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Ambitious Transportation Plan Would Restructure Massachusetts Tax System

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Call it a transportation proposal with plenty of moving parts.

Massachusetts Gov. Deval Patrick threw down the gauntlet two months ago when he unveiled a far-reaching transportation overhaul and tax-code changes to pay for it.

Patrick, citing a need for an additional $1 billion annually for transportation alone, would raise the income tax rate by one percentage point to 6.25% while cutting the sales tax from 6.25% to 4.5%. Sales-tax receipts would go to a lockbox account for transportation maintenance and expansion projects.

Massachusetts has a flat income tax rate.

Patrick's proposal, which the state's Department of Transportation laid out in a 64-page report, includes an $850 million renovation to South Station, light-rail service across all corners of the state, and upkeep for the beleaguered Massachusetts Bay Transportation Authority transit system in Greater Boston.

Critics say it costs too much. But transit advocates say the state can't afford to do nothing.

"Massachusetts is well known for the quality of our transportation infrastructure," state Transportation Secretary and former MBTA chief Richard Davey said in an interview. "The Big Dig ran over budget and had insufficient oversight, but it's been transformative. However, we've taken a huge step backwards. We've left the rest of the state behind."

The backdrop to all this is aging transit infrastructure and mountainous debt. In fiscal 2012, according to a report that Aecom prepared for the Boston Foundation with assistance from A Better City and the Massachusetts Competitive Partnership, debt service accounted for 45% of the MassDOT and MBTA operating budgets combined.

In addition, the MBTA is borrowing $470 million per year to cope with a state-of-good-repair backlog that exceeds $3 billion. The MBTA has about $5.2 billion of outstanding debt. It inherited much of this debt from the state under the "forward funding" agreement of 2000, including transit commitments related to the Big Dig, formally called the Central Artery/Tunnel Project.

According to the Aecom report, MBTA debt service payments were $448.2 million in fiscal 2012 and about one-third of every dollar in revenue goes to pay debt, making it one of the most highly leveraged transit agencies in the country.

Structural debt "cramps our capital projects. And not being able to move our employees around reduces our viability," said Davey.

"We're now having an adult conversation about transportation priorities and funding in Massachusetts," said Richard Dimino, president and chief executive of A Better City, a research organization that advocates economic competitiveness in Greater Boston. Dimino was also Boston's transportation commissioner from 1985 to 1993.

Lawmakers already are pushing back against Patrick's proposal. On Thursday, House Speaker Robert DeLeo struck a cautionary note. "Before we commit any new dollars to our transportation system, we still have to look at every opportunity there might be to take out any unnecessary costs," DeLeo, D-Winthrop, told the Greater Boston Chamber of Commerce. "I think we need to be honest about what the scope of this problem requires."

DeLeo also said he would rather handle the transportation financing plan separately from mainstream budget talks. The legislature's Joint Commission on Transportation is scheduled to discuss the proposals Tuesday.

Massachusetts reworked its siloed transportation hierarchy in 2009 through a far-reaching bill that among other things, merged the MBTA into MassDOT and disbanded the Massachusetts Turnpike Authority. State officials have touted the benefits of those changes, including improved credit ratings. In 2010, both Moody's Investors Service and Standard & Poor's assigned the commonwealth triple-A ratings for its accelerated bridge program financing. In October, Standard & Poor's raised its rating on the MassDOT Metropolitan Highway System senior lien revenue bonds to A-plus from A.

But even that eight-year, $3 accelerated billion bridge program, which stands to replace or repair 200 structurally deficient bridges through 2016 and has drawn acclaim within the bond industry as a creative financing tool, will not be enough, according to the Aecom study. "The commonwealth will still have a significant backlog of deficient bridges after the program is complete," the report said.

The renovation of landmark South Station is a headline component of the latest transportation plan.

"South Station is important, not just for commuter rail but for intercity passenger travel," said Davey. The station opened in 1899 with 28 tracks.

"Now we're down to 13 tracks. Anyone who has ridden the Acela around here at rush hour is aware that there's essentially no room left," said Davey, who wants to complete the project by the end of the decade.

Adding tracks requires relocation into the adjacent U.S. Postal Service facility. That land purchase poses as a big variable, given the uncertainty surrounding the future of the postal service. "We want to make sure we reach an agreement that's the right size for the taxpayers and for the other party," said Davey.

The $850 million would cover design and construction of existing commuter rail, a new South Coast rail line to the New Bedford-Fall River area, Amtrak services along the Northeast Corridor, and possibly high-speed rail to Montreal.

Even some critics of the spending plan say a new South Station is necessary. They're less enthused, however, about other big-ticket items such as light rail all around the state.

Jim Stergios, executive director of the Boston-based think tank Pioneer Institute, said Patrick has underestimated maintenance costs and in the end, the commonwealth will spend too little for maintenance and too much for expansion projects, some of which he called dubious. While Patrick said the plan is 80% for maintenance and 20% for expansion, Stergios pegs the more likely split as 65-35.

"This will leave us with a maintenance repair shortfall," he said. "The governor's plan assumes a multiplier effect associated with transportation investment that has no basis in fact."

According to Stergios, Patrick's $1.8 billion estimate for South Coast is off mark. "A few years ago it was $2.1 billion," he said.

Stergios also questioned the actual demand for rail service in certain regions. "New Bedford is much more east-west aligned, along I-195 to Providence [R.I.], than north-south to Boston.

"And Springfield does not need a new east-west line," he said.

"Peter Pan Bus Lines has service from Springfield to Boston and they haven't changed their schedule in 10 years. I don't see any boom. The transportation needs for Springfield are more north-south. I see just as many New York Yankees hats there as I do Boston Red Sox hats," Stergios added, pointing to Connecticut commuters from as far south as Hartford who work at Massachusetts Mutual Life Insurance Co.

Aging infrastructure, meanwhile, includes 1970s-era stock on the MBTA's Red and Orange rapid transit rail lines. "They're the workhorses of our system," said Davey. Estimates peg the cost for new cars on both lines at $1.5 billion. Less visible but still essential is the need to upgrade decades-old electrical service. The plan calls for $300 million for fuel systems, water pumps and other infrastructure components.

"I hear from my peers around the country about new, shiny stations and ribbon cuttings. But it's important that we fix what we have now, even though it's not as sexy. You can't see a new subway switching system in a tunnel, but you can see from a platform a train that's broken down," said Davey.

A Better City's Dimino said transportation investment correlates with economic activity. Like Davey, he warned about the need to fix infrastructure, or "all the issues of the past will come back to bite us.

"We've got some of the oldest locomotives in the country. It's gotten so bad that we're buying used locomotives from Utah. That's no way to run an economy," Dimino added.

The Patrick plan would also boost funding for 15 regional transportation authorities beyond Boston, some of which lack evening or weekend service.

Amid all the talk about new projects and new equipment, and old refrain has emerged: The MBTA is running short on money.

The authority's chief financial officer, Jonathan Davis, told a MassDOT committee on Tuesday that the MBTA faces a $140 million shortfall and without funding from the transportation plan, and could have to raise fares by up to 33% or cut service. Last year riders received a 23% fare hike.

One project the MBTA must complete is the extension of a light-rail Green Line branch from Lechmere Square in Cambridge to Somerville and Medford, promised in 1996 for completion by last year and necessary to comply with federal clean air standards as part of the Big Dig.

That extension would cost the state $674 million if the Federal Transit Administration kicks in roughly the other half, state officials say.

Massachusetts thought it had solved MBTA's revolving door of budget crises in 2000 when it enacted "forward funding." Instead of the agency billing the state in arrears, the "T," as locals commonly call the system, got one-fifth of the state's sales tax revenue and issued its own debt. But mistaken projections created new sets of problems, such as an underperforming sales tax and crushing debt.

Moody's in November downgraded the MBTA's senior sales-tax bonds to Aa2 from Aa1, citing "reduced debt service coverage due to cumulative sales tax underperformance." The move affects $3.8 billion in debt.

The MBTA and its commuter branches access 70% of the state population. "Boston's population doubles every weekday, with the workers. And 65% of those trips are on transit," said Dimino. "That's huge."

Stergios, from the Pioneer Institute, sees a legacy angle to Patrick's plan. Patrick has said he would not seek a third term in 2014.

"No one wants to get into motivations as an analyst, but like President Obama, the governor takes an aspirational view of his job," he said.