

State tries to rescue Pike from huge debt

The Boston Globe

\$800m would be refinanced; treasurer objects to 'bailout'

By Casey Ross, Globe Staff | July 16, 2008

The Patrick administration is engineering a large-scale financial rescue of the Massachusetts Turnpike Authority that would allow the cash-strapped agency to refinance \$800 million in debt to avoid potentially ruinous repayment terms.

The House, acting swiftly at the administration's request, gave initial approval yesterday to legislation that would allow the Turnpike Authority to use the state's higher credit rating to refinance its debt to lower its interest costs. The move means taxpayers would be responsible for the turnpike's debt if the agency defaults.

A Patrick administration official yesterday said the debt provision is urgently needed to get a safety net in place before the Legislature recesses at the end of July. "What we're doing is making sure the Turnpike Authority is not in the position of having to make a lump-sum payment in the hundreds of millions of dollars that would have to be financed on the backs of toll payers," said Jay Gonzalez, undersecretary of administration and finance.

However, state Treasurer Timothy Cahill accused the administration of exposing the state and its taxpayers to heavy risk without demanding financial reforms at the Turnpike Authority.

"It borders on fiscal recklessness, to be honest with you," Cahill said yesterday. "This is a bailout, and it does nothing to force the turnpike to clean up its own mess. The taxpayers deserve better than this."

The turnpike has said it may have trouble making higher payments that could come due in January under the terms of complex loans that were used to help pay for the Big Dig. While they have not sketched a plan to fix the agency's debt problem, turnpike officials have indicated that one of the primary options for fixing its finances is to increase tolls. The Turnpike Authority increased tolls on the roadway inside Route 128 and at the Boston Harbor tunnels in January.

Cahill, and another critic, state Senator Mark Montigny, said the administration needs to install new oversight provisions that would prevent the Turnpike Authority from entering into potentially risky financial transactions in the future.

"We're assuming all of the risk here, but we're abandoning any concept of oversight," the New Bedford Democrat said. "I want to prevent this from ever happening again, and we can't do that until we assess blame and correct this."

Top aides to Governor Deval Patrick defended the administration's maneuvers, arguing that the state's backing is needed to avert a financial disaster brewing at the Turnpike Authority. Gonzalez also emphasized that the turnpike will still be primarily responsible for repaying its debt and that he does not foresee deeper financial problems that would force the state to open its coffers. "We don't expect to have to pay a cent of the turnpike's debt," he said.

The turnpike debt provision was tacked onto a \$3 billion borrowing measure that, if passed, would fund repairs to as many as 300 bridges that have structural problems.

Overall, the provision authorizes the state to guarantee the Turnpike Authority's entire debt load of \$2.4 billion; the Commonwealth would in effect act as a cosigner on a loan for the turnpike.

The full debt must be backed by the state in order to allow the turnpike to refinance the \$800 million portion that carries the costliest interest charges, officials said. The bill still needs approval from the state Senate, whose members have called for a hearing on the turnpike's debt for tomorrow.

The authority is facing a pair of troubling scenarios involving complex debt deals it made earlier this decade with investments banks, including UBS. Under one scenario, UBS can demand repayment of an additional \$2 million a month beginning in January, a burden turnpike officials said they would have trouble meeting.

The authority may also have to make a \$179 million payment to UBS if the company that provided insurance on the bonds, Ambac Financial Corp. of New York, experiences further financial troubles.

Ambac's credit rating was lowered last month by Wall Street rating agency Moody's out of concerns that tightening credit markets have limited the firm's financial flexibility. One of the nation's largest providers of financial insurance and guarantees, Ambac has seen its stock price plummet in the last year. Another reduction in Ambac's credit rating would allow UBS to demand immediate repayment, citing the turnpike's lack of adequate financial backing.

The move to use the state's credit rating would allow the turnpike to avoid both costly scenarios.

The authority's arrangement with UBS was authorized by former Turnpike Authority chairman Matthew Amorello as a way to extract an upfront payment from the investment house to plug holes in the Big Dig budget. Similar transactions were also made with Lehman Brothers, freeing up a total of \$65 million.

The turnpike's problems stem in part from the turmoil that has been rocking financial markets since last summer, and has spread in particular to public agencies and large nonprofits whose interest costs have soared as investors have retreated from portions of the bond market.

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Correction: Because of a reporting error, a story on Page One of yesterday's Globe about the Massachusetts Turnpike Authority incorrectly identified the former official responsible for a complex loan involving the investment bank UBS. J. Richard Capka was the chief executive officer of the Turnpike Authority when the loan was approved. ■