

## **Out of sight, out of mind**

**By Stephen Adams**

June 1, 2004

The worst accounting practices of corporate America are finding new favor in the Massachusetts Legislature. Enron made famous the practice of creating special entities to move expenses off the company's balance sheet and outside the attention of investors.

Our lawmakers are growing increasingly enamored of moving pesky budget problems "off-budget" and into the hands of "independent" authorities. According to lawmakers the special arrangements are intended to shield important public activities from politics. The actual effect is to shield legislators from accountability and hide expenses from taxpayers.

The latest foray into this practice is a proposed school building assistance authority. The plan, offered by Treasurer Tim Cahill and endorsed by Speaker Thomas Finneran and Senate President Robert Travaglini, would create a new independent state authority with a \$1 million budget and the power to issue bonds \$1 billion to start to finance new school buildings. Funding for the bonds and agency expenses would come from diverting 20 percent of state sales tax revenues, approximately \$600 million, to the new authority.

If approved, this will raise to approximately \$4 billion the amount of annual state spending moved off budget. But, before assessing the merits of this new authority, let's review the Commonwealth's experience with public authorities and off-budget spending.

**Massachusetts Convention Center Authority (MCCA):** When it was just running the Hynes Convention Center, the MCCA was granted a share of sales taxes each year in an amount approaching \$12 million. The result was a steady multi-million dollar deficit at the Hynes, a bloated payroll and questionable expenses. The Hynes subsidy has been replaced by a new off-budget fund that automatically pays up to \$17 million in annual expenses for the massive new Boston Convention and Exhibition Center.

**Massport:** It took the tragedy of September 11 to force a review of Massport operations. That review revealed an agency engaged in patronage hiring and patronage-driven contracting. Much of this has been corrected by new management. Still current management displayed its responsiveness to customers by combining a 50 percent fare hike on the Tobin Bridge with new tollgates that are creating headaches for motorists. Massport's response? Get used to it.

**MassPike:** After being handed management control of the Big Dig from MassHighway in 1997 Turnpike managers hid project overruns from taxpayers and lawmakers and allowed overcharges by contractors to go unchallenged. The old MassPike head was forced to resign. Under current Turnpike leadership, the payroll remains largely unchanged even though 60 percent of Turnpike users are now using FastLane electronic payment.

**MBTA:** Three years ago the Legislature dedicated 20 percent of sales tax revenue to the MBTA and put the Authority appropriation off budget. Taking the T off budget was supposed to force the T to control costs. However, T costs continue to rise, the adoption of efficiency measures promised in 2001 has been delayed and the Authority is taking on capital projects it cannot afford.

**Public Pension:** Taxpayer costs of public employee pensions continue to balloon. Last year the \$900 million pension appropriation was put off budget. It will rise to \$1.2

billion this year, in part because of generous early-retirement packages granted state employees.

As this litany makes clear, shielding government activity from the oversight and accountability of elected officials leads to trouble. A new, off-budget fund will not solve the problems with the school building assistance program, but it will create the illusion that the Legislature is addressing the issue while shielding legislators from tackling the real problems with school building assistance.

The first major culprit is overly loose and generous state matching funds. State taxpayers foot as much as 90 percent of local construction costs. This creates incentives to build new buildings, when refurbishing existing facilities might be more economical.

The second problem is the state's fixed sub-bid and prevailing wage laws.

These obsolete artifacts of the 1960s and 1970s are driving up the costs of school building construction by 25 percent to 50 percent, and only serve to pad union payrolls and subcontractor profits.

Putting a new authority in charge of school building assistance and moving its \$600 million annual costs off budget is an abdication of the Legislature's responsibility to oversee the expenditure of state dollars.

Massachusetts' history with public authorities and off-budget spending has demonstrated that this is a formula for waste, inefficiency and abuse.

*"Putting ideas into action" is a bi-monthly column written by Stephen J. Adams, president and CEO of Pioneer Institute for Public Policy Research, a Massachusetts non-partisan think tank.*