

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**

**ANNUAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**FOR**

**METROPOLITAN HIGHWAY SYSTEM REVENUE BONDS**

**2010 Series A (Senior)**

*57563CBF8, 57563CBG6*

**2010 Series B (Senior)**

*57563CBT8, 57563CBU5, 57563CBV3, 57563CBW1, 57563CBX9, 57563CBY7, 57563CBZ4, 57563CCA8, 57563CCB6,  
57563CCC4, 57563CCD2, 57563CCE0, 57563CCF7, 57563CCG5, 57563CCH3, 57563CCJ9, 57563CCK6, 57563CCL4,  
57563CCM2, 57563CCN0, 57563CCQ3, 57563CCP5*

**DATED**

**March 23, 2016**

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. MassDOT is filing this Annual Report with respect to the fiscal year ended June 30, 2015 (“Fiscal Year 2015”).

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; the information included in this Annual Report on a GAAP basis is unaudited. See “Audited Financial Statements,” below. 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.

### **Audited Financial Statements**

Under the Continuing Disclosure Agreement, MassDOT is required to file with the Annual Report its audited financial statements for the applicable fiscal year if such audited financial statements are available. If such audited financial statements are not available, MassDOT is required to file unaudited financial statements for the applicable fiscal year, and thereafter to file the audited financial statements when they are available, but not later than 350 days following the end of such fiscal year. In January 2016, MassDOT filed with EMMA its draft unaudited financial statements for Fiscal Year 2015 (the “FY15 Unaudited Financial Statements”). The FY15 Unaudited Financial Statements can be found on EMMA at <http://emma.msrb.org/ES757460-ES594315-ES990024.pdf>.

MassDOT’s final audited financial statements for Fiscal Year 2015 have not yet been completed due to the fact that the audited financial statements of the Massachusetts Bay Transportation Authority (the “MBTA”), a component unit of MassDOT, for Fiscal Year 2015 have not yet been completed. The MBTA’s financial statements include information provided to it by the MBTA Retirement Fund (the “MBTA Fund”). In June 2015, issues were raised by an external investigative group relative to the value of certain MBTA Fund pension-related assets and the accuracy of the MBTA Fund’s calculation of its liabilities, and thus the MBTA Fund’s financial position as presented in its financial statements. In December 2015, the MBTA Fund’s board of directors engaged an independent firm to investigate these allegations. The independent firm recently completed its report and the independent auditors of the MBTA Fund are now in the process of reviewing that report. Once the review of that report and the audit of the MBTA Fund’s financial statements are completed, MassDOT expects that the MBTA will complete its audited financial statements for Fiscal Year 2015; MassDOT will then be able to complete its audited financial statements for Fiscal Year 2015. MassDOT currently expects that its audited financial statements for Fiscal Year 2015 will be completed within 350 days following the end of Fiscal Year 2015.

## **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. The amount assessed by the Commonwealth and included in MassDOT's budget for Fiscal Year 2015 was \$31.4 million. 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. See pages 86 and 87 of the FY15 Unaudited Financial Statements. 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 February 16, 2016, 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 paid for such additional benefits from its Metropolitan Highway System and Western Turnpike operating budgets, as applicable, and was reimbursed from the Trust Fund. Since November 1, 2009, the amount paid by and reimbursed to MassDOT for such additional benefits is approximately \$3.34 million. The OPEB Trust had been presented as a fiduciary fund of MassDOT. In December 2014, the OPEB Trustees voted to transfer the assets of the OPEB 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 transfer

was completed in Fiscal Year 2015. See Note (c) on page 43 to the FY15 Unaudited Financial Statements.

## 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 2015.

#### METROPOLITAN HIGHWAY SYSTEM

##### Toll Transactions

*(in millions)*

	<u>Ending June 30, 2015</u>
Tunnels	24.8
Boston Extension	70.2

Source: Derived by MassDOT from its records.

### Historical Revenues and Expenditures

The summary of operating revenues and expenses for the MHS for Fiscal Year 2014 and Fiscal Year 2015 are presented below.

The information immediately below in the table entitled “Fiscal Years 2014 and Fiscal Year 2015 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 and is derived from the FY15 Unaudited Financial Statements. The information following in the table entitled “Summary of Revenues, Expenses and Debt Service Coverage for the Fiscal Years 2014 and 2015” 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.

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## Metropolitan Highway System

### Fiscal Years 2014 and 2015 Statement of Operating Revenues and Expenses (Dollars in thousands)

	Fiscal Year ending <u>June 30, 2014</u>	Fiscal Year ending <u>June 30, 2015</u>
<b>REVENUES</b>		
Toll Revenue:		
Pledged as security for revenue bonds	\$195,845	\$203,492
Commonwealth transportation fund:		
Metropolitan Highway System bonds	100,000	100,000
Central Artery operations and maintenance	25,000	25,000
Federal grants and reimbursements: Direct	93	124
Rental/lease income	9,642	7,807
Investment income	2,374	2,761
Departmental and other	<u>7,412</u>	<u>8,816</u>
<b>TOTAL REVENUES</b>	<u>\$340,366</u>	<u>\$348,000</u>
<b>EXPENDITURES</b>		
Current:		
Highway	\$185,759	\$250,541
Planning and programming	19,182	23,396
Debt Service:		
Principal	37,790	59,590
Interest	<u>92,982</u>	<u>92,035</u>
<b>TOTAL EXPENDITURES</b>	<u>\$335,713</u>	<u>\$425,562</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	\$4,653	\$(77,562)
<b>NET CHANGE IN FUND BALANCES</b>	\$4,653	\$(77,562)
<b>FUND BALANCES AT BEGINNING OF PERIOD</b>	\$557,148	\$561,801
<b>FUND BALANCES AT END OF PERIOD</b>	<u>\$561,801</u>	<u>\$484,239</u>

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**Metropolitan Highway System**  
**Summary of Revenues, Expenses and Debt Service Coverage**  
**For the Fiscal Years 2014 and 2015**  
*(Dollars in thousands)*

	<b>Fiscal Year Ending <u>June 30, 2014</u><sup>1</sup></b>	<b>Fiscal Year Ending <u>June 30, 2015</u><sup>1</sup></b>
<b>Operating Revenues:</b>		
Toll Revenue	\$195,845	\$203,492
Investment Income	392	578
Non-toll Revenue	<u>17,147</u>	<u>16,747</u>
<b>Total Operating Revenues</b>	<u>\$213,384</u>	<u>\$220,817</u>
<b>Operating Expenses</b>	<u>112,602</u>	<u>107,664</u>
<b>Net Revenues</b>	<u>\$100,782</u>	<u>\$113,153</u>
<b>Senior Lien Net Debt Service:</b>		
Principal and Interest	\$78,938	\$99,221
Less:		
Earnings on DSF and DSRF	(834)	(1,109)
1999 Contract Payments	(25,000)	(25,000)
2009 Contract Payments	(58,911)	(58,315)
Swap related interest cost	<u>9,597</u>	<u>9,645</u>
<b>Senior Net Debt Service</b>	<u>\$ 3,790</u>	<u>\$ 24,442</u>
<b>Subordinate Lien Net Debt Service:</b>		
Principal and Interest	\$14,413	\$14,799
Less:		
Earnings on DSF and DSRF	(1,148)	(1,074)
2009 Contract Payments	(41,089)	(41,685)
Swap related interest cost	<u>27,824</u>	<u>27,960</u>
<b>Subordinated Net Debt Service</b>	<u>\$ 0</u>	<u>\$ 0</u>
Combined Net Debt Service	\$ 3,790	\$ 24,442
Senior Net Debt Service Coverage	26.59	4.63
Combined Net Debt Service Coverage	26.59	4.63
<b>Funds Available to Deposit for Capital Reinvestment</b>	<u>\$87,970</u>	<u>\$66,060</u>
<b>Funds Available to Deposit for General Fund<sup>2</sup></b>	<u>\$9,022</u>	<u>\$22,651</u>

<sup>1</sup> Amounts for Fiscal Years 2014 and 2015 are recorded on the modified accrual basis of accounting and adjusted to conform to the Trust basis of accounting.

<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.

## 2015 Operating Results

Fiscal Year 2015 results described herein are based on the FY15 Unaudited Financial Statements, which were prepared in accordance with GAAP, as applied to government funds.

For Fiscal Year 2015, MHS actual toll revenue was approximately \$203.5 million versus a budget of \$191.0 million, and approximately \$7.7 million greater than actual toll revenue of approximately \$195.8 million in Fiscal Year 2014.

In Fiscal Year 2015, there were approximately 70.2 million toll transactions on the Boston Extension, compared to 70.0 million transactions in Fiscal Year 2014. With respect to the Tunnels, transaction volume for the Sumner and Ted Williams Tunnels totaled approximately 24.8 million in Fiscal Year 2015, compared to 23.4 million in Fiscal Year 2014. The E-ZPASS discount program cost approximately \$15.7 million in Fiscal Year 2015 and the Resident Discount Program cost approximately \$5.7 million in Fiscal Year 2015, as compared to approximately \$15.0 million and \$5.4 million, respectively, in Fiscal Year 2014.

For Fiscal Year 2015 and Fiscal Year 2014, MHS investment income and other non-toll revenue totaled approximately \$19.5 million for both years.

Total MHS operating expenses for Fiscal Year 2015 were approximately \$425.6 million compared to total operating expenses of approximately \$335.7 million in Fiscal Year 2014, with the primary difference being a payment in Fiscal Year 2015 in settlement of litigation. See “CAPITAL INVESTMENT - Central Artery/Ted Williams Tunnel Project” below. Under the Trust basis, which excludes, among other things, debt service and pay-as-you-go capital expenses, operating expenses were \$107.7 million and \$112.6 million, respectively, for Fiscal Year 2015 and Fiscal Year 2014.

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## 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 and the Federal Highway Administration, 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 (a "state of good repair"), 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, a Triennial Report was completed in the Fall of 2015 (the "2015 Triennial Report"). The 2015 Triennial Report was developed through visual inspections conducted by the Independent Consultant. The Independent Consultant also reviewed the reports from inspections performed by other MassDOT consultants and by MassDOT's own forces. The 2015 Triennial Report includes estimated costs for corrective measures for items inspected that were rated 5 (Fair Condition) or less (the "required remedial work"), for the ensuing five fiscal years, rather than the three fiscal years required by the Trust Agreement. The costs identified in the 2015 Triennial Report include only construction costs, and not other costs such as design, permitting, right-of-way and construction phase engineering costs (collectively, "other costs"). The 2015 Triennial Report estimates that the cost to complete the required remedial work for the MHS is approximately \$1.1 billion. The increase from the \$615.6 million estimate included in the Triennial Report completed in 2012 is primarily due to the inclusion in the 2015 Triennial Report of the costs of maintaining all MHS assets over the ensuing five fiscal years.

**The Capital Investment Plan.** Under the Transportation Reform Act, MassDOT is required to develop a five-year comprehensive state transportation plan that is designed to ensure construction and maintenance of a safe, sound and efficient public highway, road and bridge system (the "CIP"). The most recent CIP addressed Fiscal Years 2014 through 2019. MassDOT determined to revisit its capital investment strategy in light of new circumstances and priorities, and MassDOT is now in the process of developing a new CIP. The CIP, when completed, is expected to be a comprehensive capital plan for all MassDOT assets and represent a compendium of all of the infrastructure-related spending programmed by MassDOT for Fiscal Years 2017 to 2021. The planning process for the new CIP is focused on three priority areas or goals: (i) reliability – maintaining and improving the overall condition and reliability of the Commonwealth's transportation system; (ii) modernization – modernizing the Commonwealth's transportation system to make it safer and more accessible and to accommodate growth; and (iii) expansion – expanding diverse transportation options for communities throughout the Commonwealth. In March 2016, a preliminary draft CIP (the "Draft CIP") was presented to MassDOT's Board of Directors (the "Board"). The Draft CIP identifies programs (e.g., pavement, bridges, roadway maintenance, etc.) within the three priority areas, and MassDOT is now in the process of identifying projects within each program for inclusion in the Draft CIP. The Draft CIP, including more detailed project information, is expected to be presented to the Board in April 2016. The CIP is expected to be finalized before the end of June 2016, following a public comment period. For the MHS, the CIP is expected to include certain of the required remedial work identified in the 2015 Triennial Report, as well as additional projects that meet the priority goals described above.

The Draft CIP has identified available sources of funding for the CIP. The total funding sources identified in the Draft CIP, including known sources and estimated sources, is approximately \$9.1 billion, of which \$310 million has been identified for the MHS for the five-year period. This amount reflects only pay-as-you-go capital investment and the use of estimated available reserves, and does not reflect additional funding that may be available and allocated to fund MHS projects in the final CIP.

**Fiscal Year 2016 Capital Budget.** Presented below is the Fiscal Year 2016 capital budget for the MHS, as approved by MassDOT’s Board of Directors in June 2015. It identifies approximately \$144.8 million in capital investment for Fiscal Year 2016, including the use of up to \$70.2 million of MHS reserves, as approved by the Board of Directors. The Fiscal Year 2016 capital budget includes both construction costs and other costs for each planned project.

**Massachusetts Department of Transportation  
Metropolitan Highway System  
Approved Capital Budget  
Fiscal Year 2016  
(Dollars in thousands)**

<b>NON-ENGINEERING:</b>	
Administrative Allocations	\$1,000
Other Non-Engineering Capital Programs	<u>2,350</u>
<b>Total Non-Engineering Capital Programs</b>	<b><u>\$3,350</u></b>
<b>CONSTRUCTION</b>	
Ongoing Construction Projects:	
Callahan Tunnel Rehabilitation	\$ 4,860
Resurfacing	35,300
Bridge Repairs	34,290
Facilities and Maintenance	52,200
Communications Systems	4,000
Cleaning and Painting	1,100
Miscellaneous	<u>1,538</u>
<b>Total Construction Projects</b>	<b><u>\$133,288</u></b>
Design, Engineering, and Consultants	\$ 700
Engineering Allocations	4,850
Maintenance Allocations	1,600
ETC Capital Costs	400
Motor Equipment	<u>600</u>
<b>Sub-Total Other Costs</b>	<b><u>\$8,150</u></b>
<b>TOTAL CAPITAL REINVESTMENT</b>	<b><u>\$144,788</u></b>

March 23, 2016

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