

In the Arena

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By Tom Conroy

Capital Spending at the Capitol

Are we living on too much on credit, and taking on more debt than we can afford? The question is posed not about your own personal finances, although some folks might have reacted initially to that question with a jolt of apprehension about their own household. And if you did react that way, hold the thought; we'll come back to it. In truth, the question is directed toward the State House, specifically in relation to the recent passage of several capital spending bond bills before the end of the legislative session in July that give the Governor wide-ranging authority to invest in the restoration of myriad state assets.

Your house. The State House. When it comes to debt, an analogy between the two can be helpful in explaining what capital spending on Beacon Hill is all about.

A typical household's finances can be categorized into day-to-day expenses (e.g. clothing, food, utilities) and long-term expenses (roof for the house, a new car). At the State House, the annual operating budget --this year it's \$28 billion- equates to day-to-day expenses, while the state's capital expenditures -as financed through bond bills- consist of worthy projects such as state building repairs, water pollution abatement infrastructure upgrades, large information technology projects, state park renovations, road and bridge maintenance, and the like.

In the past sixty days, the legislature passed bond bills authorizing the Governor to spend over \$15 billion during the next five years: life science investment bonds, housing bonds, higher education bonds, environmental bonds, renewable energy investment bonds, transportation bonds, and general administration bonds. Lots of bonds. Lots of spending.

What do these bond bills mean for Lincoln, Sudbury, and Wayland? They are opportunities to apply for grants from the state to fix local roads and bridges, preserve open space such as the Nobscot property, clean up brownfields, manage storm water run-off, and similar projects. It might also mean expanded parking spaces at the West Natick commuter rail station, and a reconfiguration of the Route 9 / Oak Street intersection, two projects that have been high-priority, but unfunded, projects for several years.

How much can we afford? By law, Massachusetts cannot have more than \$16.4 billion during FY 2009 in outstanding direct debt, and must keep the annual debt service appropriation -the equivalent of your annual household mortgage and car payments and whatever other debt is outstanding- below 10% of the Commonwealth's operating budget (\$28 billion). At present, the debt service within that \$28 billion is only \$1.5 billion, or about 5.6%, well below 10%. Compared to the mortgage industry's standard of ensuring mortgage principle and interest payments don't exceed 33% of monthly household income, the Commonwealth seems to have a very conservative and prudent standard.

Unfortunately, there are other important, long-term financial needs in the state that remain unaddressed. While we in the legislature were considering the bond bills, I was writing a special commission report on the massive unfunded state liability for health care benefits for state employees who have retired and will retire over the next several years. The unfunded liability -i.e. debt- exceeds \$13 billion.

I also know that the MBTA's \$8 billion in outstanding debt -which is not addressed by the recent bond bills- comes with a debt service that exceeds 25% of the MBTA's annual operating budget. The MBTA's very capable General Manager Dan Grabauskas, who inherited this debt burden, told me that it's preventing him from buying new buses and locomotives, and upgrading tracks. No wonder our subway system works like an ancient relic compared to the system in New Delhi, India.

Moreover, last week the state employee pension fund, which is supposed to grow at 8.25% annually so that the multi-billion dollar pension liability is funded by 2023, lost money last year, returning -1.8%.

In addition, we bailed out the Mass Turnpike last week to the tune of \$800 million, putting up the full faith and credit of the Commonwealth while refinancing its debt, despite the fact that the Turnpike is a quasi-public entity.

I'm concerned that too few of us factor in these unmet and legitimate financial needs when we consider the total picture of the state's finances. True fiscal responsibility will come only when the totality of our financial obligations are recognized and understood.

For my part, I'll transform my concern into action. I'll monitor the timing of this newly approved bond spending to ensure that administration officials don't spend too much too fast. I'll watch the state's debt rating to ensure that it's not at risk of being lowered, which would cause our borrowing costs to rise and jeopardize our ability to meet unmet future needs. Similarly, I'll evaluate the ratio of debt payments to the state's annual appropriations. I'll also be actively involved in the important but largely unknown annual revenue estimate discussions, which take place in December of each year. And with regard to the \$13 billion in health care liabilities for state retirees, I'm going to have a seat at the table during negotiations to tackle this challenge. We need fiscally responsible elected officials to ensure that we're being fair, but not breaking the bank.

Tom Conroy is the state representative for Lincoln, Sudbury, and Wayland and can be contacted at Rep.ThomasConroy@hou.state.ma.us .