



United States
General Accounting Office
Washington, D.C. 20548

**Resources, Community, and
Economic Development Division**

B-260786

January 18, 1996

The Honorable Frank R. Wolf
Chairman, Subcommittee on Transportation
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

On January 11, 1996, you asked us to report on our ongoing review of the Central Artery/Tunnel (CA/T) project--a federally aided highway project in Boston, Massachusetts. Our ongoing work follows up on our June 2, 1995, report to you on the project.¹ This report provides updated information on the project's estimated cost and the Commonwealth of Massachusetts' plans for financing the project.

The CA/T project is an Interstate Highway System project that will build or reconstruct 7.5 miles of urban highways in Boston--about half of it underground. At over \$1 billion a mile, the CA/T project is one of the largest and most expensive highway construction projects ever undertaken. In 1995, the Commonwealth of Massachusetts estimated that the cost of the project was \$8 billion, up from its 1985 estimate of \$2.6 billion.² As of December 31, 1995, the federal government had provided about 80 percent of the project's funding, and had obligated \$4.4 billion for the project. Massachusetts also estimated that available federal and other funds would be sufficient to complete the CA/T project by 2004 and to continue to fund other statewide transportation projects. These estimates were based on the Massachusetts Department of Highways' (MHD) draft April 1995 cost estimate and its draft December 1994 finance plan. Our

¹Central Artery/Tunnel Project (GAO/RCED-95-213R, June 2, 1995)

²The \$8 billion estimate represents expenditures already incurred, valued in the year they were incurred, and future expenditures valued in 1994 dollars.

GAO/RCED-96-65R, Central Artery/Tunnel Project

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June 1995 report raised a number of concerns about both the cost estimate and the finance plan. We continue to have concerns about the cost and financing of this project.

COST ESTIMATE

In our June 1995 report, we found that the cost of the CA/T project would exceed the \$8 billion forecast in MHD's draft cost estimate. This was because the estimate excluded over \$1 billion in total project costs such as those for connecting roadways that had been considered part of the project in past estimates. In addition, the estimate was based on aggressive cost containment goals that MHD adopted for the CA/T project--goals that, while commendable, envisioned a far better performance than had been achieved on the project to date. Our report concluded that if excluded costs and future inflation were included in the MHD estimate, the project's costs would be about \$9.7 billion, rather than \$8 billion. We also reported that if cost growth were to mirror historical patterns rather than the cost containment goals assumed in the draft estimate, costs could be as high as \$10.6 billion.

Since our June report, MHD has finalized its cost estimate. The final estimate of \$8 billion is the same amount as the MHD draft estimate and discloses that costs are excluded. MHD estimates these exclusions total about \$775 million in remaining project costs.³ According to MHD, these costs are excluded because they could be assumed by other state agencies such as the Massachusetts Turnpike Authority and the Massachusetts Port Authority. During 1995, Massachusetts enacted legislation requiring that the Massachusetts Turnpike and Port Authorities contribute a total of \$225 million to the CA/T project and that the possibility of additional payments be studied. In the coming weeks, we will further assess the ability and willingness of state agencies other than MHD to assume a share of the project's costs.

We also plan to update our analysis of the CA/T project cost estimate and our observation that, depending on assumptions, costs could be as high as \$10.6 billion. We are reviewing the final version of the latest estimate and plan to examine MHD's performance to date in achieving its cost containment

³According to MHD, the difference between the \$775 million and \$1 billion exclusion figures represents costs already incurred.

goals. We are also analyzing a Federal Highway Administration (FHWA) review of the estimate that was completed after we issued our June report. That review questioned about \$500 million in cost savings assumptions that were in addition to those we identified. MHD is responding to FHWA's review and our continuing analysis may result in revisions to our estimate of potential CA/T costs.

FINANCE PLAN

Our June 1995 report concluded that funding might be insufficient to complete the project by 2004. This is because the assumptions in MHD's December 1994 finance plan (1) were based on an outdated estimate, (2) assumed that Massachusetts would have access to federal funding that is not available under current law, and (3) projected future federal funding levels that might not be realized in the current budget environment. We analyzed several funding scenarios and found that Massachusetts could face a project funding shortfall of as much as \$2.4 billion.

After our June report was issued, FHWA asked MHD to prepare a second finance plan. MHD submitted that plan in August 1995. In December 1995, FHWA asked MHD for further revisions. In a letter to the Massachusetts Secretary of Transportation, the Administrator, FHWA, stated that two of the three funding scenarios in the state's plan were "overly optimistic with respect to the amount of federal-aid funds that could be available to Massachusetts...". In regard to state contributions, FHWA stated that the plan "does not clearly demonstrate adequate funding, and those funds identified are not sufficiently secure to achieve Massachusetts' projected construction schedule." MHD is addressing these and other comments in a revised finance plan, expected to be submitted to FHWA this month. We plan to evaluate the new plan and update our estimate of potential funding shortfalls. In particular, we will assess whether Massachusetts has the financial capacity to maintain both the project's aggressive cost and schedule goals and a balanced statewide transportation program.

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We discussed a draft of this report with the Chief of the Interstate and Program Support Branch, Office of Engineering, FHWA in Washington, D.C.; the CA/T Project Manager, Massachusetts Division, FHWA, in Boston, Massachusetts; and the Assistant CA/T Project Director and Chief of Financial Management, MHD, in Boston. They

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generally agreed with the facts as presented and we made revisions as necessary on the basis of their comments.

We will continue to keep you and your staff apprised of our work. If you or your staff have any further questions, please call me at (202) 512-2834.

Sincerely yours,

for Phyllis Scheinberg

John H. Anderson, Jr.
Director, Transportation and
Telecommunications Issues

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