and natural communities, the Department of Fish and Game (DFG) consists of MassWildlife, the Division of Marine Fisheries, the Division of Ecological Restoration, and the Office of Fishing and Boating Access. The Administration has allocated $2.5 million in FY15 to complete the Department's new headquarters in Westborough.[54]

Sustainable Water Management Initiative

The Sustainable Water Management Initiative (SWMI) determines safe levels of water withdrawals from natural sources. EOEEA's SWMI's capital program helps municipalities implement mitigation plans that are required by new regulations that DEP has issued pursuant to the Water Management Act.[55] The Administration is projecting SWMI spending of $2 million for FY15.[56]

Department of Energy Resources

Pursuant to Executive Order 484,[57] the Commonwealth launched the Clean Energy Investment Program. This initiative uses general obligation bonds to fund the installation of water and energy conservation measures in state facilities that yield sufficient annual budgetary savings to pay the associated debt service. In 2012, the Administration launched a related Accelerated Energy Program (AEP) through which it expects to implement energy efficiencies at over 4,000 state buildings by the end of 2014.[58] The Commonwealth expects to spend $170 million on AEP projects in FY15, of which $41.5 million will be bond cap dollars. [59] The Environmental Bond bill contains a $250 million authorization for this program. Debt associated with AEP is not included the annual bond cap and debt affordability analysis, as the Administration considers the program self-supporting, based on projected future energy savings.

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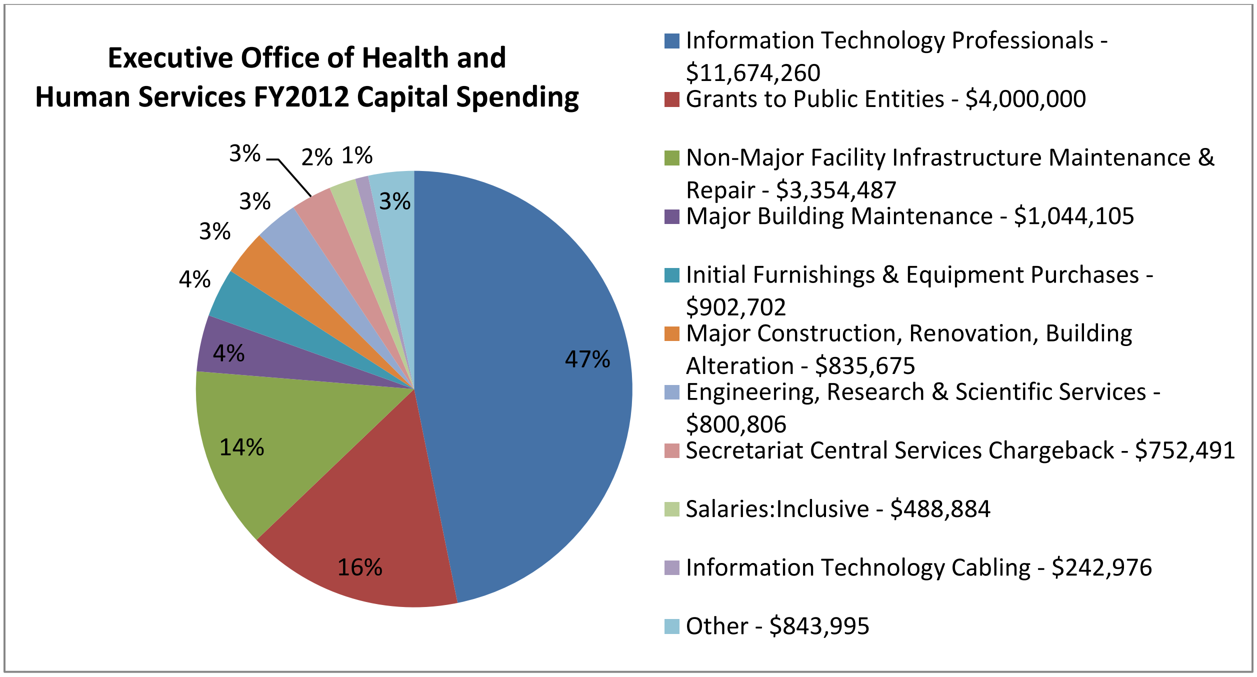
[54] Commonwealth of Massachusetts, Five-Year Capital Investment Plan FY 2015-2019 (July 2014).
[55] Commonwealth of Massachusetts, Five-Year Capital Investment Plan FY 2015-2019 (July 2014).
[56] Commonwealth of Massachusetts, Five-Year Capital Investment Plan FY 2015-2019 (July 2014).
[57] Which, among other things, established Governor Patrick's "Leading by Example" Program, requiring all state agencies to reduce their environmental impact by promoting energy conservation and clean energy practices.
[58] Commonwealth of Massachusetts, Five-Year Capital Investment Plan FY 2015-2019 (July 2014).
[59] Commonwealth of Massachusetts, Five-Year Capital Investment Plan FY 2015-2019 (July 2014).

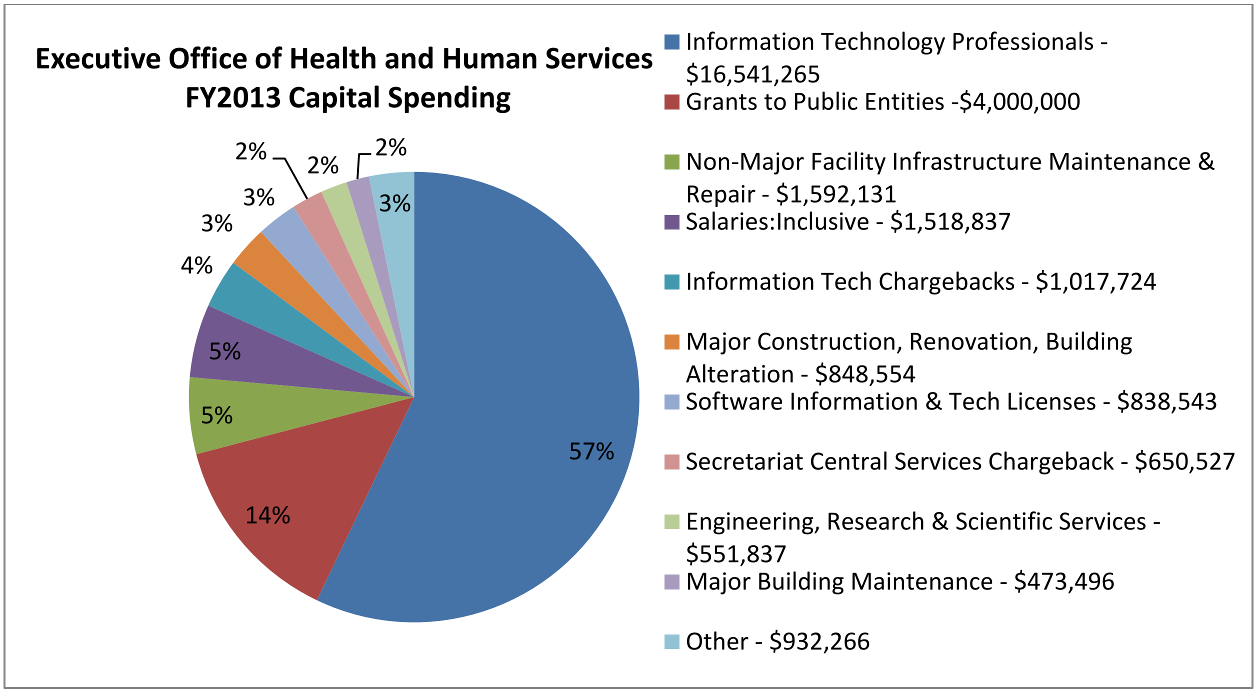
Health & Human Services

The Executive Office of Health & Human Services ("HHS") operates and manages 700 buildings on 36 separate campuses located across the Commonwealth.[60] These facilities include four public health hospitals, two psychiatric hospitals, ten juvenile detention programs, eleven mental health centers and the soldiers homes located in Chelsea and Holyoke.[61] In addition, HHS manages over 100 group homes, three campuses providing residential services to populations with developmental disabilities and several cemeteries and participates in more than 150 leases around the Commonwealth.[62]

Despite its substantial real estate holdings, HHS has focused its capital budget spending on the procurement of information technology. In FY2012, the secretariat's capital spending on IT professionals amounted to nearly half its capital budget, while in FY2013 this spending amounted to over half.



[60] John Polanowicz, Secretary of Health & Human Services, Testimony before House Committee on Bonding Capital Expenditures & State Assets (May 29, 2013).
[61] John Polanowicz, Secretary of Health & Human Services, Testimony before House Committee on Bonding Capital Expenditures & State Assets (May 29, 2013).
[62] John Polanowicz, Secretary of Health & Human Services, Testimony before House Committee on Bonding Capital Expenditures & State Assets (May 29, 2013).



Over the last two years, HHS has worked to develop a facilities master plan in order to find a framework for managing its real estate portfolio, according to Secretary John Polanowicz, that transforms "a system of institutional settings into a community-based continuum of quality care."[63] As part of this effort, HHS spent the last several years working to adjust its capital plan in order to allow those who receive its services to live in settings that allow for as much independence as possible. As part of this process, HHS is working to co-locate agency offices whenever leases expire in order to increase the availability of "one-stop-shopping" locations for Massachusetts residents that receive HHS care. During FY2013, HHS opened a 90,000 square foot center in Lawrence, which houses 310 employees from the Department of Developmental Services, the Department of Mental Health, the Department of Children & Families, the Department of Transitional Assistance and the Massachusetts Rehabilitation Commission. Over the next two years, HHS intends to open additional consolidated facilities in Boston, Braintree, Brockton, Framingham, Holyoke, Plymouth, Springfield and Worcester.[64]

This adjustment led to the closure of facilities used by both the Department of Developmental Services and the Department of Mental Health. The Department of Developmental Services closed the Monson Developmental Center in FY2012 and the Glavin Regional Center and Fernald Developmental Center in FY2013. In FY2014, the Templeton Developmental Center was scheduled to close an immediate care facility for individuals with certain developmental disabilities and build or renovate facilities in order to

[63] John Polanowicz, Secretary of Health & Human Services, Testimony before House Committee on Bonding Capital Expenditures & State Assets (May 29, 2013).
[64] John Polanowicz, Secretary of Health & Human Services, Testimony before House Committee on Bonding Capital Expenditures & State Assets (May 29, 2013).

provide six create three new group homes. HHS estimates that the Commonwealth will save $40 million as a result of these closures.[65]

In FY2013, the Department of Mental Health opened the Worcester Recovery Center & Hospital, a 320-bed facility focused on treating individuals with mental illness. The new hospital cost approximately $302 million and is the largest non-transportation state-funded building project in the history of the Commonwealth. The hospital has an annual operating cost of $64 million and employs over 1,000 people.

HHS is budgeted to spend nearly $99 million on construction and information technology projects in FY 2015. Among the major projects HHS is executing in FY2015 are:

- The construction of a residential facility for youth at the Department of Youth Services in Middleton to provide a base for the department's operations in the northwest of the state.
- Improvements to the Department of Developmental Services' Wrentham Development Center, including the demolition of the Raymond Hospital Building.
- The completion of three new community-based residences on the Templeton Development Center.
- The continued renovation of the exterior of the Solomon Carter Fuller Mental Health Center in Boston's South End.
- The beginning of planning and design work for renovations of the Goss Building on the Taunton State Hospital Campus.

In addition to these asset management initiatives, HHS is working to implement a number of technology initiatives. The largest of these programs is completion of the Commonwealth's integrated eligibility system, part of the health insurance exchange required by the Affordable Care Act of 2010. HHS expects to use $20.6 million in general obligation bond proceeds to supplement a $97.6 million federal grant in FY2015.[66]

Additional information technology programs managed by HHS include:[67]

- **The Massachusetts Health Information Highway** – HHS is attempting to electronically connect the entirety of the Commonwealth's healthcare community in order to better coordinate patient care, increase patient safety and lower healthcare costs. Phase One of the project went live in October 2012 and for the first time allowed direct connectivity between healthcare providers on a common platform. Phase Two of the project will allow providers to conduct patient information searches and, at the time of this writing, is in the process of being released.
- **i-Family Net** – HHS is developing a web-based Statewide Automated Child Welfare Information System to replace an older system currently in use by the Department of Children & Families.

[65] John Polanowicz, Secretary of Health & Human Services, Testimony before House Committee on Bonding Capital Expenditures & State Assets (May 29, 2013).
[66] Commonwealth of Massachusetts, Five-Year Capital Investment Plan FY2015-2019 (July 2014).
[67] John Polanowicz, Secretary of Health & Human Services, Testimony before House Committee on Bonding Capital Expenditures & State Assets (May 29, 2013).

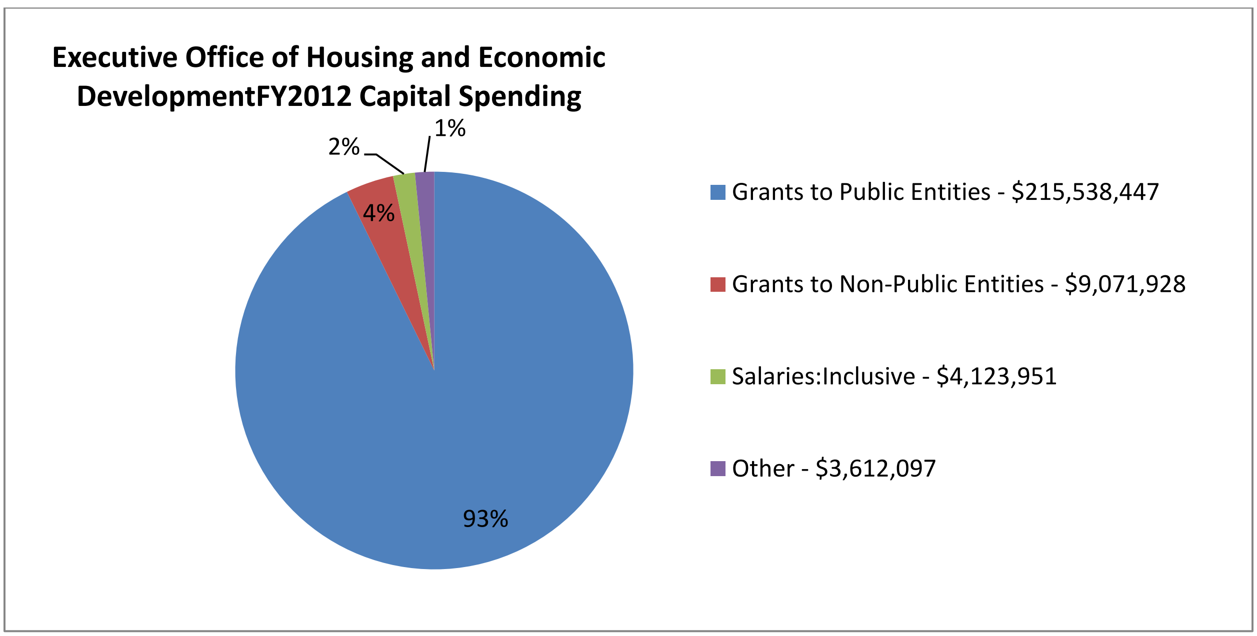
The system upgrade will be implemented in six phases, the third of which was executed in July 2013. Upon completion of all six phases, the Department of Children & Families will have replaced four separate legacy systems with one consolidated client service network.

- **Pharmacy Information System Upgrade** – This program will begin the construction of a new data management system to allow the Commonwealth to meet new compliance requirements and promote pharmaceutical and clinical best practices.

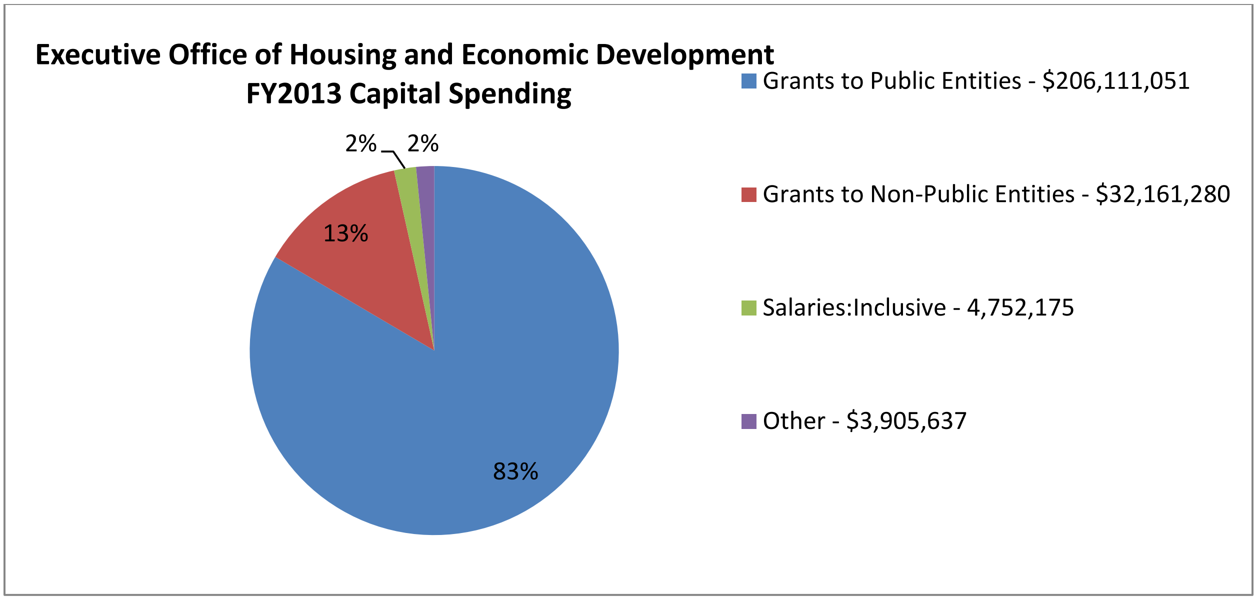
Housing & Economic Affairs

Charged with managing the Commonwealth's economic development and housing initiatives, the Executive Office of Housing & Economic Development's capital spending program focuses on providing grants to a variety of public and private entities. The majority of these grants are made to public housing authorities to ensure that the 45,000 units of state-managed public housing in Massachusetts is maintained or to support affordable housing initiatives through MassHousing or similar organizations. In addition, the secretariat oversees the making of grants to a variety of private and quasi-public institutions that are dedicated to facilitating public private partnerships to incubate the life sciences industry and entrepreneurship.

A breakdown of the types of spending the Secretariat has executed during FY2012 and FY2013 is available in the charts below. The Committee notes that the Executive Office of Housing & Economic Development funds salaries and other operating expenses on its capital budget, but acknowledges that the extent of this practice as a proportion of the secretariat's total capital budget is minor.[68]



[68] All Executive Office of Housing and Economic Development capital spending categories representing less than 1% of HED's total capital spending have been combined into the "Other" category.



Public & Affordable Housing Programs

Since 2008, the Administration has spent more than $500 million to renovate or maintain the public housing stock in Massachusetts. For a detailed break-down of which local housing authorities received grants from the Commonwealth and the amounts received, please review the chart at the end of this report.

The Commonwealth maintains the largest stock of state-owned public housing in the nation and the Department of Housing & Community Development uses several programs to allocate capital funds to maintain it. The Formula Funding Plan allocates a proportional share of the Department's available capital funds to local housing authorities based on five-year capital plans submitted by the authorities and updated annually. The predictability of the formula funding program allows local housing authorities to execute long term-term capital asset management plans by providing them a steady and reasonably certain source of capital funding. Of the approximately $90 million that is granted to public housing authorities per year by the state, nearly half is allocated using the formula funding approach.[69] These allocations are supplemented by the Sustainability Program, through which the Commonwealth provides about $3.5 million per year to finance projects that conserve water and energy and, thereby, reduce utility costs at public housing development.[70]

Last year the Administration launched a third program, the High Leverage/Mixed Finance Asset Preservation Program, which is designed to provide additional funds on a competitive basis to complement the formula funding program and target local housing authorities that seek to expedite

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[69] Testimony of Aaron Gornstein Before the House Committee on Bonding, Capital Expenditures and State Assets, Massachusetts Department of Housing & Community Development (June 3, 2013).

[70] Testimony of Aaron Gornstein Before the House Committee on Bonding, Capital Expenditures and State Assets, Massachusetts Department of Housing & Community Development (June 3, 2013); FY2015-2019 Five-Year Capital Investment Plan, Commonwealth of Massachusetts (July 2014).

large-scale rehabilitation projects.[71] The program will require local housing authorities to match 50% of the cost of a project from an outside source. This condition, according to the Administration, will save the Commonwealth money by encouraging local housing authorities to find alternative financing sources for capital projects.[72] The Administration anticipates that $13.5 million will be spent on this program in FY2015 and that as much as $20 million in additional funding may be made available for the program beginning in FY2017.[73]

Among the challenges the Administration has confronted in subsidizing the capital maintenance of the state's public housing is the dramatic variance in resources available to the Commonwealth's 242 independent housing authorities with regard to asset management and capital planning.[74] The Department of Housing & Community Development has reported that not all housing authorities are able to consistently maintain their databases describing the condition of the thousands of public housing units in the Commonwealth. The Administration's public housing reform initiatives are, in part, designed to allow the state to make better public housing capital investment decisions by improving the Administration's ability to track and analyze the status and condition of public housing units.[75]

The Administration's affordable housing initiatives have awarded $453 million to more than 350 non-profit and for-profit owned low-income development properties in more than 100 cities and towns in the Commonwealth. These investments, according to the Administration, have resulted in $1.5 billion in other state, local and federal funds contributed to develop or preserve more than 13,000 housing units.[76] Among the Administration's most significant partners in running these public-private programs are the Massachusetts Housing Finance Agency, which received $82 million in capital budget grants in FY2012 and FY2013, the Massachusetts Housing Partnership, which received $53 million in capital budget grants in FY2012 and FY2013, and the Community Economic Development Assistance Corporation, which received $45 million in capital budget grants in FY2012 and FY2013.

MassWorks Infrastructure Program

The MassWorks Infrastructure Program is the mechanism through which the state makes targeted investments to build the infrastructure necessary to support local economic development. The product of an administrative consolidation of six similar grant programs run by three separate agencies, MassWorks grants have been made to over 150 projects since 2007.[77] In FY2013, $38.5 million in

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[71] Testimony of Aaron Gornstein Before the House Committee on Bonding, Capital Expenditures and State Assets, Massachusetts Department of Housing & Community Development (June 3, 2013); FY2015-2019 Five-Year Capital Investment Plan, Commonwealth of Massachusetts (July 2014).

[72] Testimony of Gregory Bialecki, Secretary of Housing & Economic Development, Before the House Committee on Bonding Capital Expenditures & State Assets (June 12, 2013).

[73] FY2015-2019 Five-Year Capital Investment Plan, Commonwealth of Massachusetts (July 2014).

[74] Testimony of Aaron Gornstein Before the Joint Committee on Housing, Department of Housing & Community Development (October 1, 2013).

[75] Testimony of Aaron Gornstein Before the Joint Committee on Housing, Department of Housing & Community Development (October 1, 2013).

[76] Testimony of Gregory Bialecki, Secretary of Housing & Economic Development, Before the House Committee on Bonding Capital Expenditures & State Assets (June 12, 2013).

[77] FY2015-2019 Five-Year Capital Investment Plan, Commonwealth of Massachusetts (July 2014).

MassWorks grants were awarded to 26 projects, including $1.5 million to the City of Lowell for the design and construction of public infrastructure related to the Rovers Edge Housing Development, $2 million to the City of Holyoke to support a new Depot Station passenger platform along the "Knowledge Corridor" Rail Line; and $3.2 million to the City of New Bedford for the redevelopment of the Acushnet Avenue cultural district. The Administration budgeted $56 million for MassWorks Infrastructure grants in FY2014 and expects to spend $53 million in FY2015.[78]

Life Science Investment

In 2006, the Legislature created the Massachusetts Life Sciences Center ("MLSC") and in 2008 the Legislature furthered the Commonwealth's commitment to the industry by passing an expansive Life Sciences Bill with $1 billion in funding designed to grow the industry, attract life science businesses to Massachusetts and create jobs.[79] Of the statute's $1 billion investment, half of the funds were capital dollars authorized for a ten year period.[80] On October 1, 2013, the MLSC's General Counsel and Vice President of Academic and Workforce Programs testified before the Committee.

In FY12 and FY13, the MLSC received $117.8 million in capital funds from the Commonwealth.[81] The MLSC administers three capital programs: the Capital Infrastructure Program, the High School Equipment and Supplies Grant Program and the Small Business Matching Grant Program. The Capital Infrastructure Program, by far the largest of the three, provides grants for training and workforce development as well as research and development.[82] Some Capital Infrastructure Program award recipients are specifically earmarked in the original legislation to receive funds through the Life Sciences Initiative, but others were chosen independently by the MLSC through a competitive selection process.[83] At the time of their testimony, the MLSC had awarded over $320 million through the Capital Infrastructure Program, $229 million of which went to the five UMass campuses or the UMass Medical School in Worcester.[84] In November 2013, the MLSC accepted another round of grant applications for projects for FY2015-FY2017.[85]

The second capital program administered by the MLSC is the Equipment and Supplies for High Schools Grant Program, launched in 2010 under the name Equipment and Supplies Program for Skills Training

[78] Five-Year Capital Investment Plan FY2014-2018, Commonwealth of Massachusetts (December 2013).
[79] M.G.L. Chapter 23I.
[80] Chapter 130 of the Acts of 2008.
[81] Data obtained from Massachusetts Open Checkbook, available at http://opencheckbook.itd.state.ma.us/analytics/saw.dll?Dashboard.
[82] Beth Nicklas, MSLC General Counsel and Vice President of Academic and Workforce Programs, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (October 1, 2013).
[83] Capital Program - Program Overview, Massachusetts Life Sciences Center (July 2014), available at http://www.masslifesciences.com/programs/capital/.
[84] Beth Nicklas, MSLC General Counsel and Vice President of Academic and Workforce Programs, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (October 1, 2013).
[85] STEM Equipment and Supplies Grant for High School Program Over, Massachusetts Life Sciences Center (July 2014), available at http://www.masslifesciences.com/programs/equipHS.

and Education.[86] The program provides funds for schools to purchase life sciences technology, such as lab equipment. In addition to changing the name, the MLSC also made some changes to those eligible to apply. Community colleges were only eligible to apply to the first round of grant awards.[87] Subsequent grant awards have been available to vocational schools, public high schools in Gateway Cities and public high schools in communities where 30% of students qualify for free or reduced lunch and local non-profits serving these communities.[88] Through the end of the state's FY2013 the MSLC had awarded over $6.5 million to public high schools, vocational schools, non-profits and community colleges.[89]

The MLSC also administers a business matching grant for commercialization-ready life sciences and technology companies that have received grants from federal agencies like the National Institutes of Health or the Department of Defense. The MLSC tries to select companies that have products with a high potential for market adoption and that will create jobs in Massachusetts. To date the MLSC has issued eight such awards, each at the maximum amount allowed under the state law, $500,000.[90]

Public Safety

In her September 25, 2013 testimony to the Committee, Secretary of the Executive Office of Public Safety and Security Andrea Cabral emphasized the importance of information technology investments above all other capital needs. Data, the Secretary noted, would allow her Office to improve public safety by improving the collection and manipulation of data to allow for "evidence based practices." As she stated: "If we are to conduct the analysis that assists our deliberations regarding resources and policy reforms, we need information. If we are to reduce crime, improve the administration of justice, and deliver the training that meets the demands of a 21st century workforce, we need strong IT infrastructure."[91]

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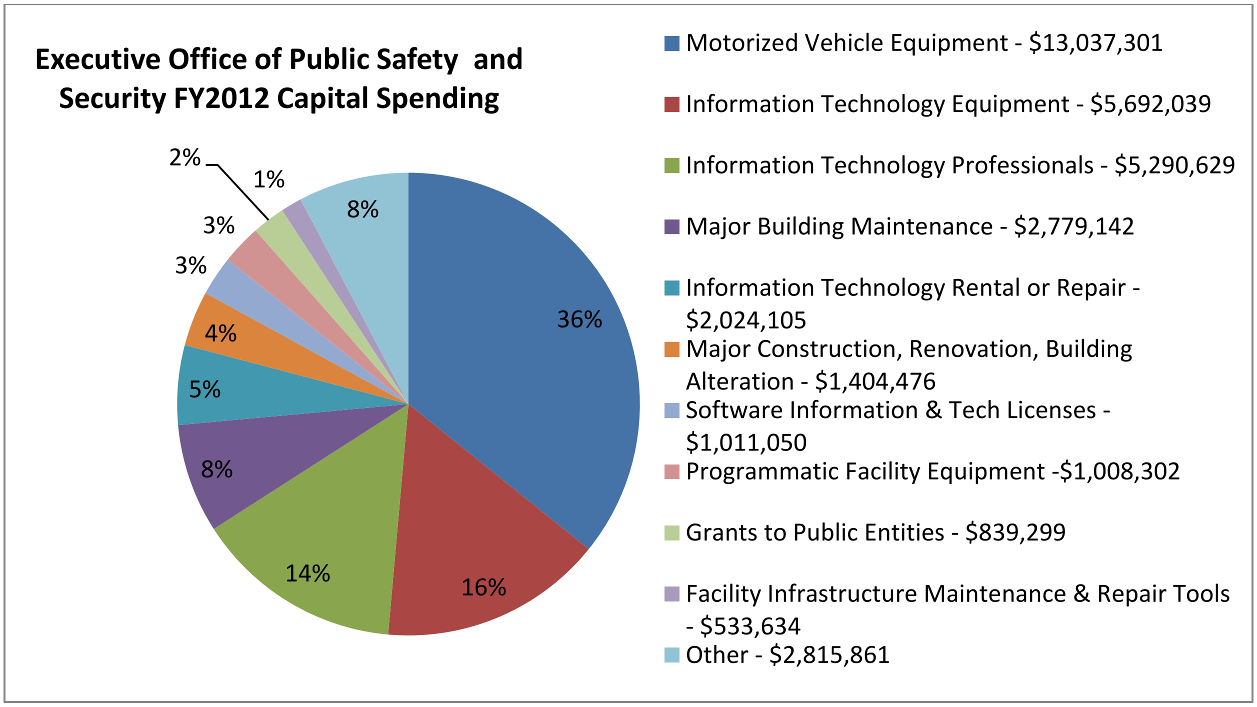
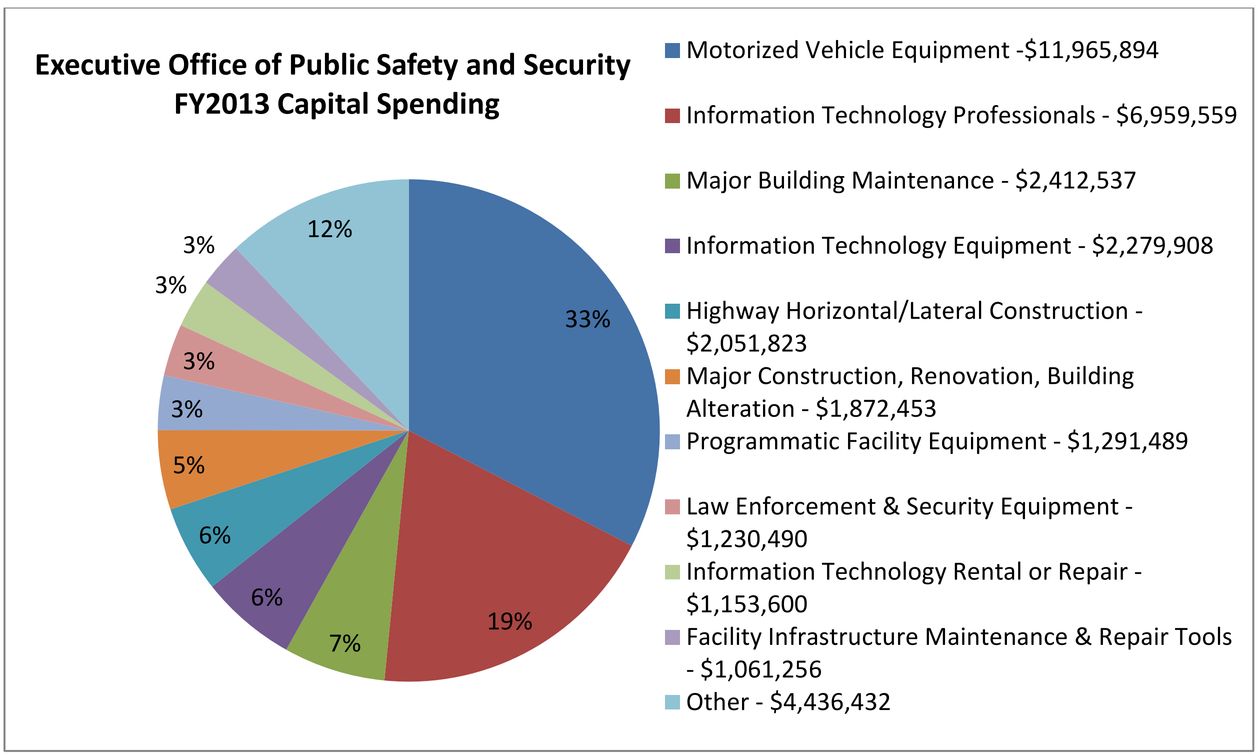
[86] Beth Nicklas, MSLC General Counsel and Vice President of Academic and Workforce Programs, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (October 1, 2013).
[87] Beth Nicklas, MSLC General Counsel and Vice President of Academic and Workforce Programs, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (October 1, 2013).
[88] STEM Equipment and Supplies Grant for High School Program Over, Massachusetts Life Sciences Center (July 2014), available at http://www.masslifesciences.com/programs/equipHS.
[89] Beth Nicklas, MSLC General Counsel and Vice President of Academic and Workforce Programs, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (October 1, 2013).
[90] Small Business Matching Grant Program – Program Overview, Massachusetts Life Sciences Center, (July 2014), available at http://www.masslifesciences.com/programs/sbmg/.
[91] Andrea Cabral, Secretary of the Executive Office of Public Safety and Security, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (September 25, 2013).





The Administration has made significant investments in EOPSS' information technology since 2008, budgeting $46 million on the Integrated Criminal Justice Information System (iCJIS), a procurement overseen by ITD. iCJIS has allowed EOPSS to deploy a new on line I-CORI system. Up to $15 million remains to be expended from the 2008 General Obligation Bond bill's authorization for iCJIS.

Beyond this program, however, little new IT spending is planned. In fact, total EOPSS capital spending is due to fall by more than 50% from FY2014 levels by FY2018.[92] Over the next several years, therefore, it will be critical for the Administration and the Legislature to monitor the performance of the iCJIS system and the ways in which it has impacted EOPSS' ability to efficiently reduce crime and enhance security and to encourage the maximum exploitation of the new systems' capabilities.

Corrections Master Plan

The 2008 General Obligation Bond bill directed DCAM to draft a Corrections Master Plan (CMP), detailing the capital maintenance needs of the Sheriffs' and the Department of Corrections' facilities. After some controversy over its time line and its contents, DCAM and EOPSS finally released the CMP on January 17, 2012. The CMP stated that there was at that time a shortfall of approximately 9,800 beds in the EOPPS system, a shortfall which it estimated would increase to 12,100 beds by 2020. The CMP estimated the cost of closing that shortfall at between $1.3 B and $2.3 B, which would result in an increase in required operating costs of $120 M annually.

Neither the Secretary's testimony nor the Administration's Five Year Capital Plan identify any spending—not even for planning—that would begin to address the capacity shortfall the CMP identified. Massachusetts, it would seem, will soon be facing the same jail overcrowding crisis currently being experienced by a number of other states. [93]

Other Capital Spending

EOPPS continues to make routine capital investments, spending $10.4 M to purchase 372 new cruisers for the State Policy, the twelfth consecutive year it has purchased new vehicles for the State Police. It also purchased the last of the four State Police helicopters envisioned in the 2008 General Obligation Bond bill.[94]

2014 Military Bond Bill

Chapter 48 of the Acts of 2014 authorized $177 M to allow the Administration to invest in ways that will protect the Commonwealth's six military facilities from closure or reduction and improve the bases' capacity to support jobs. The six military installations in Massachusetts include Barnes Air National Guard Base in Westfield; Fort Devens; Hanscom Air Force Base; Joint Base Cape Cod; Natick Soldier Systems Center; and Westover Air Reserve Base in Chicopee.

In addition, this legislation created a new Military Asset and Security Strategy Task Force to work with the military branches and private sector to advise the Governor on ways to strengthen Massachusetts' bases and increase their economic benefits to the Commonwealth.

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[92] Commonwealth of Massachusetts, Five Year Capital Plan FY2014-FY2018 (December 2013).

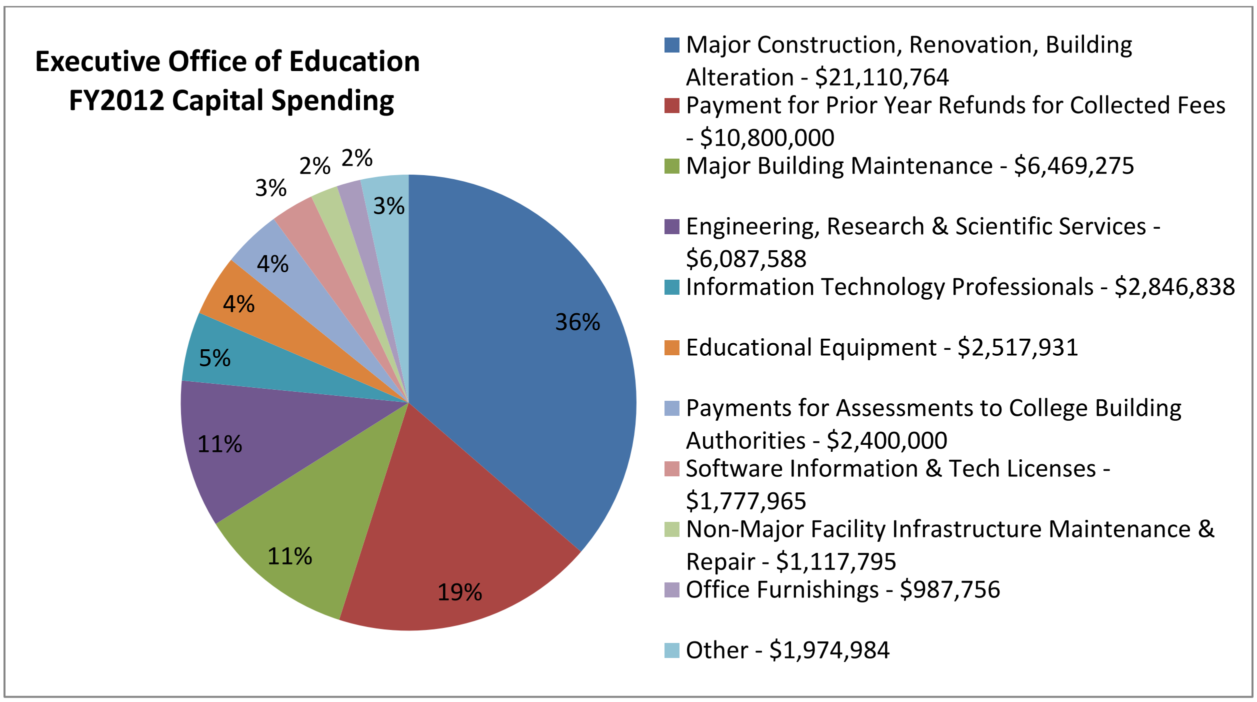
[93] Prison Crowding, American Legislative Exchange Council (2014) available at http://www.alec.org/initiatives/prison-overcrowding/.

[94] Andrea Cabral, Secretary of the Executive Office of Public Safety and Security, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (September 25, 2013).

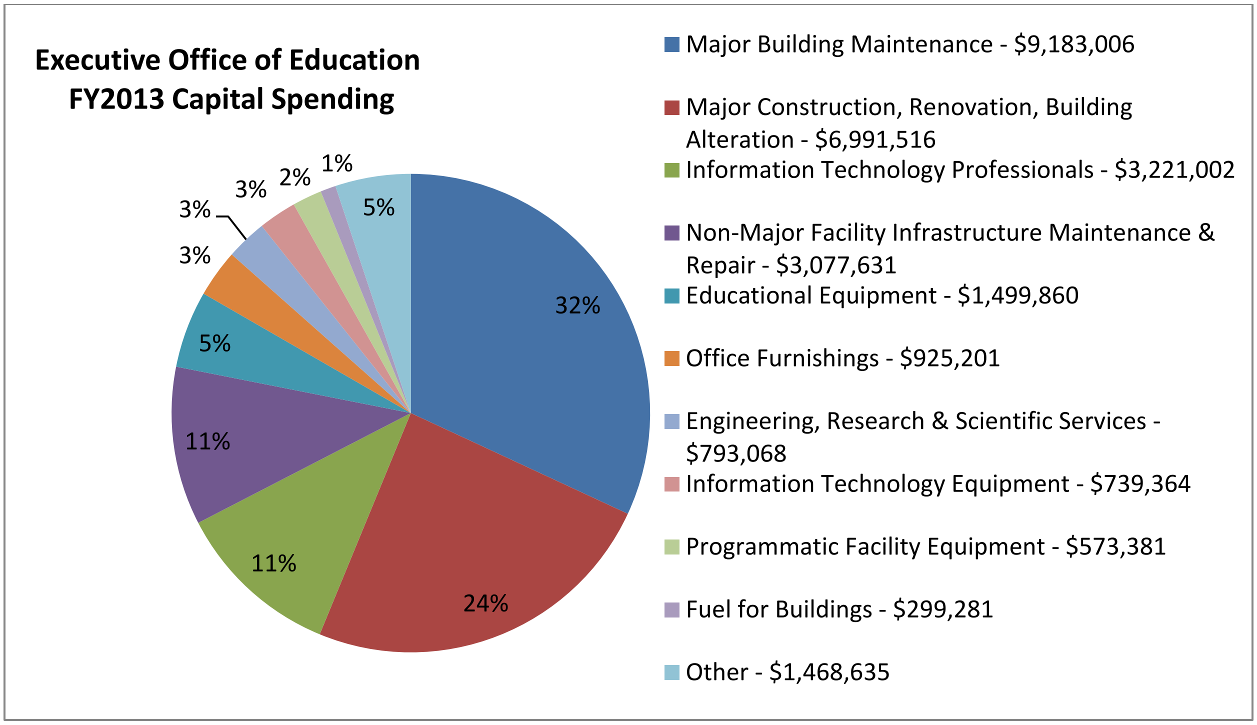
Education

Massachusetts' public higher education system, comprised of five University of Massachusetts campuses, nine state universities and fifteen community colleges, funds capital projects through three different entities: the Massachusetts Department of Higher Education, the University of Massachusetts and the Massachusetts State College Building Authority. On June 5, 2013 executives from each department or authority testified before the Committee.

The Executive Office of Education's capital spending was $47.2 million and $29.1 million in FY2012 and FY2013, respectively.[95] It is important to note that EOE's capital spending includes spending outside of the Department of Higher Education, and in most cases, is not reflective of the capital spending by the University of Massachusetts and the Massachusetts State College Building Authority. A breakdown of the types of expenditures made as a result of this spending in FY2012 and FY2013 is below.



[95] Data obtained from Massachusetts Open Checkbook, available at http://opencheckbook.itd.state.ma.us/analytics/saw.dll?Dashboard.



Massachusetts Department of Higher Education

The Massachusetts Department of Higher Education works with the Executive Office of Administration and Finance (A&F) and the Division of Capital Asset Management and Maintenance (DCAMM) to fund capital projects at state universities and community colleges. Higher Education Commissioner Richard Freeland explained that the Higher Education Bond Bill, passed in 2008 (Chapter 258 of the Acts of 2008), was critical for addressing the capital needs of facilities around the state, which had not had a dedicated bond bill since 1995. The ten year bond bill authorized capital spending at each of the twenty-four campuses under the Department's purview, and at the time of his testimony in June 2013, Commissioner Freeland anticipated that by FY2014 each of the campuses would have a capital project either completed or underway with the funding from the 2008 bill.

With funds from the Higher Education Bond Bill, the Department has completed or is in the process of completing a number of STEM (science, technology, engineering and math) facilities around the state, including: a new science building at Bridgewater State University, new science facilities at Fitchburg State University and Massachusetts College of Liberal Arts and new allied health buildings on the Lawrence campus and the Danvers campus of Northern Essex Community College.[96]

Although the Higher Education Bond Bill has allowed for renewed investment at higher education facilities around the state, Commissioner Freeland emphasized that he and DCAMM Commissioner Carole Cornelison shared concerns that the remaining funds may not be sufficient to meet the needs of the 24 schools. He explained that "despite the fact that the community colleges and state university are

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[96] Richard M. Freeland, Massachusetts Board of Higher Education Commissioner, Testimony before House Committee on Bonding, Capital Expenditures & State Assets (June 5, 2013).

spending upwards of 5% of their operating budgets on deferred maintenance, they are still not keeping pace with the required upkeep." Commissioner Freeland highlighted that since the Higher Education Bond Bill's passage, enrollment at state universities and community colleges had increased by 11%--further straining capacity at schools and making the need for enhanced capital investment more acute.

To prioritize competing needs of the campuses, the Department of Higher Education periodically meets with colleges and universities to discuss their capital priorities and review any changes from the capital priorities that were identified in the Higher Education Bond Bill. As a result, Bridgewater State University, Framingham State University, Westfield State University and Mount Wachusett Community College had updated their Master Plan and Massachusetts Maritime Academy, Massachusetts College of Liberal Arts, Salem State University and Worcester State University were in the process of updating their Master Plans.[97]

One new positive prospect for the future of capital projects at the state's 15 community colleges was the recent change to the Massachusetts State College Building Authority's enabling language allowing the MSCBA to provide community colleges with financing for capital projects. At the time of Commissioner Freeland's testimony the MSCBA had used the new authority to provide capital investment at Mount Wachusett Community College and Northern Essex Community College.

The University of Massachusetts

The University of Massachusetts is currently working on a $3.1 billion Five-Year Capital Plan for the 22 million square feet and 300 buildings comprising UMass' five campuses.[98] University of Massachusetts Senior Vice President Christine Wilda explained that to address a history of underinvestment in the 1980s and 1990s, a major capital investment plan and aggressive program was implemented, resulting in over $2.7 billion worth of capital projects being completed over ten years.

Although Ms. Wilda echoed support for the Higher Education Bond Bill, which authorized just over $1 billion for UMass projects, she was very critical of the state's contribution towards UMass' capital investment. Ms. Wilda explained that the majority of UMass' significant capital investments over the past ten years had been funded by UMass, with the state only contributing 17% of the costs while UMass shouldered the remaining 83%. At the beginning of FY2013, only $200 million of the $1 billion authorized for UMass-related capital projects in the 2008 Higher Education Bond Bill had been spent. In FY2012 and FY2013, the University of Massachusetts Building Authority received $14.9 million in capital funding out of the Executive Office of Education's $76.3 million capital budget.[99]

Ms. Wilda explained that as a result of UMass' unusually high contributions to its capital budget compared to other state institutions the system's operating budget had been constrained, and capital

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[97] Richard M. Freeland, Massachusetts Board of Higher Education Commissioner, Testimony before House Committee on Bonding, Capital Expenditures & State Assets (June 5, 2013).

[98] Christine Wilda, University of Massachusetts Senior Vice President for Administration & Finance and Treasurer, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (June 5, 2013).

[99] Data obtained from Massachusetts Open Checkbook, available at http://opencheckbook.itd.state.ma.us/analytics/saw.dll?Dashboard.

costs were being passed onto students. UMass established a reserve fund in 2009 in which 1.5% of the total cost of all new construction projects is set aside for renovation and replacement to avoid allowing the deferred maintenance backlog to grow to such an extreme again in the future. In order to execute the entire, ambitious $3.1 billion five-year capital plan, and tackle the system's deferred maintenance backlog, UMass is reliant on the Commonwealth funding 30% of the cost of capital investment.[100]

In addition to the 2008 Higher Education Bond Bill, UMass has drawn significant resources from Life Sciences Bond Bill (Chapter 130 of the Acts of 2008 of the Massachusetts General Laws) which included $250 million for University-related projects. At the start of FY2013, $94 million of the $250 million authorized in the Life Sciences Bond Bill had been appropriated.[101] Ms. Wilda also expressed UMass' appreciation for recently passed legislation which authorized $25 million in capital funds for research and development matching grants at higher education institutions and research facilities. Although the matching grant authorization was passed in an economic development bill in 2012 (Chapter 238 of the Acts of 2012), at the time of this writing, none of the authorized funds had been appropriated.

UMass maintains a system wide Master Capital Plan extending 20 to 30 years in the future, which is used to develop UMass' Five Year Capital Plan.[102] Although UMass maintains a system wide capital plan, each campus takes on the full debt of its projects and must demonstrate the affordability of new construction. As a result the levels of debt and debt service vary from campus to campus.[103] Capital projects funded by UMass are overseen and executed by UMass while capital projects funded by the state are overseen and executed by DCAMM. In some instances UMass campuses have contributed funds to DCAMM-managed projects to promote efficiency or expedite projects.[104]

Massachusetts State College Building Authority

The Massachusetts State College Building Authority (MSCBA) was established by the Legislature in 1963 to finance the design and construction of revenue-producing facilities at Massachusetts' nine state universities. As a result of recent legislative language changes, the MSCBA can now also finance projects at Massachusetts' fifteen community colleges. Massachusetts State College Building Authority Executive Director Edward Adelman's testimony on June 5, 2013 marked the first time that the MSCBA had been invited to participate in the House Committee on Bonding, Capital Expenditures and State Assets' oversight hearings.

[100] Christine Wilda, University of Massachusetts Senior Vice President for Administration & Finance and Treasurer, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (June 5, 2013).
[101] Christine Wilda, University of Massachusetts Senior Vice President for Administration & Finance and Treasurer, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (June 5, 2013).
[102] Christine Wilda, University of Massachusetts Senior Vice President for Administration & Finance and Treasurer, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (June 5, 2013).
[103] Debt Policy – Doc. T09-052, University of Massachusetts (September 2009), available at http://www.umassd.edu/policies/activepolicylist/businessandfinanceoperations/universityofmassachusettsdebtpolicy/
[104] Christine Wilda, University of Massachusetts Senior Vice President for Administration & Finance and Treasurer, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (June 5, 2013).

Mr. Adelman explained that the MSCBA typically initiates projects that fall into one of four categories. First and foremost, the majority of MSCBA's projects are designing and building new residential facilities needed to meet the demand for on-campus housing. Second MSCBA completes the renewal of existing residential projects which are selected in accordance with its Facility Renewal Plan, a plan maintained by the Authority that has a schedule of the useful life of all of the Authority's assets. These projects are funded by the MSCBA's reserves. Third the MSCBA undertakes improvements to student activity facilities (dining halls, athletic facilities and parking lots) as requested by the state university campuses and funded through student fees, campus contribution and vendor support. Last, the MSCBA may issue debt to support and fulfill projects authorized in the 2008 Higher Education Bond Bill. It is important to note that the MSCBA can only receive funding from the Commonwealth of Massachusetts when it's executing a project specifically authorized in the 2008 Higher Education Bond Bill. Commonwealth-funded projects must be approved by A&F and may be subject to additional studies and DCAMM requirements.[105] In FY2012 and FY2013 MSCBA received $13.6 million from the Executive Office of Education's capital budget.[106]

The MSCBA is only authorized to pursue revenue-generating projects, where the revenue can be used to pay debt service and support the facility. Importantly, the Authority does not receive any state appropriations (outside of funds to complete projects included in the Higher Education Bond Bill as discussed above) and is prohibited from issuing state secured bonds. As a result of the Authority's inability to use the Commonwealth's pledge, the cost of borrowing is higher, since the Authority's credit rating is lower than Massachusetts'. The Authority is rated Aa2 by Moody's and AA by S&P. Approximately 50 cents of every dollar generated at a facility owned by MSCBA stays on campus, while the remaining 50 cents is used to support the building by paying for debt service and insurance.[107]

The Authority completed $171 million worth of projects across eight campuses in 2012 and anticipated completing $185 million worth of projects across each of the nine state university campuses in 2013 at the time of Mr. Adelman's testimony in June 2013. Over $243 million worth of projects across 11 campuses were planned for completion in 2014, including two projects at community colleges under the MSCBA's new authority.[108]

The MSCBA has an impressive record for on time and on budget execution of projects. Of the forty projects completed by the MSCBA between 2010 and 2012, only ten were completed behind schedule, and of those ten, the longest delay was 25 days. More impressively the MSCBA completed the 40

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[105] Edward H. Adelman, Massachusetts State College Building Authority Executive Director, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (June 5, 2013).

[106] Data obtained from Massachusetts Open Checkbook, available at http://opencheckbook.itd.state.ma.us/analytics/saw.dll?Dashboard.

[107] Edward H. Adelman, Massachusetts State College Building Authority Executive Director, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (June 5, 2013).

[108] Edward H. Adelman, Massachusetts State College Building Authority Executive Director, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (June 5, 2013).

projects without a single budget overrun, and during the two year period for which MSCBA provided data, the Authority was more than $10 million under its projected spending.[109]

Massachusetts Board of Library Commissioners

The Massachusetts Board of Library Commissioners (MBLC), a division of the Executive Office of Administration and Finance, administers a capital grant program for library construction as authorized by Sections 19G-19K of Chapter 78 of the M.G.L. The MBLC issues two grants funded by Commonwealth capital spending--a Planning & Design Grant and a Construction Grant. The Planning and Design Grant (worth up to $50,000) allows cities and towns to complete studies and preliminary work so municipalities can submit competitive applications for the Construction Grant. In addition to the two grants, the MBLC provides technical assistance throughout the application and construction process.[110]

Although the MBLC's enabling statute allows the MBLC to contribute up to 75% of the cost towards the construction of a new library, awardees typically receive between 30% and 60% of eligible construction costs, pursuant to a formula established in the CMR. In the most recent round of Construction Grant Awards (2010-2011) MBLC used a need factor that calculated EQV (Equalized Valuation of property in a municipality) and personal income. Qualifying municipalities were eligible to receive up to an additional 15% of eligible construction costs. The MBLC also provides additional resources, 2-3% of eligible costs, if a project is going to be LEED certified.[111]

Once a project has been selected, the MBLC issues a provisional grant and the municipality has six months to secure local matching funds and enter a grant agreement. MBLC Acting Director Dianne Carty explained that if a community is unable to secure the required local match, the municipality is typically given an extension for one more grant round to raise the necessary resources. During that time, wait listed communities that have secured the local match and are ready to initiate construction are bumped up the list to receive funds earlier.

During the hearing some legislators expressed concern that even with an additional 15% of eligible costs available to communities that qualify according to the need factor, the local match may be a high burden for lower income communities and Gateway Cities. Legislators also expressed that it might be helpful for Gateway Cities and lower income communities to receive preference for grant selection, since residents of these communities are more likely to lack access to books, the internet and information services without a public library in their community.

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[109] Edward H. Adelman, Massachusetts State College Building Authority Executive Director, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (June 5, 2013).

[110] Dianne Carty, Massachusetts Board of Library Commissioners Acting Director, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (June 5, 2013).

[111] Dianne Carty, Massachusetts Board of Library Commissioners Acting Director, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (June 5, 2013).

In 2008, the Legislature authorized $100 million for Library Capital Projects (Chapter 304 of the Acts of 2008). The MBLC spent $9M on projects in FY2011, $9.8M in FY2012, $17.3 million in FY13[112] and had committed $33.7M for projects to be completed between FY2014 and FY2015.[113] To date, projects have been completed in Athol, Buckland, Boston (Mattapan and East Boston), Dudley, Falmouth, Foxborough, Granby, Holyoke, Mashpee, Millis, Walpole, West Tisbury, Westhampton and Westwood. Projects are currently underway in: Eastham, Edgartown, Everett, Framingham, Reading, Salisbury, South Hadley, Scituate, Shrewsbury and West Springfield. And as of March 2014, eight communities were still on a waiting list from the 2010-2011 Construction Grant Round: Hatfield, Hopkinton, Leicester, Sherborn, Somerville, Stoughton, Webster and Woburn.[114]

In June 2014 the MBLC announced provisional award recommendations for the latest round of Planning and Design Grants. Twenty communities will be receiving awards worth between $38,860 and $50,000.[115]

Communities Receiving Capital Awards from MBLC in FY2012-FY2013*

TOWN OF ATHOL, TOWN HALL	$2,743,288.00
TOWN OF BARRE	$15,887.00
CITY OF BOSTON	$2,549,735.92
TOWN OF BOXFORD	$429,735.35
TOWN OF BUCKLAND	$100,000.00
TOWN OF DUDLEY	$120,119.00
TOWN OF EASTHAM	$866,385.00
TOWN OF EDGARTOWN	$1,000,427.00
CITY OF EVERETT, TREASURER	$1,341,894.00
TOWN OF FOXBOROUGH, CITY HALL	$2,076,964.00
TOWN OF FRAMINGHAM	$837,312.00

112 Data obtained from Massachusetts Open Checkbook, available at http://opencheckbook.itd.state.ma.us/analytics/saw.dll?Dashboard.
113 Dianne Carty, Massachusetts Board of Library Commissioners Acting Director, Testimony before the House Committee on Bonding, Capital Expenditures & State Assets (June 5, 2013).
114 Construction Waiting List, Massachusetts Board of Library Commissioners (June 2014), available at https://mblc.state.ma.us/grants/construction/waitlist/index.php
115 Nearly $1 Million Awarded for Planning and Design, Massachusetts Board of Library Commissioners (June 5, 2014), available at https://mblc.state.ma.us/mblc/news/releases/past-releases/2014/nr140605.php?current=yes

TOWN OF GRANBY	$1,562,198.00
CITY OF HOLYOKE	$2,620,556.00
TOWN OF MILLIS	$1,673,742.00
TOWN OF READING	$1,021,023.00
TOWN OF SOUTH HADLEY, TREASURER	$2,904,787.00
TOWN OF WALPOLE	$206,742.00
TOWN OF WEST SPRINGFIELD	$1,882,843.00
TOWN OF WEST TISBURY	$1,789,526.00
TOWN OF WESTHAMPTON	$100,000.00
TOWN OF WESTWOOD	$1,294,625.00
Grand Total	$27,137,789.27

*Note: This chart represents only the capital payments distributed directly to cities and towns during FY2012-FY2013. An additional $55,168 in capital spending during this time period has been omitted from this chart.

Judiciary

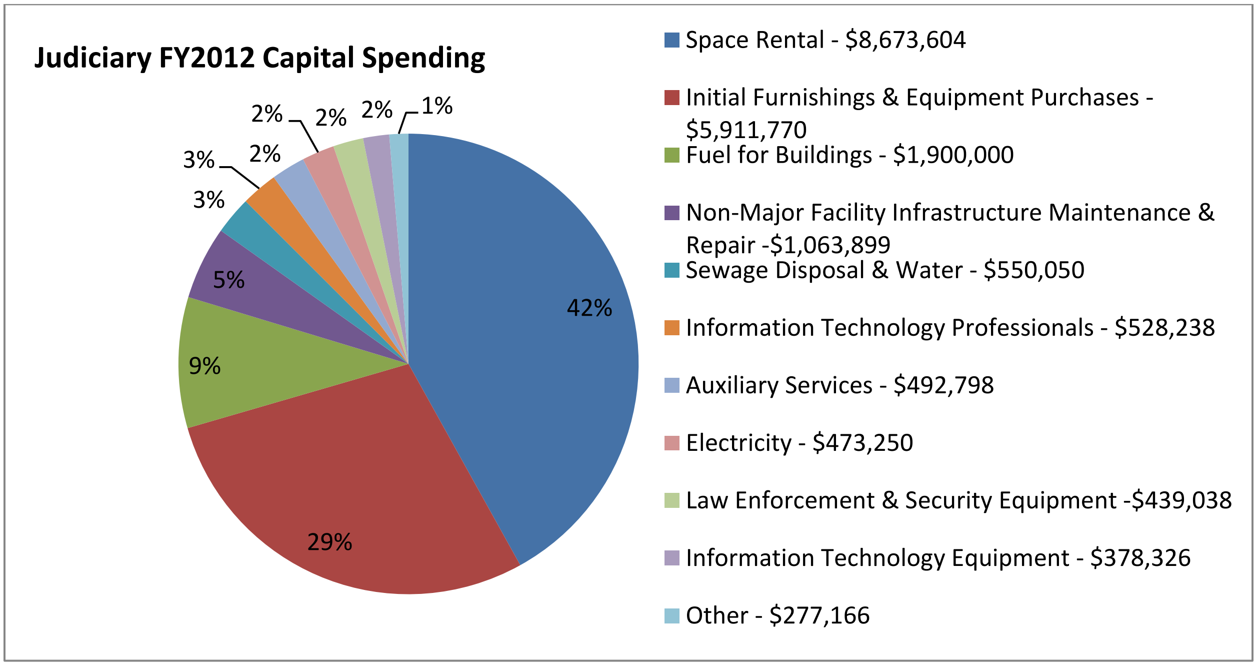
The Judiciary would like to close courthouses and they're warning of dire consequences if they can't.

Court Administrator Harry Spence testified before this Committee on October 16, 2013 for the first time since the creation of his position, on behalf of the Trial Court and the Chief Justice of the Trial Court Paula Carey. He expressed deep concern about the Courts' capital needs over the next several years:

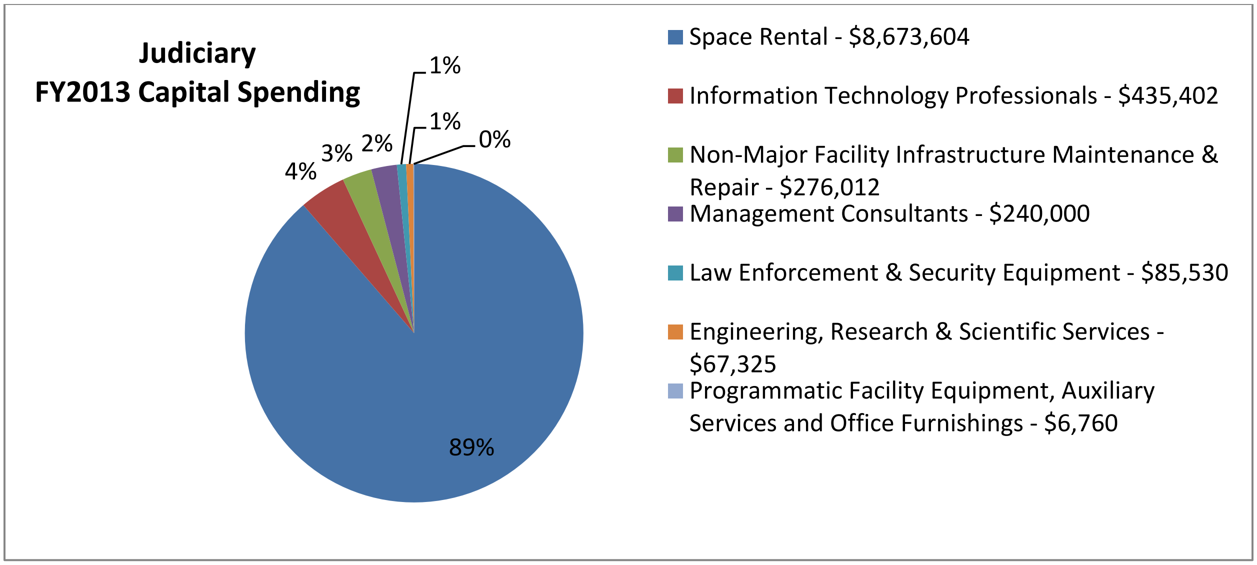
> "The capital needs of the Commonwealth's court system are frankly the most daunting challenge facing the Judiciary today. We will need in the next year, and over the course of the next few years, to make some very difficult and controversial decisions concerning the Houses of Justice in Massachusetts. Like the staff of an emergency room, we will need to triage our capital plan, determining which of our buildings, whether new or existing, deserve our continuing investments, and which we must surrender."[116]

[116] Harry Spence, Court Administrator, Testimony submitted to the House Committee on Bonding, Capital Expenditure & State Assets (October 16, 2013).

Neither an Executive Branch agency nor a quasi-public authority created by the Legislature, the Massachusetts Judiciary is the third branch of government, created by the state constitution. The Courts are nevertheless reliant on the other two branches for both their capital and operating budget and rely on DCAM to administer their capital spending and building projects. Massachusetts maintains 101 court facilities, approximately 60 of which are state owned, and is described by Administrator Spence as one of the most expensive state court systems in the nation.[117]



[117] Harry Spence, Court Administrator, Testimony submitted to the House Committee on Bonding, Capital Expenditure & State Assets (October 16, 2013); Judiciary's FY2013 pie chart has fewer than eleven (ten plus "other") categories of capital spending represented because Judiciary executed capital spending across fewer than ten categories.



In June 2013 the Trial Court adopted its first ever strategic plan.[118] The Plan describes some capital needs, such as technology upgrades. Other implications for the Courts' capital needs, however, particularly for real property and facilities, await the Courts' capital plan, which Administrator Spence stated would be conducted over the nine months following the hearing, implying a completion date of mid-July 2014.

In his testimony, Administrator Spence provided his perspective on the challenges the capital plan will suggest solutions for and the criteria the capital plan should use to make those "very difficult and controversial decisions." Spence explained that the Courts' would need $3 billion to bring all of the state's court facilities up to "modern requirements." He then described that each facility would be examined based on the cost per legal case handled. The smaller the courthouse, generally, the higher the cost per case, as fixed costs—heating, lighting, security, etc.—determined efficiencies of scale. He noted that if the fifteen smallest courthouses brought their cost per case up to the statewide average, the Commonwealth would save $35 million annually.[119]

Spence expressed his understanding of the opposition within all communities to losing a courthouse. But he promised that some courthouses would cease to function whether or not they were slated for closure: without adequate resources to maintain all existing courthouses, some would be closed for safety reasons.

[118] Strategic Plan, Massachusetts Trial Court (June 2013), available at http://www.mass.gov/courts/docs/strategic-planning/strategic-plan-massachusetts-trial-court.pdf.
[119] Harry Spence, Court Administrator, Testimony submitted to the House Committee on Bonding, Capital Expenditure & State Assets (October 16, 2013).

Spence went on to note the relationship between capital efficiencies and operational efficiencies. In addition to the continued consolidation of court facilities into larger "Regional Justice Centers," such as that recently completed in Salem, Spence argued for the operational consolidations that such facility consolidations can allow for. A planned Regional Justice Center for Greenfield, he noted, could save 20% on operating costs as a result of efficiencies among the consolidated courts. In addition, changes to records retention rules and improvements in office technology could allow for significant savings in capital requirements, by allowing courts to operate with smaller spaces.[120]

Spence identified his top capital priorities:

1) Construction of a new Regional Justice Center in Lowell;
2) Construction of a new South Middlesex Regional Justice Center, probably in Somerville or Malden. This would replace the abandoned District Court and the failing Probate Court facilities in Cambridge;
3) Reconstruction of the Suffolk High Rise, housing the Suffolk Superior Court and Land Court; and
4) Replacements or reconstruction of the Quincy District Court, the Springfield Hall of Justice and Taunton Superior Court.

In 1995, the Legislature authorized $75 million for the design, development, implementation and ongoing upgrading of an integrated statewide case management system for the Trial Courts.[121] This system, MassCourts, was fully implemented by the end of 2013 and utilized nearly all of the initial authorization.

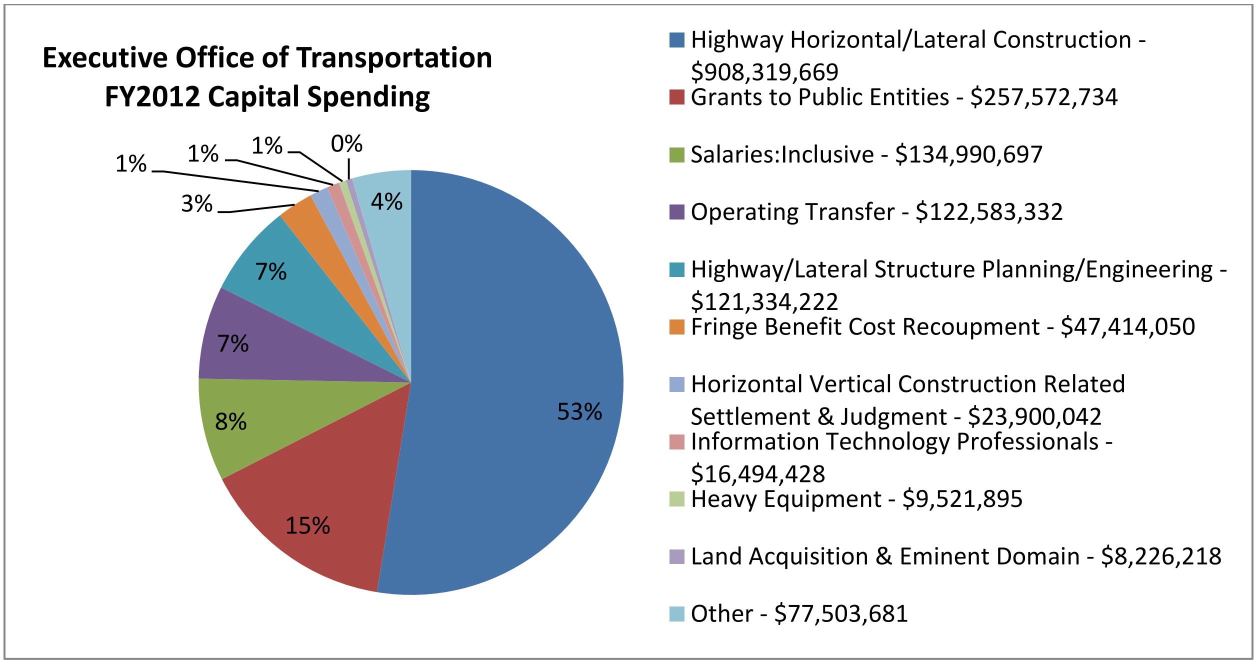
The Administration expects capital spending for the Courts to rise from a low of $20 million in FY13 to a high of nearly $140 million in FY16, reflecting the fact that it expects the most expensive phases of several major projects, such as the Lowell Regional Justice Center, during FY16. There are no new authorizations specifically reserved for the Judiciary in any bond bill passed or pending in 2013 or 2014.

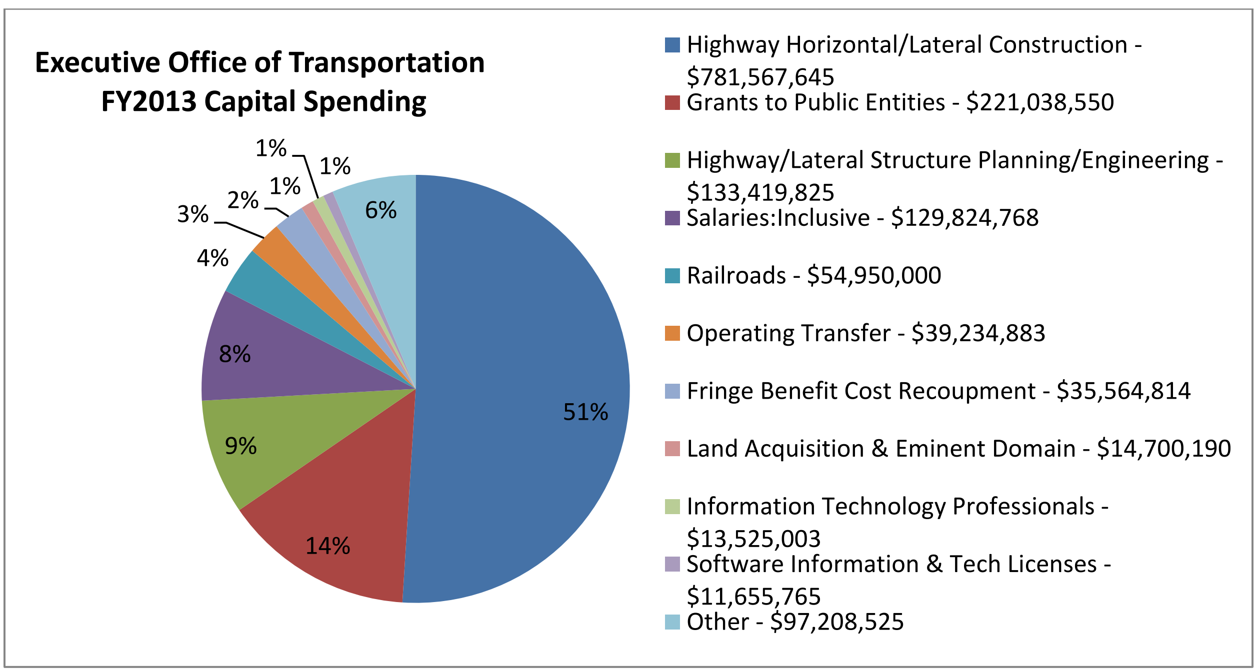
Transportation

After months of public discussion of spending on transportation, chapter 46 of the Acts of 2013 raised an additional $600 million per year to allow the Department of Transportation to stop capitalizing operating costs and to expand the scope of projects the Commonwealth is able to finance. As a result, the Department of Transportation is undertaking the migration of 1,903 employees from the capital budget to the operating budget and the elimination of $173.4 million in borrowing to fund salaries and fringe benefits. The majority of this transition, consisting of 1,142 employees and $110 million in salaries and fringe benefits, is scheduled to be transferred from the department capital budget in FY2015. The Committee intends to watch these numbers closely to ensure that the department follows through on its plan.

[120] Harry Spence, Court Administrator, Testimony submitted to the House Committee on Bonding, Capital Expenditure & State Assets (October 16, 2013).
[121] Chapter 263 of the Acts of 1995.

Over the last seven years, the Department of Transportation has doubled the size of the capital budget dedicated to transportation from $520 million in FY2007 to $1.16 billion in FY2013.[122] In FY2015, the Commonwealth plans to spend $523 million on transportation capital projects financed by general obligation bonds. An additional $667 million is budgeted from federal grants and $1 billion from non-bond cap borrowing. For a detailed overview of the types of spending executed by the Department of Transportation capital program in FY2012 and FY2013, see the charts below.





[122] FY2015-2019 Five-Year Capital Investment Plan, Commonwealth of Massachusetts (July 2014).

At the beginning of 2014 the Department of Transportation published its first five-year capital plan, which outlined $12.4 billion in capital budget priorities related to transportation. This plan dedicates an additional $1.6 billion to capital projects that would not have been possible without the new revenues raised by the Legislature during this legislative session.[123] Among the major projects included in this five-year plan are:

- $355 million to procure new buses for the MBTA.
- $260 million to repair the I-91 viaduct in Springfield.
- $323 million to continue the Accelerated Bridge Program.
- $1.3 billion to procure 74 new Red Line cars and 120 new Orange Line cars for the MBTA.
- $200 million in additional funding for statewide road improvement projects.

One issue facing those responsible for projecting the Commonwealth's transportation funding is uncertainty with regard to both the scope of federal resources that will be made available and the extent to which the Legislature will continue to require all new bond authorizations available for transportation spending to be subject to the state's statutory bond cap. Absent increases in both the amount of federal aid provided for transportation initiatives and the availability of state capital funds not subject to the bond cap, many of the projects the Department of Transportation believes are necessary for the Commonwealth's transportation system will not be financially feasible.

The Committee held an oversight hearing on July 23, 2013 to review capital spending dedicated to transportation. During the hearing, the department promoted its achievements in improving its performance with regard to project cost control and management. Statistics provided by the department indicate that during 2012, the most recent year for which statistics are available, 71% of projects were completed on time and 80% of projects were completed on budget.[124] In comparison, during 2010, only 62% of the Departments projects were completed on time and only 51% were completed on budget.[125] The Department attributes these improvements to the implementation of a peer review process during the project specification phase of a project's execution and increased coordination with utility companies during the planning and execution of capital projects.

Another area where the Department continues to make progress is in the development of a comprehensive asset management system. The restructuring of the Department of Transportation in 2009 created a single governmental entity responsible for the Commonwealth's transportation system. This formation made it possible to begin tracking the condition and investment needs of nearly all transportation assets in Massachusetts on a unified basis. While this system has yet to be fully

[123] For a comprehensive overview of the state of transportation reform, *see* Rafael Mares & Kristie Pecci, Keeping on Track: Our Progress in Reforming and Funding Transportation Since the Passage of the Massachusetts Transportation Finance Act of 2013, Transportation for Massachusetts (March 2014).

[124] Dana Levenson, Chief Financial Officer of MassDOT, Testimony before the Committee on Bonding, Capital Expenditures & State Assets, July 23, 2013.

[125] Dana Levenson, Chief Financial Officer of MassDOT, Testimony before the Committee on Bonding, Capital Expenditures & State Assets, July 23, 2013.

implemented, the department reports continued progress.[126] At the time of this writing, it is unclear whether the Department of Transportation has met the July 1, 2014 deadline to create an integrated asset management system capable of providing continuous updates on the state of the Commonwealth's transportation assets.[127]

[126] Dana Levenson, Chief Financial Officer of MassDOT, Testimony before the Committee on Bonding, Capital Expenditures & State Assets, July 23, 2013.
[127] Chapter 46 of the Acts of 2013 § 69.

Chapter 3: Borrowing Activity & Bond Bills

At the beginning of FY2012 the principal owed on debt issued by the Commonwealth equaled $21.513 billion. By FY2013, the principal owed on debt issued by the Commonwealth has risen to $22.019 billion.[128] During this period, debt subject to the statutory bond cap increased by $511.7 million, while overall direct debt issued by the Commonwealth increased by only $506.2 million. The difference can be attributed to a $60.4 million decrease in the Commonwealth's special obligation debt, a $376.4 million increase in the Commonwealth Accelerated Bridge Program debt, an $88.9 million decrease in federal grant anticipation notes outstanding, a $75 million decrease in assumed county debt, a $145.2 million decrease in Transportation infrastructure debt and a $87.1 million decrease in School Building Authority debt.

Change in Debt	2012	2014
Total Principal	21,513,039	22,019,336
Special Obligation Debt	986,050	925,575
Accelerated Bridge Program	1,035,859	1,412,325
Federal Grant Anticipation Notes	628,290	539,390
Assumed County Debt	75	0
MBTA Forward Funding	207	207
Transportation Infrastructure Fund	1,345,406	1,200,151
School Building Assistance (SBA)	811,088	723,917
Outstanding Direct Debt, Net Proceeds	16,706,064	17,217,771

Commonwealth Bond Issues 2012-2014

The Office of the Treasurer & Receiver General manages nearly all of the capital market operations of the Commonwealth. Since the beginning of 2012, the Treasurer's Office has managed $4.9 billion in new or refunded bond sales and $1 billion in Accelerated Bridge Program sales. The notable achievements of the Treasurer's Office over the last three years include:

- The sale of $400,000,000 sale of General Obligation Bond Consolidated Loan of 2012 Series C at record low total interest cost of 3.42%;

[128] Long-Term Liabilities & Capital Investment Plan, The Commonwealth of Massachusetts Investor Program, available at http://www.massbondholder.com/real-time-disclosure/information-statement/long-term-liabilities-capital-investment-plan.

- The implementation of annual investor conference highlighting the strengths of Massachusetts bonds to investors and demonstrating the public uses of bond proceeds;
- The establishment of a new website for investors in Massachusetts bonds that contains archives on bonds issues dating back to 1993 and regular updates on the Massachusetts economy and the fiscal performance of state government;
- The initiation of the Massachusetts Green Bond program, which markets bonds to finance infrastructure that make Massachusetts more energy efficient to investors seeking to allocate capital to purposes that benefit the environment;
- The creation of the MassDirect Notes Program that provides retail investors in Massachusetts with greater and more frequent access to Massachusetts bonds, while lowering the interest rate paid by Massachusetts by broadening the base of potential investors.

A chart outlining each of the long term borrowing executed by the Office of the Treasurer is provided below:

General Obligation Bonds

Date	Name	Amount	Rate	Payment Period
18-Jan-12	GO Consolidated Loan of 2012 Series A	$291,705,000	Floating - SIFMA Index	2012 - 2016
18-Jan-12	GO Refunding Bonds 2012 Series A	$171,145,000	Floating - SIFMA Index	2013 - 2016
22-May-12	GO Consolidated Loan of 2012 Series B	$350,000,000	Fixed	2023 - 2028
25-Sep-12	GO Consolidated Loan of 2012 Series C	$400,000,000	Fixed	2027 - 2042
5-Dec-12	GO Consolidated Loan of 2012 Series D	$325,000,000	Floating - SIFMA Index	2014 - 2018
16-Jan-13	GO Refunding Bonds 2013 Series A	$230,540,000	Floating - SIFMA Index	2015 - 2017
20-Mar-13	GO Consolidated Loan of 2013 Series A	$450,000,000	Fixed	2017 - 2043
20-Mar-13	GO Consolidated Loan of 2013 Series B (Federally Taxable)	$75,000,000	Fixed	2014 - 2018
6-Jun-13	GO Consolidated Loan of 2013 Series C	$100,000,000	Fixed	2043 - 2043
6-Jun-13	GO Consolidated Loan of 2013 Series D (Green Bonds)	$100,000,000	Fixed	2033 - 2033
6-Jun-13	GO Refunding Bonds 2013 Series B	$469,045,000	Fixed	2013 - 2023
31-Jul-13	GO Consolidated Loan of 2013 Series E	$600,000,000	Fixed	2023 - 2043
17-Dec-13	GO Consolidated Loan of 2014 Series A	$525,000,000	Fixed	2016 - 2041
28-Jan-14	GO Refunding Bonds 2014 Series A	$75,000,000	Floating - SIFMA Index	2015 - 2015
28-Jan-14	GO Refunding Bonds 2014 Series B	$84,335	Floating -	2016 -

		,000	SIFMA Index	2016
21-May-14	GO Consolidated Loan of 2014 Series B (Federally Taxable)	$200,000,000	Fixed	2015 - 2024
1-Jul-14	GO Consolidated Loan of 2014 Series C	$450,000,000	Fixed	2022 - 2031
Accelerated Bridge Program				
Date	**Name**	**Amount**	**Rate**	**Payment Period**
8-May-12	Commonwealth Transportation Fund Revenue Bonds - 2012 Series A	$419,260,000	Fixed	2012-2041
6-Nov-13	Commonwealth Transportation Fund Federal Grant Anticipation Notes - 2013 Series A	$252,545,000	Fixed	2016 - 2027
5-Nov-13	Commonwealth Transportation Fund Revenue Bonds - 2013 Series A	$423,720,000	Fixed	2023 - 2038

Bond Bills 2013-2014

In March 2013, the Patrick Administration submitted seven bond bills to the General Court seeking authorizations to fund capital expenditures for the next five to ten years. At the time of this writing, each of these bills has either become law or has been passed by both chambers of the General Court and is under conference committee review.

IT Bond Bill – An Act Financing Information Technology Equipment & Related Projects

Governor Patrick filed the IT Bond Bill on March 15, 2013. As filed, the bill sought $869 million in new capital spending authorizations to pay for software, equipment or other information technology related products. In addition, the bill sought funding for continued investment in Commonwealth owned broadband infrastructure. At the time of this writing, the IT Bond Bill is under conference committee review. As passed by the House, the bill contains the following line items, which total $929 million in new capital authorizations:

Account No.	Purpose	Spending Authorized
1790-2018	Second Active Data Center	$9,000,000

1790-3001	Lottery Equipment & Software Upgrades	$300,000,000
1790-3002	Equipment & Software For Programs Eligible for Federal Reimbursement	$140,000,000
1790-3003	General IT Projects	$280,000,000
1599-7061	Broadband Investment	$50,000,000
1599-7062	Grants For Broadband Investment in Schools	$38,000,000
1599-7063	Autism Services Tracking System	$12,000,000
1790-3004	MassDOT IT Software & Equipment	$100,000,000

Supplemental Bond Bill – An Act Supplementing Certain Existing Capital Spending Authorizations

Governor Patrick filed the Supplemental Bond Bill on March 15, 2013. The bill sought to increase the capital spending authorizations contained in Chapter 304 of the Acts of 2008 by $375 million in order to further fund the Health Insurance Exchange, the Integrated Eligibility System platform operated by MassHealth and the facilities maintenance projects. As passed, Chapter 27 of the Acts of 2013 contain the following line items, which total $375 million:

Account No.	Purpose	Spending Authorized
1790-3000	IT Projects	$200,000,000
1102-2008	State Facility Improvements	$175,000,000

Housing Bond Bill – An Act Financing the Production and Preservation of Housing for Lowe & Moderate Income Residents

Governor Patrick filed the Housing Bond Bill on March 18, 2013 seeking new authorizations to maintain public housing and invest in other affordable housing initiatives. As passed, Chapter 129 of the Acts of 2013 contains the following line items, which total $1.4 billion in new capital spending authorizations:

Account No.	Purpose	Spending Authorized
3000-0400	Early Education Facility Grants	$45,000,000
7004-0039	Home Modifications for the Blind or Severely Disabled	$55,000,000
7004-0040	Grants to Support Housing Developments for Mentally Ill or Intellectually Challenged	$47,000,000
7004-0041	Grants to Support Housing Developments for Persons with Disabilities	$38,000,000
7004-0042	Affordable Housing Trust Fund Capitalization	$305,000,000
7004-0043	Housing Stabilization and Investment Trust Fund Capitalization	$135,000,000
7004-0044	Public Housing Authority Grants	$500,000,000
7004-0045	Elderly Housing Revitalization Grants	$50,000,000
7004-0046	Housing Innovation Trust Fund Grants	$80,000,000
7004-0047	Capital Improvement & Preservation Trust Fund Capitalization	$100,000,000
7004-0048	Mixed-Use Development Grants	$45,000,000

Military Bond Bill – An Act Encouraging the Improvement, Expansion and Development of Military Installations in the Commonwealth

Governor Patrick filed the Military Bond Bill on March 18, 2013. The bill provided capital authorizations to allow the Commonwealth to make investment in military bases that would either reduce the likelihood of those bases getting closed by the federal government or provide funding to mitigate the consequences of a base closure on regional economies that depend on the presence of active military bases. As passed into law, Chapter 48 of the acts of 2014 contains the following authorizations.

Account No.	Purpose	Spending Authorized
1100-1590	Military installations mission improvement and expansion projects and Base realignment preparation and mitigation projects	$177,000,000

General Government Bond Bill – An Act Providing for Capital Facility Repairs & Improvements for the Commonwealth

Governor Patrick filed the general government bond bill on March 18, 2013. The bill provides capital authorizations for programs and projects dedicated to building or restoring state buildings and facilities. At the time of this writing, two separate versions of the bill have been passed by both chambers of the General Court. The authorizations contained in the House version of the bill are outlined below:

Account No.	Purpose	Spending Authorized
1102-2009	State Building Maintenance & Construction	$354,000,000
4000-2022	Health & Human Services Building Maintenance	$328,175,000
1102-2014	State Building Accessibility Improvement	$25,000,000
0640-0302	Cultural Facilities Fund	$75,000,000
1100-3002	Vocational School Equipment Grants	$8,000,000
1100-3003	Municipal Grants for Cultural Facilities	$40,420,000
7000-9091	Board of Library Commissioner Grants	$150,000,000
8000-3501	Municipal Public Safety Equipment & Facilities	$11,000,000

8000-0701	Public Safety Equipment	$10,000,000
8000-2021	Police Mobile Data Network	$15,000,000
8100-2026	State Police Cruisers	$60,000,000
8000-2022	Municipal Motor Vehicle Citation System	$20,000,000

Transportation Bond Bill – An Act Financing Improvements to the Commonwealth Transportation System

Governor Patrick filed the transportation bond bill on March 17, 2014. The bill contains capital spending authorizations to make substantial investments in state road and mass transit maintenance, as well as funding to expand MBTA service, purchase new train cars and improve regional airports. As passed into law, Chapter 79 of the Acts of 2014 contain the following authorizations:

Account No.	Purpose	Spending Authorized
6121-1314	Federal Highway Projects	$1,900,000,000
6121-1317	State Highway Projects	$2,978,603,273
6121-1318	Complete Street Certification Grants	$50,000,000
6122-1224	Municipal Road Grants (Chapter 90)	$300,000,000
2890-7020	Parkway Projects	$125,000,000
6622-1305	Rail & Transit Equipment	$350,000,000
6622-1382	Regional Bus Service Equipment	$24,000,000
6622-1380	Rail Transit Planning & Right of Ways	$80,000,000
6621-1308	MBTA System Repairs & Improvements	$2,500,000,000
6820-1301	Airport Improvements	$ 89,000,000

6420-1317	RMV Improvements	$63,000,000
6622-1381	South Coast Rail Project	$2,300,000,000
6622-1382	Green Line Extension Project	$1,327,517,000
6622-1383	South Station Expansion	$325,000,000
6622-1384	Passenger Rail Improvements	$175,000,000
6622-1385	MBTA Locomotive Procurement	$30,000,000
6622-1386	Environmental Impact of Rail Studies	$2,000,000
6720-1307	MassDOT Technology Procurement	$146,500,000

Environmental Bond Bill - An Act Providing for the Preservation and Improvement of Land, Parks and Clean Energy in the Commonwealth

Governor Patrick filed the environmental bond bill on March 17, 2014. The bill contains capital spending authorizations to make improvements to parks and parkways, as well as to invest in a variety of state programs dedicated to land preservation and energy efficiency. At the time of this writing, the bill had been passed by both chambers of the General Court and its provisions were under conference committee review. The authorizations contained in the House version of the bill are outlined below:

Account No.	Purpose	Spending Authorized
2000-7053	State Building Maintenance & Construction Related to Environment and Energy	$10,000,000
2200-7021	Clean Water Projects	$62,000,000
2300-7021	Infrastructure Improvements for Department of Fish & Game	$8,000,000
2300-7027	Fresh Water Fish Restoration Programs	$4,000,000

2300-7028	Marine Fish Restoration Programs	$4,790,000
2800-7032	Storm Water Management & Improvement Programs	$24,000,000
2800-7107	For Improvement & Management of Coastal Inland Waterways	$60,000,000
2800-7108	For Improvement & Dredging of Public Harbors	$30,000,000
2800-7027	For Conservation Land Acquisition	$50,000,000
2840-7027	For Design & Improvement of Flood Control Facilities	$2,000,000
2800-7029	Conservation District Grants	$1,625,000
2800-7031	Protection & Rehabilitation of Lakes & Ponds	$10,000,000
9300-7030	Green House Gas Reduction Programs	$5,000,000
9300-7919	Energy Efficiency & Improvement Programs	$10,000,000
0620-1001	Water Pollution Abatement Trust	$57,000,000
1100-2510	Improvements to Public Marinas & Coastal Facilities	$125,000,000
1100-2511	Marine Industrial Infrastructure	$7,000,000
2000-7028	State Dam Repairs	$60,000,000
2000-7054	Parkland Community Grant Program	$50,000,000
2000-7056	Conservation Grants	$8,000,000
2000-7058	Landscape Partnership Grant	$35,000,000

	Program	
2000-7066	Municipal Land Conservation Grant Program	$12,000,000
2000-7070	Regional Climate Change Planning Grants	$10,000,000
2500-7011	Agricultural Preservation Grants	$20,000,000
2500-7024	Agricultural Pollution Abatement Grant	$2,000,000
6720-1307	Boston & New Bedford Harbor Dredging Grant	$100,000,000
6720-1308	Highway Water Drainage Improvements	$106,000
7100-3000	Expansion of UMass Urban Sustainability Facilities	$20,300,000
7100-3001	Improvements to Stockbridge Agricultural School	$5,000,000
7100-3002	UMass Laboratory Space	$5,000,000
2000-7051	Smart Growth Planning Grants	$10,000,000
2000-7052	Forest Management	$5,000,000
2000-7055	Fish & Wildlife Studies & Planning	$15,000,000
2000-7057	Urban Neighborhood Parks Program	$37,000,000
2000-7059	Aqueduct Trails Grants	$2,000,000
2000-7060	Open Space Land Acquisition	$20,000,000
2000-7061	Tree Planting & Green Space Protection	$20,000,000
2000-7062	Lake & Pond Improvements	$26,000,000
2200-7023	Clean & Closure of Solid Waste	$10,000,000

	Facilities	
2200-7025	Oil & Hazardous Material Clean-Up	$3,000,000
2300-7020	Land Acquisition & Planning to Protect Plants & Trees	$30,000,000
2300-7023	Protection of Rare & Endangered Animal Species	$2,000,000
2300-7024	Conservation Research & Land Acquisition	$1,000,000
2300-7025	Wetlands Restoration	$20,000,000
2300-7026	Improvement of Inland Waterway Access Sites	$20,400,000
2500-7023	Agricultural Stability Planning	$15,000,000
2840-7024	Improvements & Maintenance of Recreation Facilities	$185,000,000
2840-7026	Recreational Trail Grants	$5,000,000
2890-7020	State Owned Recreation Trail Improvements & Maintenance	$58,000,000
9300-7031	Greenhouse Gas Reduction Program	$5,000,000
9300-7918	Energy Conservation Program	$25,000,000
1102-2015	Accelerated Energy Program	$62,000,000
1102-2016	Accelerated Energy Program	$250,000,000
2000-7026	Coastal Infrastructure Improvement & Design	$120,000,000

Chapter 4: Debt Affordability Committee

Chapter 165 of the Acts of 2012, An Act to Improve the Administration of State Government and Finance, created the Capital Debt Affordability Committee ("CDAC") as a replacement to the debt appropriation limit set by the General Court in 1990.[129] The 2013-2014 legislative session included the first capital borrowing review by the CDAC, which was presented to the Legislature on December 15, 2013.

The CDAC is chaired by the Secretary of A&F and consists of the Treasurer, the Comptroller, the Secretary of Transportation, two appointees of the Treasurer and one appointee of the Governor.[130] The ranking majority and minority members of the House and Senate Committees on Ways and Means and the House and Senate Committees on Bonding, Capital Expenditures & State Assets serve as non-voting members.[131] The CDAC is charged with recommending to the Governor the total amount of new Commonwealth debt that "prudently may be authorized" for the next fiscal year.[132] In making this recommendation the CDAC is tasked with reviewing the "size and condition of the Commonwealth's tax supported debt."[133]

The CDAC began meeting in April 2013 and ultimately met 14 times before issuing its recommendation to the Governor. The meetings were supplemented by working group meetings that consisted of staff from the Administration, the Treasurer's Office, the Department of Transportation and the House and Senate Committees on Bonding, Capital Expenditures & State Assets.

Over the course of these meetings, the CDAC reviewed a variety of issues that could affect both the affordability of issuing new debt and the extent to which the issuance of new debt might be required. The issues reviewed by the CDAC include: (1) likely changes in interest rates over the next several years; (2) the criteria used by bond rating agencies to assign ratings; (3) the types of capital spending Massachusetts chooses to execute and the extent to which a uniform capitalization policy might change such capital spending practices. In addition, the Committee reviewed the variety of debt and debt service statistics available to analyze how Massachusetts compares to other states.

The CDAC presented its recommendation regarding the total amount of new Commonwealth debt that may be prudently issued to the Governor on December 16, 2013. The CDAC determined that the Administration could prudently borrow $2.125 billion in debt for FY2015. Notably, this is precisely the level of capital spending the Administration budgeted in the FY2015 capital plan.[134]

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[129] Chapter 165 § 112, Acts of 2012.
[130] G.L. Chapter 29 §60B(c).
[131] G.L. Chapter 29 §60B(c).
[132] G.L. Chapter 29 §60B(f).
[133] G.L. Chapter 29 §60B(e).
[134] Commonwealth of Massachusetts Five Year Capital Plan, FY 2015-FY2019.

In performing its analysis of the Governor's capital budget proposals, the CDAC adopted a definition of debt affordability as: "the ability to meet debt service requirements without raising tax rates and without negatively impacting the provision of critical public services." To assess whether the debt to be issued in FY2015 conformed to this definition of affordability, the Committee adopted a three-part test. The first part of the test required that the average debt service over the next ten years from the expected borrowing in FY2015 not exceed 7% of budgeted revenues and that at no time during the same period should debt service exceed 7.5% of budgeted revenues. The second part of the test required any new debt issuance to conform with the requirement of the statutory bond cap.[135] The third part of the test required that the amount of new debt issued not exceed an additional $125 million per year.

To supplement its recommendations, the Committee planned to issue a report outlining its analysis and discussing the various issues raised in reviewing Massachusetts capital spending and borrowing practices. At the time of this writing, this report has not been published.

Two common themes that emerged repeatedly over the course of the CDAC's deliberations were (1) the absence of a uniform capitalization policy for the Commonwealth's capital assets; and (2) the pressure placed on the capital budget by rising programmatic expenditures in the operating budget. The absence of a uniform capitalization policy, according to some CDAC members, made it difficult for capital planners to assess and prioritize capital spending requests in a manner that is fully reflective of the true capital needs of the Commonwealth. At the same time, ever rising operating budget costs related to healthcare and pension liabilities, according to some CDAC members, made it difficult to determine whether debt service should be considered affordable without taking operating budget pressures into account. The CDAC planned to continue to review and analyze these issues when it begins meeting again later this year.

[135] G.L Chapter 20 §60A.

Chapter 5: Committee Recommendations

Rule 17G of the Rules of the Massachusetts House of Representatives asks the Committee to analyze the Commonwealth's capital spending to determine whether the laws, administrative regulations and programs through which such spending is executed are in accordance with the intent of the General Court. This section responds to Rule 17G based on the information gathered during the 2013-2014 legislative session and outlined in the discussion of capital spending initiatives above.

As a general matter, the capital spending practices of the Commonwealth are more transparent and executed with more foresight than has been the case previously. The Patrick Administration's adoption of clear and consistent rules to determine the appropriate size of the capital budget, coupled with its annual publication of a five-year capital plan, provides the public and legislators with a framework to use when trying to understand capital spending choices or advocating on behalf of specific capital spending initiatives.

In order to build upon the capital budget reforms achieved by the Patrick Administration, the Committee makes the following recommendations:

1. **The Commonwealth should develop and implement a single database for use by all agencies to track all capital spending in real time and at the project level and should make this database publically available.**

Not all state agencies track their capital spending in a central database and those that do use a variety of different systems and software to do so. As a result, there remains no central database of the Commonwealth's capital spending. The resulting lack of readily accessible, real time information weakens the Commonwealth's capital planning and spending mechanisms and costs taxpayers money.

This information management failure has many causes. Power struggles between departments or staff over the years surely contributed to this fractured accounting system, as did a lack of resources to purchase new systems. In addition, the long standing practice of paying operating costs from the capital budget has presented another hurdle: it is difficult to accurately assign capital spending to a particular project when capital funds are being used to pay general departmental expenses such as salaries and other operating expenses. Over the last three legislative sessions, the Legislature has worked to prohibit the capitalizing of operating expenses, targeting the widespread use of the practice at MassDOT in particular. The adoption of capital budgets that truly reflect only one-time expenses attributable to the acquisition or construction of individual capital assets or the making of grants, would help the Commonwealth transition to a unified tracking system of capital budget spending and authorizations that pairs every dollar borrowed and spent with a particular program or project specified in a bond bill. The current Administration recognizes the need to implement such a system and has created much of the needed groundwork in terms of capital budget reform to make it possible. The Legislature should work with the next administration to eliminate operating expenses entirely from agencies' capital budgets, to ensure that all state agencies are using the same system and provide adequate staff training to ensure that staff is using the new system correctly.

Finally, the creation and maintenance of this database along with the database of current assets' condition and maintenance needs described in Recommendation #2, would relieve the burden on the Administration of submitting regular capital spending reports. While currently required by statute, administrations past and present often fail to submit such information citing limited staff time and the lack of a centralized database from which to draw. In short, the creation of the publically accessible, unified database we're recommending would solve several current problems with the Commonwealth's capital planning and spending practices simultaneously.

2. The Commonwealth should develop and implement a single database for use by all departments and agencies to monitor the condition and maintenance needs of all capital assets and should make this database publically available.

The Patrick Administration has improved the Commonwealth's ability to track and monitor the condition of its capital assets, creating databases to track the condition of some state assets. It is vital that the next administration extend these initial steps and build and maintain a single database of state capital assets, such as state-owned real estate, that tracks the condition of each asset and monitors both deferred maintenance and/or the projected replacement cost of the asset. The database should include all capital assets that are financed with the liabilities of the Commonwealth, regardless of whether such assets are owned by the Commonwealth directly. This database, including a discussion of the assumptions it uses and a record of its update schedule, should be made available on the Commonwealth's website and future capital budget choices made by the Legislature and the administration should be supported by such data.

3. Using the data made available by these proposed capital spending and asset databases, the Legislature should revisit bond bills each session and use those opportunities to shrink outstanding, unused capital spending authorizations.

With better data the Administration, the Legislature and the public could better review the quality of the Commonwealth's capital spending choices. The Legislature could use this improved capital needs and capital spending data to revisit capital authorizations more frequently. By taking advantage of these opportunities to also reduce previously authorized, but unused spending authorizations—particularly, broad, un-earmarked authorizations—the Legislature could increase its role in making capital spending decisions.

Similarly, the Legislature could and should increase its role in making capital spending decisions by removing language that has been included in nearly all of the bond bills passed since 2009 that allows the Administration to disregard authorizations for particular projects set aside within accounts dedicated to capital spending programs. This language has appeared in section 1 of many recent bond bills: "…provided, that the amounts specified in an item or for a particular project may be adjusted in order to facilitate projects authorized in this act." The Legislature's decision to include this language grants virtually limitless discretion to the executive branch to make specific capital spending decisions. A better choice would be to improve the quality and availability of capital spending and capital needs data, in order to allow the Legislature to better analyze the Administration's capital spending recommendations and responsibly respond with reasonable directives of its own.

4. The Legislature should analyze more carefully the expected future effects on operating budget expenses of capital spending decisions and make this analysis publicly available.

The Legislature should institutionalize a system for routinely describing the potential impacts of projected capital spending and borrowing and asset maintenance decisions on the Commonwealth's operating budget. For instance, new public works require on-going maintenance; similarly, investments in technology can save operating costs through efficiencies. Requiring the Legislature to better articulate the relationship between the operating budget and the capital budget will help ensure that the General Court makes responsible and informed choices when authorizing the Administration to move forward with capital budget initiatives.

5. The Legislature should expand the membership, mandate and resources of the Capital Debt Affordability Committee.

The Capital Debt Affordability Committee, created by statute in 2012, has demonstrated that it can be an effective tool to maintain the capital budgeting framework instituted by the Patrick Administration, while also providing a forum for branches of the Administration and the Legislature to compare views on the capital budget and the long-term obligations of the Commonwealth. In order to improve the ability of the Capital Debt Affordability Committee to perform these functions, the legislature should consider: (1) expanding the scope of the Capital Debt Affordability Committee's mandate; (2) providing the Capital Debt Affordability Committee with support staff dedicated to analyzing the condition of the Commonwealth's capital assets and the status of the Commonwealth's long-term liabilities; and (3) reorganize the membership of the Capital Debt Affordability Committee in order to maximize the rigor of review it can provide.

Expanding the scope of the Capital Debt Affordability Committee such that its review includes the long-term pension and healthcare obligations of the Commonwealth, in addition to long-term debt, will allow the Capital Debt Affordability Committee to execute a review of spending choices that more accurately reflects the long-term budget pressures faced by Massachusetts policy makers. To the extent that Massachusetts wishes to understand how long-term liabilities shape future budget choices, placing review of all the long-term commitment made by the Commonwealth within the mandate of one committee is optimal.

Providing the Capital Debt Affordability Committee with a dedicated staff will allow it to perform its review of the affordability of long-term Commonwealth obligations with the focus and independence necessary to adequately review of the Administration's capital budget choices.

Finally, a reorganization of the Capital Debt Affordability Committee's membership such that it includes more non-governmental representatives as well as representatives from the Office of the State Auditor and the Office of the Secretary of State would provide additional perspective and increase the ability of the CDAC to act as an analytical tool that is independent of any single branch of state government. A Capital Debt Affordability Committee with membership that includes all constitutional officers and a chair that rotates on an annual basis is likely to be viewed by the public and by the capital markets as having sufficient diversity and independence to achieve the rigorous annual review of the capital budget that the revision of Section 60B of Chapter 29 contemplated.

6. The Legislature should avoid decentralizing the Commonwealth's capital market activities.

The Commonwealth has a long tradition of maintaining a consolidated and state-level approach to managing its capital spending and debt issuance. While this approach has made it appear that the Commonwealth has more debt than most other states, the reality is that tax-supported debt in the Commonwealth is comparable to any state that operates with a comparable level of public infrastructure. The chief difference between the Commonwealth and most states is that the Commonwealth issues debt almost exclusively at the state level, while other states issue significant debt at the county or equivalent level. While this difference tends to subject the Commonwealth to disproportionate scrutiny on various debt-ratio tables, it's important to remember the benefit the centralization of debt issuance provides. Issuing debt at the state level, through the Office of the Treasurer, allows Massachusetts to ensure that its capital market operations are executed with the efficiency that can only be achieved by the experience of a perpetual market participant. The centralization of capital market operations with the Treasurer's office helps the Commonwealth minimize the professional fees associated with issuing long-term debt, while also providing a single source for oversight of market developments. Over the last two legislative sessions there have been proposals to authorize additional debt supported by Commonwealth revenues that would be issued outside of the Treasurer's Office. The Committee believes that such proposals should be reviewed with extreme scrutiny in order to minimize the possibility that the state lose the benefits that come with centralized capital market operations.

7. The Commonwealth Should End the Practice of Paying Operating Costs With Borrowed Funds.

This Committee has long recommended that the Commonwealth end the practice of paying operating expenses – for example, salaries and fringe benefits – with borrowed funds. This practice costs taxpayers money over the long term and reduces the Commonwealth's capacity to invest in important capital projects. Fortunately, this session the General Court directed the Administration to remove the personnel costs of all salaried employees from the capital budget of the Massachusetts Department of Transportation and raised new revenue specifically for this purpose. This is a large step in the right direction. The Legislature should work with the next Administration to extend this reform to all secretariats. There is no reason that with careful planning and disciplined budgeting that this goal cannot be achieved by the next Administration.

Appendix 1: Rule 17G of the Massachusetts House of Representatives, 2013-2014 Legislative Session

17G. The committee on Bonding, Capital Expenditures and State Assets shall review all legislation providing for the giving, loaning or pledging of the credit of the Commonwealth (see Article LXII of the Amendments to the Constitution, as amended by Article LXXXIV). Said committee shall be responsible for evaluating such legislation and determining the appropriateness of enacting legislation containing increased bond authorizations for the Commonwealth. The committee shall periodically review and hold open public hearings, accepting oral and written testimony on the status of the bonds and notes of the Commonwealth, including (1) general obligation debt; (2) dedicated income tax debt; and (3) special obligation debt. The committee shall also, in its continuing study of the state's bonding practices, review the Commonwealth's liabilities relative to (a) state-supported debt; (b) state-guaranteed debt; and (3) indirect obligations.

Any bill providing for borrowing for new projects, and requiring the Commonwealth to issue bonds for such purpose, shall, prior to its reference to the committee on Ways and Means, be referred to the committee on Bonding, Capital Expenditures and State Assets for report on its relationship to the finances of the Commonwealth. A measure may initially be referred to a joint committee with jurisdiction over the subject matter before being referred to the committee on Bonding, Capital Expenditures and State Assets.

The committee on Bonding, Capital Expenditures and State Assets shall consult with the various agencies of the executive branch and the office of the Treasurer and Receiver-General relative to project expenditures, availability of funds, the sale of new bonds and the resultant debt obligations, federal reimbursements and other related funding and bonding issues.

The committee on Bonding, Capital Expenditures and State Assets shall be authorized to conduct hearings relative to the statutory authority of the executive branch and the Treasurer and Receiver-General in the issuance and sale of bonds and notes and the expenditure of capital funds by the various agencies and authorities of the Commonwealth. The committee shall determine whether such laws, administrative regulations and programs are being implemented in accordance with the intent of the General Court. The committee shall be authorized to make recommendations for statutory changes and changes in the Constitution which would grant discretion to the General Court over the allotment and expenditure of funds authorized by capital appropriations.

The committee on Bonding, Capital Expenditures and State Assets shall be authorized to report to the General Court from time to time on the results of its hearings and to file drafts of legislation and proposals for amendments to the Constitution necessary to carry its recommendations into effect.

Messages from the Governor setting terms of bonds and notes, or for the de-authorization or authorization of bonds and notes shall be referred to the committee on Bonding, Capital Expenditures and State Assets.

Appendix 2: Explanation of Terms

There are a number of terms, concepts and procedures related to state borrowing that may be unfamiliar to many of those who may read this report. For this reason, the following seeks to define and explain these terms in a readily understandable way.

What is a bond?

A bond is a security that a government or corporation issues as a way to borrow money. The bond represents a debt owed by the bond issuer to the purchaser of the bond and the obligation to repay the debt. The state issues bonds through an underwriter who will sell the bonds to investors. Investors buy the bonds and the purchase money goes to the state, which then uses the money for authorized capital projects. The state or other issuer must repay the purchasers the principal (the face amount of the bond) by the maturity date of the bond. The issuer also must make interest payments to bondholders, generally twice each year.

What is the difference between a "general obligation bond" and a "special obligation bond" (also known as a "revenue bond")?

A general obligation bond is backed by the "full faith and credit" of the state. This means that all of the revenues and assets of the state are available for repayment. General obligation bonds are repaid by debt service appropriations from the General Fund. Each budget contains a line item appropriating the amount of the debt service due in that fiscal year.

A special obligation bond (SOB), also known as a revenue bond, is backed by and repaid from a specific revenue source. It is not backed by the full faith and credit of the state and is not paid from general revenues. For example, bonds issued to pay for the construction of the Boston Convention and Exhibition Center are revenue bonds. These bonds are paid *solely* from special "Boston Convention and Exhibition Center" revenues, including tourism-related hotel, sales and meals taxes and surcharges on car rentals and tour tickets. These special surtaxes and surcharges are deposited to a separate fund, which is then used to pay the principal and interest on the bonds.

What is a note?

A note differs from a bond in that it is generally issued for a shorter term than a bond. One kind of note is a "bond anticipation note" (BAN). BANs are commonly issued before the longer-term bonds are sold. BANs will typically be issued for a one-year term, but may be renewed for additional one year terms. Once the state is ready to issue the bonds, the BANs will be paid off from the proceeds of the bond sale.

What is a grant anticipation note?

Another type of note is a "grant anticipation note" or GAN. GANs were first issued to finance the Central Artery and Third Harbor Tunnel project, commonly known as the "Big Dig." GANs were needed to bridge the funding gap between immediate construction cost needs and future federal highway reimbursements. During certain years of the project, those costs exceeded the rate at which federal grants were being received. Thus, the GANs were issued in anticipation of future federal highway grants. The state issued GANs to finance a portion of the accelerated structurally-deficient bridge program.

GANs differ from other notes in that they are longer-term than typical notes. In addition, the GANs are secured by a pledge of future federal highway reimbursements. Thus, once federal grants are received, the funds go into a grant anticipation note trust fund and are used first to pay debt service on GANs.

What is debt service?

The term "debt service" refers to required payments on borrowings including state bonds and notes. Debt service consists of repayments of the principal amount of the bonds plus accrued interest.

What is a bond rating?

Certain companies, such as Moody's Investor Service, issue ratings of the governments and companies that issue bonds. The ratings are an assessment of the creditworthiness of bond issuers, much like the creditworthiness of individuals is rated in credit reports. The ratings tell an investor, using a letter/number designation ("AAA" being the best rating for Moody's) how likely the issuer will be able to pay the principal and interest on its bonds in full and on time. Other major companies that rate government debt are Standard & Poor's and Fitch Ratings.

What is the administrative bond-cap?

The administrative bond-cap limits the amount of money that the Governor chooses to spend annually from bond funds. The bond-cap was first instituted in 1991. This limit is not provided for by statute but is established by the Executive Office for Administration and Finance. The Executive branch has increased the bond-cap from time to time.

The overall capital spending limit in some cases is higher than the bond-funded spending cap. Some investment categories, particularly transportation, receive money for capital projects from third party sources. For transportation, the state receives large federal highway reimbursements annually, which are included in the transportation spending cap.

What is the capital spending plan?

The capital spending plan is a budget established by the Executive Branch that specifies how bond funds and other money for capital projects will be spent during a particular time period. The Administration annually develops and publishes a five-year capital spending plan that shows how much money will be allocated to the various capital investment categories in each year. The spending plan divides up the amount of money in the annual bond or capital spending cap.

The capital budget, as set forth in the capital spending plan, differs from the operating budget in that it is paid for by borrowing money through the issuance of bonds. The operating budget is funded by the state's general revenues. The capital budget pays for items and projects, such as roads and buildings that have sufficiently long useful life to justify paying for them over a period of years.

How are bonds authorized?

Bonds and other kinds of debt obligations must be authorized by legislation. Bond bills include a section or sections that authorize the State Treasurer to issue and sell bonds. These sections are known as “bond authorizations.”

What is a bond authorization?

A bond authorization is a section in a bond bill that authorizes the State Treasurer, at the request of the Governor, to issue and sell bonds of the Commonwealth. The authorization specifies the kind of bond, e.g. whether general or special obligation, the total amount of bonds authorized and the maximum term of the bonds. The authorization states that the Governor shall recommend the term of the bonds as required under Article 62 of the amendments to the state constitution.

What is a capital spending authorization?

Capital spending authorizations are the particular spending items authorized in bond bills and funded from the bonds authorized in the corresponding bond authorization section. Capital spending authorizations are somewhat like appropriations in the budget but are for specific capital projects or programs and are funded from bond proceeds.

For how long is a capital spending authorization valid?

State law provides that a capital spending authorization is valid for a period of five years. Unless the authorization is extended by legislation, it will expire and can no longer be used. Each year, the state enacts legislation to extend the term of unused capital spending authorizations that are due to expire but are still needed.

What is authorized and unissued debt?

This refers to bond-funded spending authorizations that have not been used. Once bond-funded accounts are authorized, money can be spent from these accounts at any time until the account expires or is de-authorized. The part of a bond-funded authorization that has not been spent at any given time is referred to as "authorized and unissued." The state comptroller issues regular, periodic reports on the amount of unused bond authorizations.

Are there any legal limits on the amount of money the state can borrow?

Yes. While the administrative bond-cap is not required or set by law, there are also statutory limits on the amount of debt the state can have at any one time and the percentage of the budget that may be used for debt service payments. Mass. Gen. Laws, chapter 29, section 60A establishes a limit on the total amount of direct debt the state may have outstanding at one time. The statute established an initial limit in 1989 and provides for an annual 5% increase in the amount of the limit. Thus, debt outstanding for a fiscal year cannot exceed 105% of the amount of debt outstanding during the previous fiscal year. As mentioned, the limit applies only to direct debt of the Commonwealth and, therefore, doesn't cover such indirect obligations as contract assistance (state payments to a separate entity to pay debt service on bonds issued by that entity). Refunding bonds, which are used to refinance existing higher interest bonds, are also excluded from the debt limit.

Appendix 3: Bond Authorizations (2008 – Present)

Law	Category	Authorized	Issued	Available
Chapter 86 of 2008	Transportation	$1,623,400,000	$817,602,393	$620,165,432
Chapter 119 of 2008	Housing	$1,275,000,000	$1,061,994,237	$158,906,040
Chapter 130 of 2008	Life Science	$500,000,000	$187,312,242	$283,255,567
Chapter 231 of 2008	Broadband	$40,000,000	$35,475,868	$4,038,703
Chapter 233 of 2008	Transportation	$1,876,000,000	$731,310,715	$872,921,354
Chapter 258 of 2008	Higher Education	$2,190,555,630	$878,724,495	$1,173,966,512
Chapter 303 of 2008	Transportation	$1,445,086,500	$990,664,956	$398,106,747
Chapter 304 of 2008	General Government	$3,349,805,000	$1,029,926,785	$2,148,074,265
Chapter 312 of 2008	Environment	$1,756,301,330	$737,217,640	$819,347,942
Chapter 240 of 2010	Economic Development	$75,000,000	$53,250,000	$19,550,000
Chapter 133 of 2012	Transportation	$200,000,000	$105,468,127	$93,727,643
Chapter 242 of 2012	Transportation	$685,250,000	$51,154,198	$482,237,822
Chapter 18 of 2013	Transportation	$300,000,000	$51,626,073	$246,560,789
Chapter 129 of 2013	Housing	$1,400,000,000	$0	$1,322,266,070
Chapter 48 of 2014	Military	$177,000,000	$0	$177,000,000
Chapter 79 of 2014	Transportation	$12,765,620,273	$0	$12,765,620,273

Appendix 4: Executive Office of Housing and Economic Development FY2012-FY2013 Capital Grants by Location

BOSTON REDEVELOPMENT AUTHORITY, BOSTON CITY HALL	$1,040,574.63
CITY OF BEVERLY, TREASURER	$232,040.40
CITY OF BROCKTON, TREASURER	$4,373,990.06
CITY OF CHELSEA, CITY HALL	$385,453.93
CITY OF EVERETT, TREASURER	$1,151,317.00
CITY OF FALL RIVER, TREASURER	$35,166.00
CITY OF GARDNER	$496,576.10
CITY OF HOLYOKE	$4,890.93
CITY OF LAWRENCE, TREASURER	$284,096.39
CITY OF LEOMINSTER	$504,342.40
CITY OF LOWELL, TREASURER	$1,649,404.05
CITY OF MEDFORD, TREASURER	$167,860.59
CITY OF NEW BEDFORD, TREASURER	$1,200,000.00
CITY OF NEWTON	$5,869,143.27

CITY OF PEABODY, TREASURER	$1,577,778.96
CITY OF PITTSFIELD, TREASURER	$2,589,661.63
CITY OF QUINCY, TREASURER	$4,866,191.95
CITY OF REVERE, TREASURER	$3,500,000.00
CITY OF SALEM	$901,406.43
CITY OF SOMERVILLE	$490,000.00
CITY OF WESTFIELD	$1,552,596.27
CITY OF WORCESTER, TREASURER	$12,024,805.65
HOLYOKE GAS & ELECTRIC DEPARTMENT	$114,786.14
MASS BAY TRANSPORTATION AUTH	$1,171,876.21
MASS DEVELOPMENT FINANCE AGENC, DEVENS FIRE DEPT	$2,842,977.40
MASS GROWTH CAPITAL CORP	$3,350,000.00
MASS TECHNOLOGY PARK CORP	$19,631,870.62
MASSACHUSETTS HOUSING FINANCE AGENCY	$2,300,000.00
MBTA, TREAS CONTROLLER	$15,696,917.69
MYSTIC VALLEY DEVELOPMENT COMM, MALDEN GOVERNMENT CTR RM 621	$2,159,008.00
SOUTH SHORE TRI-TOWN, DEVELOPMENT CORP	$512,091.00
TOWN OF AMESBURY, TREASURER	$707,944.84

TOWN OF ATHOL, TOWN HALL	$815,039.15
TOWN OF BARNSTABLE	$2,000,000.00
TOWN OF BARRE	$28,217.00
TOWN OF BERNARDSTON, TREASURER	$674,835.17
TOWN OF BRAINTREE, TREASURER	$2,302,054.86
TOWN OF BROOKFIELD	$49,441.40
TOWN OF BUCKLAND	$276,112.88
TOWN OF CUMMINGTON, TREASURER	$195,987.92
TOWN OF DEDHAM, TREASURER	$954,363.37
TOWN OF EAST BROOKFIELD	$32,942.70
TOWN OF EASTON, TOWN HALL	$82,238.60
TOWN OF FLORIDA	$528,000.00
TOWN OF FOXBOROUGH, CITY HALL	$952,048.88
TOWN OF FRANKLIN, C/O JAMES DACEY TREASURER	$810,223.25
TOWN OF GOSHEN	$356,672.50
TOWN OF GREAT BARRINGTON	$76,800.00
TOWN OF HINGHAM	$689,597.99
TOWN OF HOLLAND	$500,000.00

TOWN OF HOPKINTON	$849,648.21
TOWN OF HUBBARDSTON	$500,000.00
TOWN OF LEE	$414,759.95
TOWN OF LEXINGTON, TREASURER	$992,991.22
TOWN OF LUDLOW	$3,819,708.98
TOWN OF MONTEREY	$458,730.53
TOWN OF NATICK	$13,002.63
TOWN OF NEW MARLBOROUGH	$118,693.59
TOWN OF ORANGE	$21,696.47
TOWN OF PLAINFIELD	$29,681.41
TOWN OF PLYMPTON	$661,701.75
TOWN OF PRINCETON	$478,531.50
TOWN OF PROVINCETOWN	$878,325.02
TOWN OF RANDOLPH	$2,398,970.34
TOWN OF SAUGUS	$820,750.80
TOWN OF TOPSFIELD, TREASURER	$387,145.41
TOWN OF WEBSTER	$208,800.22
TOWN OF WILLIAMSBURG	$417,864.08

UNIVERSITY OF MASSACHUSETTS, BUILDING AUTHORITY	$416,179.69
Grand Total	$118,596,526.01

*This only reflects the Executive Office of Housing and Economic Development's capital payment that were distributed directly to cities, towns and authorities. As a result $916,861 of HED's capital spending during FY2012-FY2013 has been omitted.