

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**

**ANNUAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**FOR**

**METROPOLITAN HIGHWAY SYSTEM REVENUE BONDS**

**1997 SERIES A (Senior)**

**576018AG0, 576018AH8, 576018AK1, 576018AL9**

**1997 SERIES C (Senior)**

**576018AW5, 576018AX3, 576018AY1, 576018AZ8, 576018BA2, 576018BB0, 576018BC8, 576018BD6**

**DATED**

**March 27, 2015**

This Annual Report is being delivered under the Continuing Disclosure Agreements (together, the “Continuing Disclosure Agreement”), each dated October 2, 1997, entered into by the Massachusetts Turnpike Authority (the “Authority”), predecessor to the Massachusetts Department of Transportation (“MassDOT”), under the provisions of Rule 15c2-12 of the Securities and Exchange Commission in connection with certain of the Authority’s Metropolitan Highway System Revenue Bonds, 1997 Series A and its 1997 Series C Bonds (the “Bonds”). (In June 2010, MassDOT refunded all of its outstanding Senior Bonds except those 1997 Series A Bonds that constitute Capital Appreciation Bonds and its 1997 Series C Bonds (the “June 2010 Refunding”). Reference is made in this Annual Report to the Official Statement issued in connection with the June 2010 Refunding, dated May 19, 2010 (the “Official Statement”), which is available through the Securities Rulemaking Board’s Electronic Municipal Market Access system (“EMMA”). Terms used in this Annual Report and not defined herein have the same meanings assigned to them in the Official Statement. This Annual Report is being filed by MassDOT with respect to the fiscal year ended June 30, 2014 (“Fiscal Year 2014”).

All information contained herein has been furnished or obtained by MassDOT from MassDOT records and other sources believed to be accurate and reliable. None of the information contained in this Annual Report has been prepared or reviewed by MassDOT’s independent auditors, other than the annual audited financial statements of MassDOT for Fiscal Year 2014 that are filed herewith in accordance with the Continuing Disclosure Agreement. The information contained in this Annual Report is subject to change without notice and delivery of this information shall not, under any circumstances, create any implication that there has been no change in the affairs of MassDOT since the date hereof. Reference should be made to the Official Statement and the operative documents for the Bonds for a full and complete statement of the terms of the Bonds.

### **THIS IS NOT AN OFFERING DOCUMENT**

The information in this Annual Report relates to bond issues of MassDOT that have been sold and distributed in an underwritten public offering described in the related official statement. Each reader of the following information acknowledges that (i) MassDOT is not by this document offering any bonds or other securities, nor soliciting an offer to buy any securities, (ii) this information is not to be construed as any description of MassDOT, or any of MassDOT’s programs, in conjunction with any offering of bonds or securities of MassDOT – such offerings are only made pursuant to the appropriate official statements of MassDOT – nor shall anyone assume from the availability of the following information that the affairs of MassDOT have not changed since the date of this information, (iii) no representation is made as to the propriety or legality of any secondary market trading of the Bonds or other securities of MassDOT by anyone in any jurisdiction, and (iv) MassDOT does not hereby obligate itself in any manner to periodically or otherwise update this information.

The CUSIP Number for each Bond outstanding is listed on the cover page of this Annual Report. No representation is made as to the correctness or accuracy of such CUSIP Numbers.

## **MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**

### **Retirement Plans and Other Employee Benefits**

Under Chapter 25 of the Acts of 2009 (as amended, the “Transportation Reform Act”), effective upon the date of dissolution of the Massachusetts Turnpike Authority (the “Authority”) or a default in the obligations of the Authority Retirement System, the payment of all annuities, pensions, retirement allowances and of any other benefits payable by the Authority Retirement System were made obligations of The Commonwealth of Massachusetts (the “Commonwealth”). In addition, as of November 1, 2009, the employees of the former Authority became eligible to participate in the Commonwealth’s plan for post-employment benefits (“OPEB”). All other employees of MassDOT were members of the

Commonwealth's OPEB plan prior to the creation of MassDOT and remain so. The Authority's OPEB liabilities are now included in the Commonwealth's OPEB liability. The pension and OPEB obligations of MassDOT employees are funded by annual charges assessed by the Commonwealth against MassDOT and are included in MassDOT's budget for the applicable fiscal year. Included in such annual charges to MassDOT is a sum intended to amortize MassDOT's allocable share of the Commonwealth's current unfunded pension liability. If the computation of the Commonwealth's unfunded pension liability changes, the annual charges assessed to MassDOT may change and would be expected to be based on MassDOT's allocable share of such change. For a description of the Commonwealth's pension obligations, please see the Commonwealth's Information Statement, dated November 7, 2014, as the same may be supplemented from time to time, which Information Statement, as supplemented, is available through EMMA.

Employees of the former Authority also are entitled to retirement benefits related to accrued sick leave that exceed such benefits under the Commonwealth's OPEB plan (the "additional benefits"). The Authority had established an irrevocable trust fund (the "Trust Fund") for OPEB liability that included such additional benefits. Since its inception MassDOT has paid for such additional benefits from its Metropolitan Highway System and Western Turnpike operating budgets, as applicable, and has been reimbursed from the Trust Fund. Since November 1, 2009, the amount paid by and reimbursed to MassDOT for such additional benefits is approximately \$1,402,578. The OPEB Trust has been presented as a fiduciary fund of MassDOT. On December 17, 2014, the OPEB Trustees voted to transfer the assets of the trust to the Commonwealth's State Board of Retirement to be held, segregated and managed by the Health Care Security Trust within the State Retiree Benefits Trust Fund (the "SRBTF"). See the Independent Auditor's Report for Fiscal Year 2014 Note (c) on page 55 and 56 filed with this Annual Report. All conditions necessary for the transfer have been completed. In the future, all future additional benefits are to be administered and paid for by the Commonwealth, and not by MassDOT.

## OPERATING RESULTS

### Toll Collections, Transactions and Rates

There have been no changes to MassDOT's toll rates or discount programs applicable to the Metropolitan Highway System since the date of the Official Statement. The following table sets forth the number of toll transactions on the Metropolitan Highway System for Fiscal Year 2014.

#### METROPOLITAN HIGHWAY SYSTEM

##### Toll Transactions

*(in millions)*

	<u>Ending June 30, 2014</u>
Tunnels	23.4
Boston Extension	70.0

Source: Derived by MassDOT from its records.

### Historical Revenues and Expenditures

The summary of operating revenues and expenses for the MHS for Fiscal Year 2013 and Fiscal Year 2014 are presented below.

The information immediately below in the table entitled "Fiscal Years 2013 and Fiscal Year 2014 Statement of Operating Revenues and Expenses" was prepared in accordance with GAAP, as applied to government funds, and employs the modified accrual basis of accounting. The information following in the table entitled "Summary of Revenues, Expenses and Debt Service Coverage for the Fiscal Years 2013

and 2014” is presented on a modified accrual basis of accounting in accordance with the Trust Agreement (a “Trust basis”). Due to the differences in the GAAP and the Trust basis presentations, the information in such tables may differ in material respects.

## Metropolitan Highway System

### Fiscal Years 2013 and 2014 Statement of Operating Revenues and Expenses *(Dollars in thousands)*

	<b>Fiscal Year ending <u>June 30, 2013</u></b>	<b>Fiscal Year ending <u>June 30, 2014</u></b>
<b>REVENUES</b>		
Toll Revenue:		
Pledged as security for revenue bonds	\$189,841	\$195,845
Metropolitan Highway System bonds	100,000	100,000
Central Artery operations and maintenance	25,000	25,000
Federal grants and reimbursements: Direct	-	93
Rental/lease income	10,382	9,642
Investment income	2,206	2,374
Departmental and other	<u>14,298</u>	<u>7,412</u>
TOTAL REVENUES	<u>\$341,727</u>	<u>\$340,366</u>
<b>EXPENDITURES</b>		
Current:		
Highway	\$142,154	\$185,759
Planning and programming	21,592	19,182
Debt Service:		
Principal	35,480	37,790
Interest	<u>93,582</u>	<u>92,982</u>
TOTAL EXPENDITURES	<u>\$292,808</u>	<u>\$335,713</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$48,919	\$4,653
NET CHANGE IN FUND BALANCES	\$48,919	\$4,653
FUND BALANCES AT BEGINNING OF PERIOD	\$508,229	\$557,148
FUND BALANCES AT END OF PERIOD	<u>\$557,148</u>	<u>\$561,801</u>

**Metropolitan Highway System**  
**Summary of Revenues, Expenses and Debt Service Coverage**  
**For the Fiscal Years 2013 and 2014**  
*(Dollars in thousands)*

	<b>Fiscal Year Ending <u>June 30, 2013</u><sup>1</sup></b>	<b>Fiscal Year Ending <u>June 30, 2014</u><sup>1</sup></b>
<b>Operating Revenues:</b>		
Toll Revenue	\$189,841	\$195,845
Investment Income	660	392
Non-toll Revenue	<u>24,680</u>	<u>17,147</u>
<b>Total Operating Revenues</b>	<b><u>\$215,181</u></b>	<b><u>\$213,384</u></b>
<b>Operating Expenses</b>	<u>108,499</u>	<u>112,602</u>
<b>Net Revenues</b>	<b><u>\$106,682</u></b>	<b><u>\$100,782</u></b>
<b>Senior Lien Net Debt Service:</b>		
Principal and Interest	\$78,077	\$78,938
Less:		
Earnings on DSF and DSRF	(484)	(834)
1999 Contract Payments	(25,000)	(25,000)
2009 Contract Payments	(59,580)	(58,911)
Swap related interest cost	<u>9,503</u>	<u>9,597</u>
<b>Senior Net Debt Service</b>	<b><u>\$ 2,516</u></b>	<b><u>\$ 3,790</u></b>
<b>Subordinate Lien Net Debt Service:</b>		
Principal and Interest	\$13,929	\$14,413
Less:		
Earnings on DSF and DSRF	(1,062)	(1,148)
2009 Contract Payments	(40,420)	(41,089)
Swap related interest cost	<u>27,553</u>	<u>27,824</u>
<b>Subordinated Net Debt Service</b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>
Combined Net Debt Service	\$ 2,516	\$ 3,790
Senior Net Debt Service Coverage	42.40	26.59
Combined Net Debt Service Coverage	42.40	26.59
<b>Funds Available to Deposit for Capital Reinvestment</b>	<b><u>\$96,769</u></b>	<b><u>\$87,970</u></b>
<b>Funds Available to Deposit for General Fund<sup>2</sup></b>	<b><u>\$7,397</u></b>	<b><u>\$9,022</u></b>

<sup>1</sup> Amounts for Fiscal Years 2013 and 2014 are recorded on the modified accrual basis of accounting and adjusted to conform to the Trust basis of accounting. MassDOT's Metropolitan Highway System operations for the fiscal years ended June 30, 2013 and June 30, 2014 have been subjected to auditing procedures as described in the Independent Auditor's Report filed herewith.

<sup>2</sup> Represents funds available to pay General Fund indebtedness, if any, to pay other General Fund expenses, or to be applied to any lawful purpose of the Metropolitan Highway System operations.

## **2014 Operating Results**

Fiscal Year 2014 results described herein are based on the MassDOT's Fiscal Year 2014 financial statements, which were prepared in accordance with GAAP, as applied to government funds.

For Fiscal Year 2014, MHS actual toll revenue was approximately \$195.8 million versus a budget of \$186.5 million, and approximately \$6.0 million greater than actual toll revenue of approximately \$189.8 million in Fiscal Year 2013.

In Fiscal Year 2014, there were approximately 70.0 million toll transactions on the Boston Extension, compared to 68.4 million transactions in Fiscal Year 2013. With respect to the Tunnels, transaction volume for the Sumner and Ted Williams Tunnels totaled approximately 23.4 million in Fiscal Year 2014, compared to 22.6 million in Fiscal Year 2013. The E-ZPASS discount program cost approximately \$15.0 million in Fiscal Year 2014 and the Resident Discount Program cost approximately \$5.4 million in Fiscal Year 2014, as compared to approximately \$14.5 million and \$5.4 million, respectively, in Fiscal Year 2013.

For Fiscal Year 2014, MHS investment income and other non-toll revenue totaled approximately \$19.5 million. For Fiscal Year 2013, investment income and other non-toll revenue totaled approximately \$26.9 million. The difference was due primarily to a legal settlement received in Fiscal Year 2013.

Total MHS operating expenses for Fiscal Year 2014 were approximately \$335.7 million compared to total operating expenses of approximately \$292.8 million in Fiscal Year 2013. Under the Trust Basis which excludes, among other things, debt service, operating expenses were \$112.6 million and \$108.5 million, respectively, for Fiscal Year 2014 and Fiscal Year 2013, with the difference being due to an increased payroll and related fringe benefits, due in part to salary increases required by Collective Bargaining Agreements.

**FISCAL YEARS 2014 AND 2015  
OPERATING BUDGETS**

The following chart presents in summary format, and on a cash basis, MassDOT's Fiscal Years 2014 and 2015 operating budgets, and Fiscal Year 2014 actual results.

**Metropolitan Highway System  
Fiscal Year 2014 Operating Budget & Actual Results  
Fiscal Year 2015 Operating Budget  
(Dollars in thousands)**

	<b>Fiscal Year 2014 <u>Budget</u></b>	<b>Fiscal Year 2014 <u>Actual</u></b>	<b>Fiscal Year 2015 <u>Budget</u></b>
<b>Operating Revenues:</b>			
Toll Revenue	\$186,533	\$194,743	\$191,000
Rentals and Leases	8,209	11,879	9,641
Non-toll Revenue	<u>15,231</u>	<u>19,066</u>	<u>9,418</u>
<b>Total Operating Revenues</b>	<b><u>\$209,973</u></b>	<b><u>\$225,688</u></b>	<b><u>\$210,059</u></b>
<b>Commonwealth Fund Transfers</b>			
2009 Contract Assistance	\$100,000	\$100,000	\$100,000
1999 Contract Assistance	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>
<b>Total Revenues</b>	<b><u>\$334,973</u></b>	<b><u>\$350,688</u></b>	<b><u>\$335,059</u></b>
<b>Operating Expenses:</b>			
Total Payroll & Benefits	\$47,684	\$49,982	\$49,848
Materials, Supplies, Services	25,698	25,728	28,181
Office and Administrative	19,937	20,723	20,440
Construction and Maintenance	7,525	7,656	7,810
Snow and Ice	<u>2,058</u>	<u>3,323</u>	<u>3,834</u>
<b>Total Operating Expenses</b>	<b><u>\$102,902</u></b>	<b><u>\$107,412</u></b>	<b><u>\$110,113</u></b>
<b>Net Revenues</b>	<b><u>\$232,071</u></b>	<b><u>\$243,276</u></b>	<b><u>\$224,946</u></b>
<b>Other Financing Sources – Sale of Property</b>	-	<u>2,129</u>	-
<b>Funds Available for Capital Reinvestment</b>	<b><u>\$93,484</u></b>	<b><u>\$109,038</u></b>	<b><u>\$66,060</u></b>
<b>Use of Reserves<sup>(a)</sup></b>	-	-	<u>\$31,440</u>
<b>General Fund Expenses</b>	<b><u>\$6,635</u></b>	<b><u>\$5,595</u></b>	<b><u>\$7,000</u></b>
<b>Debt Service</b>	<b><u>\$131,952</u></b>	<b><u>\$130,772</u></b>	<b><u>\$151,886</u></b>

(a) The MassDOT Board of Directors approved a draw up to \$40 million from Metropolitan Highway System reserves for the Fiscal Year 2015 capital budget. See, "CAPITAL INVESTMENT- Fiscal 2015 Year Capital Budget" herein.

## CAPITAL INVESTMENT

MassDOT has covenanted in the Trust Agreement to maintain the MHS in good repair, working order and condition. MassDOT anticipates that it will continue to finance the capital needs of the MHS primarily on a pay-as-you go basis from MHS revenues, after payment of operating expenses and debt service, available for deposit into the Capital Reinvestment Fund, and from accumulated capital reserves and other Commonwealth financing programs for which the MHS is eligible, such as the Commonwealth's statewide road and bridge program. MassDOT also has available to it, with the approval of the Secretary, monies on deposit in the CA/T Trust Fund for the costs of non-routine repair and maintenance of the CA/T Project components.

**Triennial Report.** The Trust Agreement provides that the Independent Consultant is required to inspect the MHS at least once every three fiscal years and submit a report setting forth (i) the Independent Consultant's findings as to whether the MHS has been maintained in safe and good repair, working order and condition, and (ii) its recommendations as to the proper maintenance, repair and operation of the MHS during the ensuing three fiscal years and an estimate of the amount of money necessary for such purposes (the "Triennial Report"). In accordance with the Trust Agreement, the next Triennial Report is expected to be completed in the Fall of 2015. As with the most recent Triennial Report (the "2012 Triennial Report"), the Report of Conditions will be developed through visual inspections conducted by the Independent Consultant. The Independent Consultant also will review the reports from inspections performed by other MassDOT consultants and by MassDOT's own forces. The 2012 Triennial Report included estimated costs for corrective measures for items inspected that were rated 5 (Fair Condition) or less (the "required remedial work"). The 2012 Triennial Report estimated that the cost to complete the required remedial work for the MHS was approximately \$615.6 million, which represented the costs of repair, contingency costs, construction support costs, continued deterioration, and deferral costs due to inflation. These costs identified in the 2012 Triennial Report included costs associated with the maintenance and repair of the Tobin Bridge, which for purposes of the Trust Agreement is not part of the MHS.

**The Capital Investment Plan.** In January 2014, MassDOT issued a draft Capital Investment Plan (the "Draft CIP"). The Draft CIP was the first comprehensive capital plan for all MassDOT assets since the inception of MassDOT in 2009 and represented a compendium of all of the infrastructure-related spending programmed by MassDOT for Fiscal Years 2014 to 2018. It included for the first time capital investment planning for all transportation modes and assets relating to bridge, road, rail, transit, bicycle and pedestrian needs, allocating all anticipated state and federal revenues during the five-year planning period among all of MassDOT's assets. After public comment, in August 2014 a Final Capital Plan was published (the "Final CIP"). For the MHS, the Final CIP included all of the required remedial work identified in the 2012 Triennial Report, as updated by subsequent inspections and MassDOT evaluation, which in some cases resulted in a recalculation of the costs previously identified for the required remedial work as well as costs for additional work needed to maintain the MHS assets in a state of good repair. In addition, the Final CIP included capital projects beyond those included in the 2012 Triennial Report. These projects included system enhancement projects, such as those intended to advance regional transportation planning, improve intermodal transportation, and improve customer service, among others. Examples of these projects include the introduction of All Electronic Tolling on the MHS and the re-location and rehabilitation of a viaduct to accommodate development at the area commonly known as Beacon Yards in Boston/Allston. For Fiscal Years 2014 to 2018, the Final CIP identified a total of \$747.5 million in spending on MHS capital reinvestment, with anticipated spending of \$143.7 million for Fiscal Year 2015, \$180.2 million for Fiscal Year 2016, \$187.6 million for Fiscal Year 2017, and \$181.7 million for Fiscal Year 2018. The costs identified in the Final CIP were construction costs only and did not include "soft costs," such as design, permitting, right-of-way and construction phase engineering costs.

MassDOT is currently preparing an update to the Final CIP showing spending for Fiscal Years 2016 through 2020, which is expected to be completed in May 2015 (the “Draft 2015 CIP”). It is anticipated that the commencement of certain projects included in the Final CIP may need to be deferred due to decreases in the expected level of available funding, including as a result of the repeal in November 2014 of the automatic gas tax increases that had been indexed to certain inflation rates, as well as other factors. In developing the Draft 2015 CIP, MassDOT currently expects that it will draw down on current MHS reserves, although the final amount and timing of any such draws has not yet been finalized and will be dependent on the amount of available reserves among other factors. In Fiscal Year 2015, MassDOT drew on MHS reserves in the amount of \$88.7 million to settle the *Perini Corp., Kiewitt Constr. Corp., Jay Cashman, Inc., d/b/a Perini – Kiewitt- Cashman Joint Venture v. Commonwealth* litigation described in the Official Statement.

**Fiscal 2015 Year Capital Budget.** Presented below is the Fiscal Year 2015 capital budget for the MHS, as approved by MassDOT’s Board of Directors. It identifies \$97.5 million in capital investment for Fiscal Year 2015. The Board of Directors approved the use of up to \$40 million of MHS reserves for the Fiscal Year 2015 Capital Budget. The Fiscal Year 2015 Capital Budget includes both construction costs and “soft” costs for each planned project. The 2015 Capital Budget differs from the Final CIP in that it includes construction costs reflecting the actual progress of construction to date, which has been updated from the Final CIP.

**Massachusetts Department of Transportation  
Metropolitan Highway System  
Approved Capital Budget  
Fiscal Year 2015  
(Dollars in thousands)**

<b>NON-ENGINEERING:</b>	
Administrative Allocations	\$1,000
Other Non-Engineering Capital Programs	<u>2,000</u>
<b>Total Non-Engineering Capital Programs</b>	<b><u>\$3,000</u></b>
<b>CONSTRUCTION</b>	
Ongoing Construction Projects:	\$ 5,210
Callahan Tunnel Rehabilitation	
Resurfacing	23,592
Bridge Repairs	22,251
Facilities and Maintenance	35,200
Communications Systems	3,021
Cleaning and Painting	646
Miscellaneous	<u>3,471</u>
<b>Total Construction Projects</b>	<b><u>\$93,391</u></b>
Design, Engineering, and Consultants	\$ 309
Engineering Allocations	-
Maintenance Allocations	-
ETC Capital Costs	300
Motor Equipment	500
Other Engineering and Maintenance	-
<b>Sub-Total Other Costs</b>	<b><u>1,109</u></b>
<b>TOTAL CAPITAL REINVESTMENT</b>	<b><u>\$97,500</u></b>

## **Central Artery/Ted Williams Tunnel Project**

In December 2014, MassDOT settled and resolved entirely the *Perini Corp., Kiewitt Constr. Corp., Jay Cashman, Inc., d/b/a Perini – Kiewit- Cashman Joint Venture v. Commonwealth* litigation described in the Official Statement. The settlement amount was for \$88.7 million, all of which settlement amount was paid out of MHS reserves in Fiscal Year 2015 and is otherwise not reflected herein.

March 27, 2015

BOS 47624161v3