

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Basic Financial Statements, Required Supplementary Information and
Other Supplementary Information

June 30, 2020

(With Independent Auditors' Report Thereon)

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

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Independent Auditors' Report

Members of the Board of Directors
Massachusetts Department of Transportation:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Massachusetts Department of Transportation (MassDOT), a component unit of the Commonwealth of Massachusetts, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise MassDOT's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the



business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of MassDOT, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis and the schedules listed under Required Supplementary information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise MassDOT's basic financial statements. The Other Supplementary Information (OSI) listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The OSI is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, OSI is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2021 on our consideration of MassDOT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MassDOT's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MassDOT's internal control over financial reporting and compliance.

KPMG LLP

Boston, Massachusetts
February 17, 2021

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2020

(Unaudited)

Management of the Massachusetts Department of Transportation (MassDOT) provides this Management's Discussion and Analysis to assist readers of its financial statements to better understand the financial activities of MassDOT for the fiscal year ended June 30, 2020. We encourage readers to consider this information in conjunction with MassDOT's basic financial statements, which follow this section.

Overview of the Financial Statements

MassDOT's financial statements present two types of statements each with a different view of MassDOT's finances. This approach focuses on both MassDOT as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about MassDOT as a whole. The fund financial statements focus on the individual parts of MassDOT, reporting MassDOT's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance MassDOT's accountability. Also included in the report is the financial information about activities for which MassDOT acts solely as a trustee or agent for the benefit of those outside of the government. Additional parts of the basic financial statements are the notes to the financial statements, required supplementary information and other supplementary information, which is used to assist readers and investors in reviewing MassDOT's general fund operations in more detail.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of MassDOT as a whole, with the exception of fiduciary activities, and use accounting methods similar to those used by private-sector companies. The statements provide both short-term and long-term information about MassDOT's financial situation and are prepared using the flow of economic resources measurement focus and the full accrual basis of accounting. All revenues and expenses connected with the fiscal year are reported regardless of the timing of cash flows. The government-wide financial statements include the following two statements:

Statement of Net Position – Presents all of MassDOT's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as "net position". The net position is widely considered a good measure of MassDOT's financial health as increases and decreases in MassDOT's net position serve as a useful indicator of whether MassDOT's financial position is improving or deteriorating. The reader should consider other nonfinancial factors, such as the condition of MassDOT's infrastructure, ways and structures when evaluating financial information.

Statement of Activities – Presents information showing how MassDOT's net position changed during the most recent fiscal year. Revenues, expenses, and gains/losses are reported for some items that will not result in cash flows until future fiscal periods (i.e., accounts receivable, long-term debt, etc.). This statement also presents a comparison between direct expenses and program revenues for each division of MassDOT.

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(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2020

(Unaudited)

The government-wide financial statements present information in three columns in order to summarize MassDOT's activities. The types of activities presented are as follows:

Governmental Activities – Most of MassDOT's basic services (which are primarily funded by toll revenues, contract assistance from the Commonwealth and other nonexchange revenues) are reported in this section by operational division, which are as follows: Highway, Registry of Motor Vehicles, Rail and Transit, and Aeronautics as well as shared services represented by Planning and Enterprise Services (formerly the Office of the Secretary).

Business-Type Activities – The Massachusetts Bay Transportation Authority's (MBTA), a component unit, activities are reported here since a portion of their costs are recovered through user fees and charges to external users of goods and services.

Discretely Presented Component Units – Separate legal entities for which MassDOT has financial accountability are included in this section. These entities consist of fifteen regional transit authorities and operate similar to private sector companies and the business-type activities described above. The separately audited financial statements of MassDOT's component units may be obtained by directly contacting the various entities.

The fifteen regional transit authorities are as follows:

Berkshire Regional Transit Authority
Brockton Area Transit Authority
Cape Ann Transportation Authority
Cape Cod Regional Transit Authority
Franklin Regional Transit Authority
Greater Attleboro/Taunton Regional Transit Authority
Lowell Regional Transit Authority
Martha's Vineyard Transit Authority
Merrimack Valley Regional Transit Authority
Metrowest Regional Transit Authority
Montachusett Regional Transit Authority
Nantucket Regional Transit Authority
Pioneer Valley Transit Authority
Southeastern Regional Transit Authority
Worcester Regional Transit Authority

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Fund Financial Statements

Users of government financial statements will find the fund financial statement presentation to be most familiar. A fund is a grouping of related accounts that is used to maintain control over resources that have been allocated to specific projects or activities. MassDOT uses fund accounting to ensure and demonstrate compliance with several finance related legal requirements.

All of the funds of MassDOT can be divided into three categories as follows:

Governmental Funds – Most of the basic services provided by MassDOT are financed through governmental funds, which are defined as a set of accounts, focused on near-term inflows and outflows of resources to be spent. These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. The focus is also on the balances left at the end of the fiscal year available for spending. This information is useful in evaluating MassDOT's near-term financing requirements and it is based on the modified accrual basis of accounting. Such statements provide a detailed short-term view of MassDOT's finances that assist in determining whether there will be adequate financial resources available to meet current needs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison will assist the reader in understanding the long-term impact of the government's near-term financing decisions. The governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances include reconciliations to facilitate the comparison. The reconciliations are presented on the page immediately following each respective governmental funds' financial statement.

MassDOT has several governmental funds; two of them, the Massachusetts Transportation Trust Fund (MTTF) and Highway Capital Projects Fund are considered major funds for presentation purposes. Each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds, which primarily consist of federal grant programs, the Motor Vehicle Inspection Trust Fund (MVITF), and the Central Artery/Tunnel Project Repair and Maintenance Trust (CARM) Fund, are aggregated and presented as other governmental funds.

Proprietary Funds – MassDOT maintains two types of proprietary funds. The enterprise fund is used to report the same function presented as business-type activities in the government-wide financial statements. MassDOT reports the MBTA as a major enterprise fund. An internal service fund is used to account for the Owner Controlled Insurance Program that was established to pay contractors' workers' compensation claims related to the Central Artery/Tunnel Project. The services provided by the internal service fund benefit the governmental function and, as a result, are included within governmental activities in the government-wide financial statements.

Proprietary funds financial statements provide the same type of information as in the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary funds financial statements use the full accrual basis of accounting. As such, there is no reconciliation required between the government-wide financial statements' business-type activities and the proprietary funds financial statements.

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Fiduciary Funds – Such funds are used to account for resources held for the benefit of parties outside MassDOT. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support MassDOT's own programs. The full accrual basis of accounting is used for fiduciary funds.

MassDOTs' fiduciary funds are Agency funds, which are used to account for assets held in a custodial capacity.

Notes to the Financial Statements, Required Supplementary Information and Other Supplementary Information

The notes provide additional information that is essential for a full understanding of the data reported in the government-wide and fund financial statements.

The required supplementary information section includes pension schedules related to MassDOT's proportionate share of net pension liability and pension contributions, as required by GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions*", and Other Post Employment Benefit (OPEB) schedules related to MassDOT's proportionate share of net OPEB liability and OPEB contributions, as required by GASB 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*".

The supplementary information includes a combining balance sheet and a combining schedule of revenues, expenditures and changes in fund balances for MassDOT's general fund (MTTF). The supplementary information provides details for the MTTF's Metropolitan Highway System (MHS), Western Turnpike (WT), Tobin Bridge and Other Operations.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
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June 30, 2020
(Unaudited)

Government-Wide Financial Analysis

Net Position

The following table reflects a condensed statement of net position based on the government-wide financial statements.

Condensed Statement of Net Position
June 30, 2020 and 2019
(in thousands of dollars)

	Governmental activities		Business-type (MBTA) activities		Total primary government		Change year over year	
	2020	2019	2020	2019	2020	2019	Amount	%
Current and noncurrent other assets	\$ 2,044,215	1,978,328	1,763,327	1,552,456	3,807,542	3,530,784	276,758	8 %
Capital assets	25,629,396	25,417,024	11,875,355	10,607,504	37,504,751	36,024,528	1,480,223	4 %
Deferred outflows of resources	364,975	265,039	668,237	797,542	1,033,212	1,062,581	(29,369)	(3)%
Total assets & deferred outflows	28,038,586	27,660,391	14,306,919	12,957,502	42,345,505	40,617,893	1,727,612	4 %
Bonds outstanding and notes payable	1,825,254	1,949,831	5,516,228	5,493,515	7,341,482	7,443,346	(101,864)	(1)%
Noncurrent liabilities	1,834,888	1,571,642	4,098,663	4,240,862	5,933,551	5,812,504	121,047	2 %
Other current liabilities	591,639	585,215	655,753	549,054	1,247,392	1,134,269	113,123	10 %
Deferred inflows of resources	222,278	333,407	457,423	200,925	679,701	534,332	145,369	27 %
Total liabilities & deferred inflows	4,474,059	4,440,095	10,728,067	10,484,356	15,202,126	14,924,451	277,675	2 %
Net position:								
Net investment in capital assets	27,644,190	23,648,992	7,438,829	5,984,296	35,083,019	29,633,288	5,449,731	18 %
Restricted	949,471	873,318	20,869	20,524	970,340	893,842	76,498	9 %
Unrestricted (Deficit)	(5,029,134)	(1,302,014)	(3,880,846)	(3,531,674)	(8,909,980)	(4,833,688)	(4,076,292)	(84)%
Total net position	\$ 23,564,527	23,220,296	3,578,852	2,473,146	27,143,379	25,693,442	1,449,937	6 %

MassDOT's combined assets and deferred outflows (governmental and business-type activities) exceeded its liabilities and deferred inflows at June 30, 2020 by \$27.1 billion (presented as net position). The main component of net position represents the net investment in capital assets, totaling \$35.1 billion. The majority of capital assets were transferred to MassDOT by the Commonwealth in fiscal year 2010 as a result of transportation reform pursuant to the enabling legislation M.G.L. Ch.6C; however, the Commonwealth continues to finance the debt for these assets. MassDOT uses these capital assets to service the Commonwealth of Massachusetts; therefore, they are not available for future spending.

Governmental activities current and noncurrent other assets, totaling \$2.0 billion, include restricted and non-restricted cash and investments of \$1.6 billion, net receivables of \$463 million, and other assets of \$2.6 million. Governmental activities long-term liabilities, totaling \$1.8 billion, include all noncurrent liabilities, excluding the long-term portion of bonds outstanding and notes payable. Noncurrent liabilities in the condensed statement include \$184 million of derivative instruments, \$183 million in accrued interest on capital appreciation bonds and derivative

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June 30, 2020

(Unaudited)

borrowings, \$624 million in net pension liability, \$808 million in net OPEB liability, and \$36 million in other liabilities.

Other current liabilities totaling \$592 million are due within one year, and exclude the current portion of bonds outstanding and notes payable totaling \$48 million. Other current liabilities include accounts payable and accrued expenses of \$410 million, unearned revenue of \$115 million, accrued interest of \$31 million, and other liabilities of \$36 million. Included within the condensed statement's other liabilities category for both noncurrent liabilities and other current liabilities is environmental remediation, workers' compensation, compensated absences, and claims and judgments.

The increase of \$244 million in business-type activities total liabilities and deferred inflows compared to the prior year is attributable to increases in the OPEB and pension obligations, including the related deferred inflows, and an increase in other current liabilities. This is offset by an increase in total assets and deferred outflows of \$1,349 million. Approximately \$1,268 million, or 94%, of the increase in total assets and deferred outflows in business-type activities is attributable to capital assets.

Changes in Net Position

MassDOT's total primary government change in net position, noted on the Condensed Statement of Changes in Net Position, increased by \$1.4 billion from fiscal 2019. For fiscal 2020, the governmental activities change in net position amounted to an increase of \$373 million primarily related to an increase in operating grants.

The governmental activities change in net position decreased by \$157 million compared to the prior year due to an increase in revenue of \$50 million and an increase in expenses of \$207 million. Capital grants and contributions amounted to \$1.9 billion of revenues, or 62% of total governmental activities revenue, an increase from the prior year in the amount of \$148 million. Every functional expense experienced an increase from the prior year.

The following table reflects a condensed statement of activities based on the government-wide financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2020

(Unaudited)

Condensed Statement of Activities

June 30, 2020 and 2019

(in thousands of dollars)

	Governmental Activities		Business-type Activity (MBTA)		Total primary government		Change year over year	
	2020	2019	2020	2019	2020	2019	Amount	%
Revenues:								
Program revenues:								
Fees, fines, and charges for services	\$ 556,301	602,199	632,578	777,191	1,188,879	1,379,390	(190,511)	(14)%
Operating grants and contributions	179,875	201,548	—	—	179,875	201,548	(21,673)	(11)%
Capital grants and contributions	1,921,594	1,774,039	991,626	684,275	2,913,220	2,458,314	454,906	19 %
General revenues:								
Operating assistance from the Commonwealth	463,199	486,223	187,000	172,102	650,199	658,325	(8,126)	(1)%
Taxes and assessments	—	—	1,251,706	1,223,346	1,251,706	1,223,346	28,360	2 %
Other income	—	—	420,418	46,844	420,418	46,844	373,574	797 %
Unrestricted investment income	1,500	8,530	38,681	39,637	40,181	48,167	(7,986)	(17)%
Total revenues	<u>3,122,469</u>	<u>3,072,539</u>	<u>3,522,009</u>	<u>2,943,395</u>	<u>6,644,478</u>	<u>6,015,934</u>	<u>628,544</u>	<u>10 %</u>
Expenses:								
Highway	1,670,159	1,589,336	—	—	1,670,159	1,589,336	80,823	5 %
Planning and Enterprise Services	263,849	236,919	—	—	263,849	236,919	26,930	11 %
Registry of Motor Vehicles	127,281	106,397	—	—	127,281	106,397	20,884	20 %
Rail and Transit	637,678	490,599	—	—	637,678	490,599	147,079	30 %
Aeronautics	20,486	23,589	—	—	20,486	23,589	(3,103)	(13)%
Debt service-interest	30,466	96,431	—	—	30,466	96,431	(65,965)	(68)%
MBTA	—	—	2,416,303	2,483,737	2,416,303	2,483,737	(67,434)	(3)%
Total expenses	<u>2,749,919</u>	<u>2,543,271</u>	<u>2,416,303</u>	<u>2,483,737</u>	<u>5,166,222</u>	<u>5,027,008</u>	<u>139,214</u>	<u>3 %</u>
Change in net position	372,550	529,268	1,105,706	459,658	1,478,256	988,926	489,330	49 %
Net position – beginning as restated	<u>23,191,977</u>	<u>22,691,028</u>	<u>2,473,146</u>	<u>2,013,488</u>	<u>25,665,123</u>	<u>24,704,516</u>	<u>960,607</u>	<u>4 %</u>
Net position – ending	<u>\$23,564,527</u>	<u>23,220,296</u>	<u>3,578,852</u>	<u>2,473,146</u>	<u>27,143,379</u>	<u>25,693,442</u>	<u>1,449,937</u>	<u>6 %</u>

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

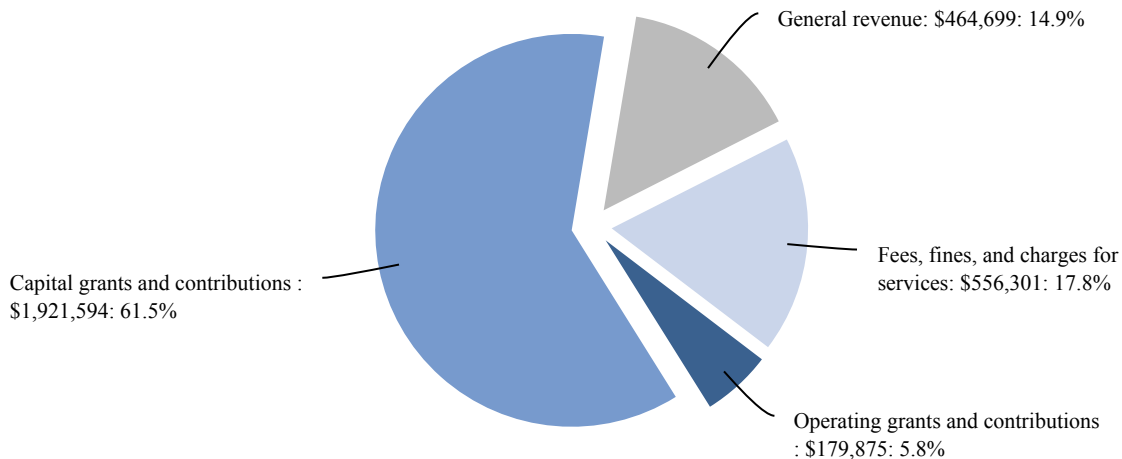
June 30, 2020

(Unaudited)

Total Revenues

For fiscal year 2020, total governmental activities revenues (\$3.1 billion) were comprised of general revenues (\$465 million) and program revenues (\$2.7 billion), which include fees, fines and charges for services of \$556 million, operating grants and contributions of \$180 million and capital grants and contributions of \$1.9 billion.

Governmental Activities - Total Revenue
(in thousands of dollars)



The governmental activities overall revenue increased by \$50 million, or 2%, from the prior year primarily due to an increase in Capital grants and contributions revenue of \$148 million which was then offset by decreases in the other program and general revenue categories.

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Management's Discussion and Analysis

June 30, 2020

(Unaudited)

**Governmental Activities - Program Revenue
(in thousands of dollars)**

	Total		Change year over year	
	2020	2019	Amount	%
Program revenues:				
Fees, fines, and charges for services	\$ 556,301	602,199	(45,898)	(8)%
Operating grants and contributions	179,875	201,548	(21,673)	(11)%
Capital grants and contributions	1,921,594	1,774,039	147,555	8 %
General revenue	464,699	494,753	(30,054)	(6)%
	<u>\$ 3,122,469</u>	<u>3,072,539</u>	<u>49,930</u>	<u>2 %</u>

Within program revenues, fees, fines, and charges for services amounted to \$556 million, which is a \$46 million decrease from the prior year. This represents a variety of MassDOT revenues, including tolls (\$381 million), rental/lease (\$58 million), and departmental revenue, such as advertising and highway-related permit fees (\$118 million). The decrease in general revenue primarily represents a decrease in operational funding from the Commonwealth Transportation Fund (CTF).

**Program Revenue - Fees, fines, and charges for services
(in thousands of dollars)**

	Total		Change year over year	
	2020	2019	Amount	%
Tolls	\$ 380,573	444,443	(63,870)	(14)%
Rental/lease	58,138	56,502	1,636	3 %
Departmental	117,591	101,254	16,337	16 %
	<u>\$ 556,302</u>	<u>602,199</u>	<u>(45,897)</u>	<u>(8)%</u>

Operating grants and contributions of \$180 million represent both contract assistance for debt service from the Commonwealth and federal grants from various federal agencies, such as Federal Transit Authority, Federal Rail Administration, and Federal Aviation Administration. These contributions are restricted for specific designated purposes and account for approximately 6% of the total MassDOT program revenues. The contributions decreased by approximately \$22 million from the prior year.

Capital grants and contributions of \$1.9 billion include funding from the Commonwealth and federal agencies for projects such as the Accelerated Bridge Program (ABP), Statewide Road and Bridge Program, Chapter 90 Local Aid, Regional Transit Authority capital assistance and other capital programs. The majority of these programs are within the Highway division, which account for \$1.3 billion, or 67%, of the overall capital grants and contributions. The primary factor to cause the Capital grants and contributions to increase by \$148 million from the prior year balance was an increase legislated transfers for various highway improvement projects .

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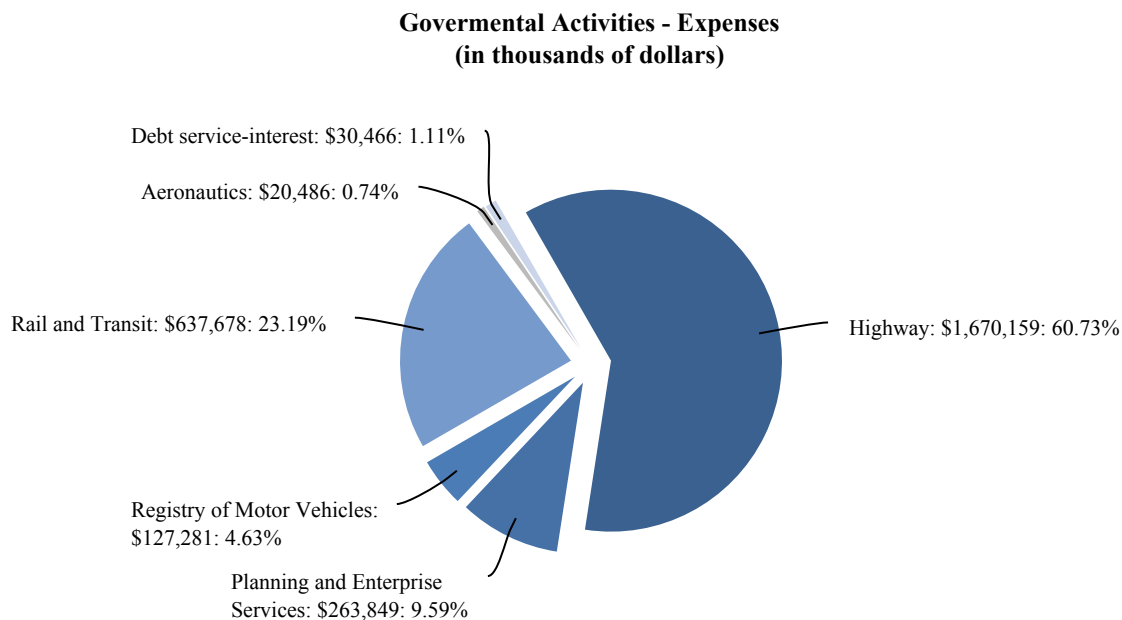
General Revenue

General revenues, totaling \$465 million, include operating assistance and contract assistance from the Commonwealth, and investment income, decreased by \$30 million from the prior year. In fiscal year 2019, MassDOT received \$28 million of additional funding subsequent to year-end to cover the snow & ice deficit and provide other operating support. No additional funding was received in fiscal year 2020.

Expenses

For fiscal year 2020, expenses for governmental activities totaled \$2.7 billion. The Highway Division's operations continue to be one of the MassDOT's highest priorities and commitments, representing \$1.7 billion, or 61%, of the total governmental activities expenses.

The balance of 39% is attributable to Planning and Enterprise Services with \$264 million, the Rail and Transit Division with \$638 million, and debt service-interest expenses of \$30 million. The Registry of Motor Vehicles (RMV) and Aeronautics complete the operational spending pattern with an approximate combined total of \$148 million.



Overall, MassDOT's governmental activities expenses increased by \$207 million, or 8% from the prior year. Key elements of this change were increases of \$81 million and \$147 million for Highway activities and Rail & Transit activities and Aeronautics activities respectively. The increase in Highway primarily relates to highway construction projects, Rail & Transit attributable to rail construction projects.

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(A Component Unit of the Commonwealth of Massachusetts)

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June 30, 2020

(Unaudited)

**Governmental Activities - Expenses
(in thousands of dollars)**

	Total		Change year over year	
	2020	2019	Amount	%
Highway	\$ 1,670,159	1,589,336	80,823	5 %
Planning and Enterprise Services	263,849	236,919	26,930	11 %
Registry of Motor Vehicles	127,281	106,397	20,884	20 %
Rail and Transit	637,678	490,599	147,079	30 %
Aeronautics	20,486	23,589	(3,103)	(13)%
Debt service-interest	30,466	96,431	(65,965)	(68)%
	<u>\$ 2,749,919</u>	<u>2,543,271</u>	<u>206,648</u>	<u>8 %</u>

Business-Type Activity

The net position for business-type activities is \$3.6 billion, an increase of \$1,106 million from the prior year, compared to an increase of \$460 million in the prior year. The year over year increase is primarily due to increases in capital grants and contributions and non-operating revenue (Federal CARES Act assistance) of \$307 million and \$349 million respectively , and a decrease in expenses of \$67 million.

Government Funds Financial Analysis

As noted earlier, MassDOT uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

As of June 30, 2020, MassDOT's governmental funds (MTTF, Highway Capital Projects, and other governmental) reported a combined ending fund balance of \$1.4 billion. Of this amount, \$2.6 million is nonspendable and relates to prepaid expenditures. The majority of the remaining fund balance of \$1.3 billion is restricted, which consists of debt service payments and grants or bonded projects that are restricted by external sources and other purposes such as insurance reserve and turnpike operations. Approximately \$808 thousand of the fund balance is assigned leaving a \$95 million unassigned fund balance. All these funds are incorporated in the annual budget and approved by the MassDOT Board of Directors. The MTTF (general fund) is the chief operating fund of MassDOT. As of June 30, 2020, the total fund balance was \$975 million, comprised of \$878 million restricted, \$2.6 million nonspendable (prepaid expenditures), and \$95 million unassigned.

In addition to the MTTF, MassDOT established the Highway Capital Projects Fund as a major governmental fund. The Highway Capital Projects Fund accounts for highway construction projects financed primarily through federal reimbursements passed through the Commonwealth and contract assistance payments received directly from the Commonwealth. As of June 30, 2020, the total fund balance was \$74 million, an increase of \$1 million from the prior fiscal year.

The other governmental funds are special revenue funds used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. Projects within this category include federal grants, MVITF activity, and the CARM. As of June 30, 2020, the total fund balance was \$371 million.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2020

(Unaudited)

Proprietary Funds

The Proprietary Funds Statement of Fund Net Position provides the same type of information found in the government-wide statements, but in more detail. MassDOT's proprietary funds include the MBTA (a blended component unit) as a major enterprise fund, and the Owner Controlled Insurance Program (OCIP), an internal service fund.

The net position of the MBTA at the end of the year totaled \$3.6 billion, which consisted of \$7.4 billion in net investment in capital assets, \$21 million restricted for other purposes, and an unrestricted net deficit of \$3.9 billion. OCIP's net position at the end of the year totaled \$2.7 million, which is considered restricted for purposes of this activity.

Governmental Funds – MTTF General Fund***MTTF Revenues***

MTTF (General fund) revenues totaled \$1.09 billion in fiscal 2020, a decrease of \$90 million, or 8%, from fiscal 2019. The CTF revenues of \$616 million and toll revenues of \$355 million combine for 89% of the total revenues. The remaining 11%, or \$122 million, consists of rental/lease revenue, investment income, advertising, highway related permits, and other fees.

The CTF revenues include \$100 million dedicated for MHS bonds (through Chapter 27, Section 9 of the Acts of 2009), \$25 million for the operations and maintenance of portions of the Central Artery and the Central Artery North Area, and \$491 million for operations. The operational funding included \$487 million for MassDOT operations, \$91 million for RTA's contract assistance, and \$10 million for the Merit Rating Board.

MTTF General Fund - Revenue
(in thousands of dollars)

	Total		Change year over year	
	2020	2019	Amount	%
Tolls	\$ 355,100	387,056	(31,956)	(8)%
Commonwealth Transportation Fund	616,149	676,761	(60,612)	(9)%
Other (grants, rental/lease, departmental/other)	121,763	119,311	2,452	2 %
	<u>\$ 1,093,012</u>	<u>1,183,128</u>	<u>(90,116)</u>	<u>(8)%</u>

The \$355 million in toll revenue consists of pledged revenue of \$186 million for Metropolitan Highway System and unpledged revenue of \$135 million for Western Turnpike and \$34 million for the Tobin Bridge operations. The decrease in toll revenues from the prior year is attributed to the overall decline in road traffic due to travel restrictions as a result of the COVID-19 pandemic during the fiscal year.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2020

(Unaudited)

**MTTF General Fund Toll Revenue by Roadway
(in thousands of dollars)**

	Total		Change year over year	
	2020	2019	Amount	%
Metropolitan Highway System	\$ 185,621	202,760	(17,139)	(8)%
Western Turnpike	135,169	144,565	(9,396)	(6)%
Tobin Bridge	34,310	39,731	(5,421)	(14)%
	<u>\$ 355,100</u>	<u>387,056</u>	<u>(31,956)</u>	<u>(8)%</u>

MTTF Expenditures

During fiscal 2020, the general fund's total expenditures increased by 6% from the prior year. The increase relates mainly to Highway division, Planning and Enterprise services and Registry of Motor Vehicles expenditures.

**MTTF General Fund Expenditures
(in thousands of dollars)**

	Total		Change year over year	
	2020	2019	Amount	%
Highway	\$ 553,010	542,937	10,073	2 %
Planning and Enterprise Services	133,287	113,550	19,737	17 %
Registry of Motor Vehicles	105,099	89,924	15,175	17 %
Rail and Transit	94,672	85,800	8,872	10 %
Aeronautics	2,767	2,325	442	19 %
Debt Service	154,753	149,388	5,365	4 %
Totals	<u>\$ 1,043,588</u>	<u>983,924</u>	<u>59,664</u>	<u>6 %</u>

MTTF Budgetary Highlights

Funding for MassDOT's general fund (MTTF) operations is dependent in part upon operating assistance from the Commonwealth of Massachusetts' CTF, toll operations, and other departmental revenues.

MassDOT submits its MTTF budget to the Standing Committee on Finance and Audit for review and to the MassDOT Board of Directors for final approval. The Board approved a \$947 million operating budget to cover fiscal year 2020 operations.

The Transportation Finance Act (Chapter 46 of the Acts of 2013) allows MassDOT to transfer excess revenues from the MVITF to the MTTF, providing all expenses of the motor vehicle inspection program are met. In fiscal year 2020, MassDOT transferred \$36 million from the MVITF to the MTTF to fund a portion of operations.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2020

(Unaudited)

Capital Asset and Debt Administration***Capital Assets***

As of June 30, 2020, MassDOT's combined capital assets totaling \$37.5 billion (net of depreciation) consisted of \$25.6 billion in governmental activities and \$11.9 billion in business-type activities. This total amount represents a net increase (including additions and deductions) of \$1,480 million, or 4.1% percent, over last year. MassDOT's capital assets include land, construction in progress, infrastructure, buildings and equipment, vehicles, and software as shown in the table below.

MassDOT Capital Assets - At Year End, Net of Depreciation
(in thousands of dollars)

	Governmental activities		Business-type activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 1,058,959	1,025,599	393,845	393,845	1,452,804	1,419,444
Construction in progress	9,650,149	9,253,819	4,400,499	2,977,084	14,050,648	12,230,903
Infrastructure	14,831,200	15,034,089	5,741,642	5,878,209	20,572,842	20,912,298
Buildings and equipment	72,461	78,966	1,339,369	1,358,366	1,411,830	1,437,332
Vehicles	13,237	19,643	—	—	13,237	19,643
Software	3,390	4,908	—	—	3,390	4,908
Total	<u>\$ 25,629,396</u>	<u>25,417,024</u>	<u>11,875,355</u>	<u>10,607,504</u>	<u>37,504,751</u>	<u>36,024,528</u>

Within governmental activities, construction in progress (CIP) increased by \$396 million due to additions to on-going CIP projects, which include assets related to the Constructions, the Accelerated Bridge Program and Highway Repair Projects (MassDOT District 3 Administration Building, Viaduct Bridge Repairs, Merrimack River Bridge, Tobin Memorial Bridge, Westfield River Bridge Replacement, Reconstruction and Bridge Replacement on Route 18 in Abington and Weymouth, Resurfacing and Related Work Including Repairs Bridges on Interstate 190, Sterling)

The governmental activities net book value of infrastructure decreased primarily due to the increase in accumulated depreciation of the existing roads and bridges.

Additional information on MassDOT's capital assets can be found in notes 4 and 20.

Debt

At year-end, MassDOT had \$6.74 billion in outstanding bonds and notes compared to \$6.99 billion last year. On October 23, 2019, MassDOT issued \$465 million in senior revenue bonds to refund \$593 million of outstanding 2010 Series B Senior Bonds and \$200 million in subordinated revenue bonds to refund \$238 million of outstanding Series B subordinated bonds. The net proceeds from the refunding were used to retire the 2010 Series B Senior and Subordinated bonds. During fiscal 2020, the MBTA issued Subordinated Sales Tax Bond Subseries 2020 B-1 in the amount of \$339 million and Subseries B-2 in the amount of \$46 million.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)
Management's Discussion and Analysis
June 30, 2020
(Unaudited)

MassDOT Outstanding Bonds and Notes at Year End
(in thousands of dollars)

	Governmental activities		Business-type activities		Total	
	2020	2019	2020	2019	2020	2019
General Transportation System Bonds (GTS)	\$ —	—	141,585	160,680	141,585	160,680
Revenue	1,634,759	1,847,814	4,199,314	4,203,101	5,834,073	6,050,915
Build America Bonds (BABs)	—	—	428,300	428,300	428,300	428,300
Commercial Paper	—	—	35,000	50,000	35,000	50,000
Metropolitan Boston Transit Parking (MBTPC)	—	—	304,585	304,585	304,585	304,585
Total	<u>\$ 1,634,759</u>	<u>1,847,814</u>	<u>5,108,784</u>	<u>5,146,666</u>	<u>6,743,543</u>	<u>6,994,480</u>

MassDOT maintains bond ratings of A or higher for its governmental activities bonds. The Capital Appreciation Bonds are rated (A+) by Standard & Poor's Corporation (S&P) and Fitch, and (A2) by Moody's Investors Services (Moody's). MassDOT's senior fixed rate bonds are rated (A+) by both S&P and Fitch, and (A2) by Moody's.

Additional information on MassDOT's debt can be found in notes 5 and 22.

Construction Commitments

MassDOT's outstanding commitments for engineering and design and construction contracts were \$4.7 billion at June 30, 2020. Major commitments include funding for the Highway Division in the amount of \$2.2 billion for various highway reconstruction and bridge replacement for numerous projects that include:

- the replacement of the North Washington street Bridge in Boston with a new bridge for the 21st century, a complete street over water that works for everyone: people driving, riding the bus, biking, walking, sightseeing, boating, and living nearby
- Chelsea Viaduct Bridge Repairs and Related work on Route 1 over various streets which is a critical step towards meeting MassDOT's bridge condition goals and improving safety and The Maurice J. Tobin Bridge and Deck Repairs which is a rehabilitation in order to remain safe and in service through the 21st Century
- Dedham Street/ I-95 Interchange Reconstruction Including Rehabilitation/Replacement of 5 Bridges in Canton, Norwood and Westwood.

Major commitments also include funding for various collaborations with the MBTA in the amount of \$2.3 billion for projects such as the Green Line extension, Red and Orange Line infrastructure improvements and vehicle purchase, and South Coast Rail improvements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis

June 30, 2020

(Unaudited)

Economic Factors and Next Year's Budgets and Rates

The MassDOT Board approved an original fiscal year 2021 operating expenditure and debt service obligation budget of \$980 million in June 2020, which was revised subsequent to year-end to \$964 million. Total revenues which include tolls, fees, permits, court fines, and federal grants are budgeted 5% lower compared to prior year. Total operating and debt expenditures excluding snow & ice are budgeted for a 2% increase.

Future Pronouncements

GASB has issued the following statements, which require adoption subsequent to June 30, 2020 and are applicable to MassDOT. MassDOT has not yet adopted these statements and is currently assessing the impact of each statement.

Statement No.		Adoption Required in Fiscal Year
84	<i>Fiduciary Activities</i>	2021
87	<i>Leases</i>	2022
89	<i>Accounting for Interest Cost Incurred before the End of a Construction Period</i>	2022
90	<i>Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61</i>	2021
91	<i>Conduit Debt Obligations</i>	2023
92	<i>Omnibus 2020</i>	2022
93	<i>Replacement of Interbank Offered Rates</i>	2022
96	<i>Subscription-Based Information Technology Arrangements</i>	2023
97	<i>Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32</i>	2022

Contacting MassDOT's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of MassDOT's finances and to show MassDOT's accountability for the money it receives. Questions concerning the information provided in this report or requests for additional information should be addressed to MassDOT's Chief Financial Officer at: 10 Park Plaza, Suite 5450, Boston, Massachusetts, 02116.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Statement of Net Position

June 30, 2020

(Dollars in thousands)

Assets and Deferred Outflows of Resources	Primary government		Total	Component units
	Governmental activities	Business-type activities		
Current assets:				
Cash and short-term investments	\$ 118,017	316,278	434,295	26,598
Restricted cash and investments	1,381,139	207,840	1,588,979	1,971
Derivative instrument	10,567	—	10,567	—
Receivables, net of allowance for uncollectibles:				
Due from Commonwealth	340,525	111,203	451,728	4,396
Due from federal government	11,394	190,250	201,644	24,482
Other	111,568	32,057	143,625	63,762
Other assets	2,627	54,244	56,871	7,134
Total current assets	1,975,837	911,872	2,887,709	128,343
Noncurrent assets:				
Restricted cash and investments	68,378	822,355	890,733	—
Receivables, net of allowance for uncollectibles:				
Due from Commonwealth	—	—	—	2,029
Due from federal government	—	—	—	3,595
Other	—	—	—	20,975
Net OPEB asset	—	—	—	572
Other assets	—	29,100	29,100	58,276
Capital assets:				
Nondepreciable	10,709,108	4,794,344	15,503,452	45,552
Depreciable, net of accumulated depreciation	14,920,288	7,081,011	22,001,299	424,348
Total noncurrent assets	25,697,774	12,726,810	38,424,584	555,347
Total assets	27,673,611	13,638,682	41,312,293	683,690
Deferred Outflows of Resources:				
Loss on debt refundings	66,529	143,184	209,713	—
Derivative instruments	135,744	9,837	145,581	—
OPEB related	54,163	277,586	331,749	2,974
Pension related	108,539	237,630	346,169	8,132
Total deferred outflows of resources	364,975	668,237	1,033,212	11,106
Total assets and deferred outflows of resources	\$ 28,038,586	14,306,919	42,345,505	694,796

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Statement of Net Position (continued)

June 30, 2020

(Dollars in thousands)

	Primary government			
	Governmental activities	Business- type activities	Total	Component units
Liabilities and Deferred Inflows of Resources				
Current liabilities:				
Accounts payable and accrued expenses	\$ 409,884	386,612	796,496	25,046
Unearned revenue	115,009	—	115,009	372
Accrued interest payable	31,219	108,218	139,437	1,589
Bonds and notes payable	47,877	311,735	359,612	76,546
Other liabilities	35,527	160,923	196,450	6,396
Total current liabilities	<u>639,516</u>	<u>967,488</u>	<u>1,607,004</u>	<u>109,949</u>
Noncurrent liabilities:				
Accrued interest	182,868	—	182,868	—
Bonds and notes payable	1,777,377	5,204,493	6,981,870	33,317
Liability for derivative instruments	183,510	10,631	194,141	—
Capital lease obligations	—	78,332	78,332	—
Net pension liability	624,213	1,520,913	2,145,126	34,411
Net OPEB liability	808,483	2,329,201	3,137,684	49,304
Other liabilities	35,814	106,142	141,956	4,818
Unearned revenue	—	53,444	53,444	1,381
Total noncurrent liabilities	<u>3,612,265</u>	<u>9,303,156</u>	<u>12,915,421</u>	<u>123,231</u>
Total liabilities	<u>4,251,781</u>	<u>10,270,644</u>	<u>14,522,425</u>	<u>233,180</u>
Deferred Inflows of Resources:				
Debt instruments	—	149	149	—
OPEB related	169,828	395,560	565,388	12,221
Pension related	52,450	61,714	114,164	4,981
Total liabilities and deferred inflows of resources	<u>\$ 4,474,059</u>	<u>10,728,067</u>	<u>15,202,126</u>	<u>250,382</u>
Net Position				
Net investment in capital assets	27,644,190	7,438,829	35,083,019	527,382
Restricted	949,471	20,869	970,340	8,870
Unrestricted (Deficit)	(5,029,134)	(3,880,846)	(8,909,980)	(91,838)
Total net position	<u>\$ 23,564,527</u>	<u>3,578,852</u>	<u>27,143,379</u>	<u>444,414</u>

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)

Statement of Activities
Fiscal year ended June 30, 2020
(Dollars in thousands)

Functions/program	Expenses	Program revenues			Net (expense)/revenue and changes in net position			
		Fees, fines, and charges for services	Operating grants and contributions	Capital grants and contributions	Primary government			Component units
					Governmental activities	Business-type activities	Total	
Primary government:								
Governmental activities:								
Highway	\$ 1,670,159	425,662	46,116	1,282,496	84,115	—	84,115	—
Planning and Enterprise Services	263,849	100,167	17,506	119,718	(26,458)	—	(26,458)	—
Registry of motor vehicles	127,281	22,933	2,771	716	(100,861)	—	(100,861)	—
Rail and Transit	637,678	7,002	8,137	501,330	(121,209)	—	(121,209)	—
Aeronautics	20,486	537	52	17,334	(2,563)	—	(2,563)	—
Debt service – interest	30,466	—	105,293	—	74,827	—	74,827	—
Total governmental activities	2,749,919	556,301	179,875	1,921,594	(92,149)	—	(92,149)	—
Business-type activities :								
Massachusetts Bay								
Transportation Authority	2,416,303	632,578	—	991,626	—	(792,099)	(792,099)	—
Total primary government	\$ 5,166,222	1,188,879	179,875	2,913,220	(92,149)	(792,099)	(884,248)	—
Component units:								
Aggregate component units	\$ 502,471	238,014	200,390	45,654				(18,413)
General revenues:								
Operating assistance from the Commonwealth					\$ 463,199	187,000	650,199	—
Taxes and assessments					—	1,251,706	1,251,706	—
Other income					—	420,418	420,418	—
Unrestricted investment income					1,500	38,681	40,181	—
Total general revenues					464,699	1,897,805	2,362,504	—
Change in net position					372,550	1,105,706	1,478,256	(18,413)
Net Position – beginning of year as restated					23,191,977	2,473,146	25,665,123	462,827
Net Position – end of year					\$ 23,564,527	3,578,852	27,143,379	444,414

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION
(A Component Unit of the Commonwealth of Massachusetts)
Governmental Funds Balance Sheet
June 30, 2020
(Dollars in thousands)

Assets	MTTF (General)	Highway capital projects	Other governmental funds	Total governmental funds
Cash and short-term investments	\$ 115,530	—	2,487	118,017
Restricted cash and investments	1,007,465	73,815	364,000	1,445,280
Receivables, net of allowance for uncollectibles:				
Due from Commonwealth	—	340,525	—	340,525
Due from federal government	—	—	11,394	11,394
Other	111,568	—	—	111,568
Other assets	2,627	—	—	2,627
Total assets	<u>1,237,190</u>	<u>414,340</u>	<u>377,881</u>	<u>2,029,411</u>
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities:				
Accounts payable and accrued expenditures	62,847	340,525	6,512	409,884
Unearned revenue	115,009	—	—	115,009
Total liabilities	<u>177,856</u>	<u>340,525</u>	<u>6,512</u>	<u>524,893</u>
Deferred Inflows of Resources:				
Unavailable Revenue	83,938	—	—	83,938
Fund balances:				
Nonspendable	2,627	—	—	2,627
Restricted	878,063	73,815	370,561	1,322,439
Assigned	—	—	808	808
Unassigned	94,706	—	—	94,706
Total fund balances	<u>975,396</u>	<u>73,815</u>	<u>371,369</u>	<u>1,420,580</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,237,190</u>	<u>414,340</u>	<u>377,881</u>	<u>2,029,411</u>

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Reconciliation of the Governmental Funds Balance Sheet**Total Fund Balances to the Statement of Net Position****June 30, 2020**

(Dollars in thousands)

Total governmental fund balances:	\$	1,420,580
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		25,629,396
Receivables that are measurable but not available are reported as deferred inflows of resources in the governmental funds but recognized as revenue on a full accrual basis.		83,938
Capitalized loss on debt refunding in governmental activities that is not capitalized at a fund level in the governmental funds.		66,529
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.		(214,087)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds and notes payable, net		(1,825,254)
Workers' compensation claims		(21,149)
Other claims and judgments		(444)
Compensated absences		(46,655)
Environmental remediation		(1,603)
Derivative instruments, net		(37,199)
Net pension liability, net		(568,124)
Net OPEB liability, net		(924,148)
An internal service fund is used by management to manage its OCIP program related to the central artery construction project. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net position.		2,747
Net position of governmental activities	\$	<u><u>23,564,527</u></u>

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Fiscal year ended June 30, 2020

(Dollars in thousands)

	MTTF (General)	Highway capital projects	Other governmental funds	Total governmental funds
Revenues:				
Toll revenue:				
Pledged as security for revenue bonds	\$ 185,621	—	—	185,621
Unpledged	169,479	—	—	169,479
Commonwealth transportation fund:				
Operations	491,149	—	—	491,149
Metropolitan highway system bonds	100,000	—	—	100,000
Central artery operations and maintenance	25,000	—	—	25,000
Commonwealth grants and contract assistance	—	1,355,628	804	1,356,432
Federal grants and reimbursements:				
Passed through the Commonwealth	—	564,749	—	564,749
Direct	—	—	7,334	7,334
Rental/lease income	53,195	4,944	—	58,139
Investment income	20,864	1,217	17,098	39,179
Departmental and other	47,704	396	69,491	117,591
Total revenues	<u>1,093,012</u>	<u>1,926,934</u>	<u>94,727</u>	<u>3,114,673</u>
Expenditures:				
Current:				
Highway	553,010	1,284,841	11,155	1,849,006
Planning and Enterprise Services	133,287	120,051	1,508	254,846
Registry of motor vehicles	105,099	718	13,855	119,672
Rail and Transit	94,672	502,725	38,097	635,494
Aeronautics	2,767	17,382	—	20,149
Debt service:				
Principal	45,610	—	—	45,610
Interest	109,143	—	—	109,143
Total expenditures	<u>1,043,588</u>	<u>1,925,717</u>	<u>64,615</u>	<u>3,033,920</u>
Excess (Deficiency) of revenues over expenditures	<u>49,424</u>	<u>1,217</u>	<u>30,112</u>	<u>80,753</u>
Other financing sources (uses):				
Transfers in	44,058	—	—	44,058
Transfers out	—	—	(44,058)	(44,058)
Issuance of refunding bonds	664,155	—	—	664,155
Premium from issuance of refunding bonds	144,943	—	—	144,943
Debt service – principal – current refunding	(831,496)	—	—	(831,496)
Total other financing sources (uses)	<u>21,660</u>	<u>—</u>	<u>(44,058)</u>	<u>(22,398)</u>
Net change in fund balances	<u>71,084</u>	<u>1,217</u>	<u>(13,946)</u>	<u>58,355</u>
Fund balances at beginning of year	904,312	72,598	385,315	1,362,225
Fund balances at end of year	<u>\$ 975,396</u>	<u>73,815</u>	<u>371,369</u>	<u>1,420,580</u>

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Reconciliation of the Statement of Revenues, Expenditures And Changes in Fund Balances of Governmental Funds to the Statement of Activities

Fiscal year ended June 30, 2020

(Dollars in thousands)

Net change in fund balances – total governmental funds	\$ 58,355
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period:	
Capital outlays	883,109
Depreciation	(670,387)
In the statement of activities, only the gain/(loss) on the disposal of capital assets is reported, whereas in the governmental funds the proceeds from the disposal increase financial resources. As a result, the change in net position differs from the change in fund balance by the net book value of the disposed capital assets.	
	(350)
Certain revenues in the statement of activities that do not provide current financial resources are not recognized in the statement of revenues, expenditures and changes in fund balances. As a result, the recognition of revenue for certain accounts receivable differ between the two statements. This amount represents the net change in deferred inflows of resources	
	(2,476)
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
These amounts represent the related activity of the current period:	
Proceeds of refunding bonds	(664,155)
Bond maturities	877,103
Net effect of premium, discount and deferred loss on refunding transaction	(120,064)
Amortization of premiums	60,231
Amortization of deferred losses on refunding transactions	(16,534)
Amortization of bond discounts	(5,592)
Amortization of swap payments received	107
Derivatives are reported in the government-wide statements but are not reported in the governmental liability for funds. This amount represents the net changes in the derivative instruments.	
	1,164
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.	
	12,973
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.	
These amounts represent the net changes in accruals:	
Net pension liability, net	(30,755)
Net OPEB liability, net	(1,380)
Workers' compensation	(1,209)
Claims and judgments	1,725
Compensated absences	(9,504)
Environmental remediation	44
An internal service fund is used by management to manage its OCIP program related to the central artery construction project. The net activity of the internal service fund is reported with governmental activities.	
	145
Changes in net position of governmental activities	\$ 372,550

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Proprietary Funds Statement of Net Position June 30, 2020 (Dollars in thousands)

	Business-type activities - enterprise fund MBTA	Governmental activities - internal service fund
Assets and Deferred Outflows of Resources		
Current assets:		
Unrestricted cash and short-term investments	\$ 316,278	—
Restricted cash and investments	207,840	4,237
Receivables, net of allowance for uncollectibles:		
Due from Commonwealth	111,203	—
Due from federal government	190,250	—
Other	32,057	—
Other assets	54,244	—
Total current assets	<u>911,872</u>	<u>4,237</u>
Noncurrent assets:		
Restricted cash and investments	822,355	—
Other assets	29,100	—
Capital assets:		
Nondepreciable	4,794,344	—
Depreciable, net of accumulated depreciation	7,081,011	—
Total noncurrent assets	<u>12,726,810</u>	<u>—</u>
Total assets	<u>13,638,682</u>	<u>4,237</u>
Deferred Outflows of Resources:		
Loss on debt refundings	143,184	—
Derivative related	9,837	—
OPEB related	277,586	—
Pension related	237,630	—
Total deferred outflows of resources	<u>668,237</u>	<u>—</u>
Total assets and deferred outflows of resources	<u>14,306,919</u>	<u>4,237</u>
Liabilities and Deferred Inflows of Resources		
Current liabilities:		
Accounts payable and accrued expenses	386,612	—
Accrued interest	108,218	—
Bonds payable	311,735	—
Other liabilities	160,923	—
Total current liabilities	<u>967,488</u>	<u>—</u>
Noncurrent liabilities:		
Accrued liabilities	106,142	—
Bonds payable	5,204,493	—
Capital lease obligations	78,332	—
Net pension obligation	1,520,913	—
Net OPEB obligation	2,329,201	—
Liability for derivative instruments	10,631	—
Other liabilities	—	1,490
Unearned revenue	53,444	—
Total noncurrent liabilities	<u>9,303,156</u>	<u>1,490</u>
Total liabilities	<u>10,270,644</u>	<u>1,490</u>
Deferred Inflows of Resources:		
Debt instruments	149	—
OPEB related	395,560	—
Pension related	61,714	—
Total liabilities and deferred inflows of resources	<u>10,728,067</u>	<u>—</u>
Fund Net Position		
Net investment in capital assets	7,438,829	—
Restricted	20,869	2,747
Unrestricted	(3,880,846)	—
Total fund net position	<u>\$ 3,578,852</u>	<u>2,747</u>

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Proprietary Funds
Statement of Net Position
June 30, 2020
(Dollars in thousands)

	Business-type activities - enterprise fund	Governmental activities - internal service fund
	MBTA	
Operating revenues:		
Revenue from transportation	\$ 632,578	—
Operating expenses:		
Salaries and benefits	966,475	—
Materials, supplies and services	266,515	—
Injuries and damages	21,714	(70)
Commuter railroad and local subsidy expense	546,624	—
Other	7,544	—
Depreciation and amortization	382,754	—
Total operating expenses	2,191,626	(70)
Operating income (loss)	(1,559,048)	70
Nonoperating revenues (expenses):		
Dedicated sales tax	1,077,308	—
Contract assistance – Commonwealth of Massachusetts	187,000	—
Dedicated local assessments	174,398	—
Fair value change in investment derivatives	22,100	—
Federal Cares Act Assistance	348,900	—
Other nonoperating income	49,418	—
Interest income	38,681	75
Interest expense	(224,677)	—
Total nonoperating revenues (expenses), net	1,673,128	75
Gain before capital grants and contributions and transfers	114,080	145
Capital grants and contributions	991,626	—
Increase in net position	1,105,706	145
Net position at beginning of year	2,473,146	2,602
Net position at end of year	\$ 3,578,852	2,747

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Proprietary Funds

Statement of Cash Flows

Fiscal year ended June 30, 2020

(Dollars in thousands)

	Business-type activities - enterprise fund MBTA	Governmental activities - internal service fund
Cash flows from operating activities:		
Receipts from customers and users	\$ 547,667	—
Receipts from other operations	95,060	—
Payments to suppliers and vendors	(937,760)	—
Payments to employees	(561,828)	—
Net cash used in operating activities	<u>(856,861)</u>	<u>—</u>
Cash flows from capital and related financing activities:		
Additions to transportation property	(1,666,474)	—
Interest paid	(227,428)	—
Decrease in deferred credits/charges	29,925	—
Commercial paper retirements	(15,000)	—
Payments on debt	(413,445)	—
Proceeds from bond and note issuances	384,765	—
Proceeds from bond premiums	93,567	—
Capital grants	969,373	—
Other	735	—
Net cash used in capital and related financing activities	<u>(843,982)</u>	<u>—</u>
Cash flows from noncapital financing activities:		
Sales tax, contract assistance and local assessment	1,447,102	—
Federal Cares Act Assistance	221,779	—
Net cash provided by noncapital financing activities	<u>1,668,881</u>	<u>—</u>
Cash flows from investing activities:		
Investment and other income	88,092	75
Net cash provided by investing activities	<u>88,092</u>	<u>75</u>
Net change in cash and short-term investments	56,130	75
Cash and cash equivalents, restricted and other special accounts, beginning of year	467,988	4,162
Cash and cash equivalents, restricted and other special accounts, end of year	<u>\$ 524,118</u>	<u>4,237</u>
Reconciliation of operating (loss) income to net cash used in operating activities:		
Operating (loss) income	\$ (1,559,048)	70
Charges not requiring current expenditure of cash:		
Depreciation and amortization	382,754	—
Increase in pension liability	120,171	—
Increase in net OPEB liability	60,205	—
Changes in all other working capital accounts, except cash and cash equivalents and short-term debt	<u>139,057</u>	<u>(70)</u>
Total adjustments	702,187	(70)
Net cash used in operating activities	<u>\$ (856,861)</u>	<u>—</u>

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Fiduciary Funds

Statement of Assets and Liabilities

June 30, 2020

(Dollars in thousands)

Assets

Cash and short-term investments

Other Receivables

Total assets

Agency funds

\$ 37,881

11,822

49,703

Liabilities

Other liabilities

\$ 49,703

See accompanying notes to financial statements.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2020

(Dollars in thousands)

(1) Summary of Significant Accounting Policies and Practices

(a) *Description of Business*

The Massachusetts Department of Transportation (MassDOT) was established by Chapter 25 of the Acts of 2009 of the Commonwealth of Massachusetts (as amended, the Transportation Reform Act), which was enacted and approved in June 2009. The Transportation Reform Act was designed to reform the transportation system of the Commonwealth of Massachusetts (the Commonwealth) and created the new authority, MassDOT, through enactment of Chapter 6C of Massachusetts General Laws (the Enabling Act). MassDOT has a separate legal existence from the Commonwealth and is governed by a board appointed by the Governor. The Governor has appointed a Secretary of MassDOT, who serves as MassDOT's chief executive officer.

MassDOT is governed by an eleven member board, including the Secretary of Transportation who serves as ex officio chair. Ten members are appointed by the Governor. Four members, other than the chair, serve for terms that are coterminous with the Governor. The remaining six members serve for a four-year term. The Board of Directors of MassDOT was authorized to begin exercising its powers on November 1, 2009.

MassDOT was created through the transfer of the assets, liabilities and equity of:

1. The former Massachusetts Turnpike Authority (including both the Metropolitan Highway System and the Western Turnpike), which was dissolved as part of the legislation
 - a. The Metropolitan Highway System comprises the Boston Extension of the Turnpike, the Callahan Tunnel, the Central Artery/Tunnel (CA/T Project), the Central Artery North Area (CANA), the Sumner Tunnel and the Ted Williams Tunnel. The Western Turnpike consists of that portion of the Turnpike extending from the New York border in the Town of West Stockbridge to Route 128 in Weston.
 - b. MassDOT assumed the rights, powers, and duties of the former Massachusetts Turnpike Authority upon the November 1, 2009 transfer.
2. The operations of the Massachusetts Highway Department of the Commonwealth
3. The operations of the Massachusetts Aeronautic Commission
4. The operations of the Registry of Motor Vehicles of the Commonwealth
5. The operations of the Executive Office of Transportation of the Commonwealth
6. Certain assets of the Department of Conservation and Recreation (DCR) of the Commonwealth

In addition, the Tobin Bridge (including its associated land and buildings) was transferred from the Massachusetts Port Authority (effective January 1, 2010).

The Merit Rating Board was transferred to MassDOT's Registry of Motor Vehicles division via Chapter 68, Section 8 of the Acts of 2011.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

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Notes to Financial Statements

June 30, 2020

(Dollars in thousands)

MassDOT has four divisions, including Highway, Rail and Transit, Aeronautics, and the Registry of Motor Vehicles, which includes the Merit Rating Board, that share administrative functions such as human resources, financial management, information technology, and planning through the shared services division, Planning and Enterprise Services (formerly the Office of the Secretary). Each division is headed by an administrator appointed by the Secretary of MassDOT.

The Enabling Act established the Massachusetts Transportation Trust Fund (MTTF) within MassDOT, into which all bridge, tunnel and highway tolls, together with certain other funds, are deposited. Transit fares of the Massachusetts Bay Transportation Authority (MBTA) may be deposited into the MTTF upon agreement of MassDOT and the MBTA.

The MTTF is to be used for operations, maintenance and capital costs related to the transportation assets under MassDOT's jurisdiction, including MBTA assets and assets of MassDOT transferred pursuant to the legislation, as well as debt service on outstanding MassDOT debt (previously held by the dissolved Massachusetts Turnpike Authority). MassDOT debt is not debt of the Commonwealth. The MTTF is not subject to appropriation and year-end balances do not revert to the Commonwealth.

Other activities transferred from the Commonwealth to MassDOT include the following: (1) the Central Artery and Statewide Road and Bridge Infrastructure Fund; (2) the Central Artery Repairs and Maintenance Trust Fund; (3) the Highway Capital Projects Fund; (4) the Federal Highway Construction Program; (5) the Motor Vehicle Inspection Trust Fund; (6) the Owner Controlled Insurance Program (OCIP) Fund related to the Central Artery/Tunnel Project and (7) various other administrative trusts transferred from the Commonwealth.

The Enabling Act contemplated that the Legislature of the Commonwealth will continue to make capital appropriations for transportation improvements and that such appropriations will continue to be funded through the issuance of Commonwealth debt by the State Treasurer. Outstanding capital spending authorizations are to be made available to MassDOT by the Commonwealth's Secretary of Administration and Finance.

The Enabling Act also established the Commonwealth Transportation Fund (CTF) as a budgetary fund of the Commonwealth for transportation-related purposes, which receives essentially the same revenues that were previously deposited into the Commonwealth's Highway Fund, including gasoline tax receipts and registry fees. The CTF is subject to appropriation by the Legislature and shall be used for transportation related expenses of the executive office of transportation or any successor agency or authority. In addition, it may pay or reimburse the Commonwealth's General Fund for payment of debt service on bonds issued by or otherwise payable pursuant to a lease or other contract assistance agreement by the Commonwealth for transportation purposes.

Legislation approved by the Governor in fiscal year 2013 provides that the CTF will also receive monies received from sales of motor vehicles and taxes imposed as excises upon sale and use at retail of motor vehicles dedicated to transportation purposes, with a guaranteed annual payment of \$275,000. The guaranteed amount of \$275,000 includes \$100,000 earmarked for MassDOT debt service, \$160,000 earmarked for the MBTA, and \$15,000 earmarked for the regional transit

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2020

(Dollars in thousands)

authorities. In addition, the CTF is used to pay debt service (present and future) associated with highway maintenance and construction projects and provides the funding of MassDOT's annual operating budget. For fiscal year 2020, MassDOT received \$616,149 from the CTF which was comprised of \$400,649 for operations, \$100,000 for debt service, \$90,500 earmarked for the regional transit authorities, and \$25,000 reimbursement for the cost of the operation and maintenance of the CA/T Project and CANA as authorized by Chapter 235 of the Acts of 1998.

Chapter 194 of the Acts of 2011 established the Transportation Infrastructure and Development Fund for "the purpose of transportation and related infrastructure projects" with the provision that not less than 50 percent shall be dedicated to supplementing construction and reconstruction of municipal ways. The primary source of funding consists of disbursements from the Commonwealth's Gaming Revenue Fund. For fiscal year 2020, MassDOT received \$0.

MassDOT is a component unit of the Commonwealth and its financial statements are incorporated into the financial statements of the Commonwealth.

(b) Basis of Presentation

The accompanying financial statements of MassDOT have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

For financial reporting purposes, MassDOT has included all funds, organizations, agencies, boards and commissions considered part of the MassDOT legal entity. MassDOT has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with MassDOT is such that exclusion would cause MassDOT's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present MassDOT (the primary government) and its component units. The information pertaining to the primary government appears in footnotes 1 through 14.

Blended Component Units – Blended component units are entities that are legally separate from MassDOT, but are so related to MassDOT, that they are, in substance, the same as MassDOT because their governing board is the same as that of MassDOT or the entities provide services entirely or almost entirely to MassDOT. The Massachusetts Bay Transportation Authority (MBTA) is the only legally separate entity that meets the criteria as a blended component unit. The information pertaining to the MBTA appears in footnotes 15 through 28.

Aggregate Discretely Presented Component Units – MassDOT presents the following fifteen (15) regional transit authorities (RTAs) in the aggregate as component units in the accompanying financial statements: Berkshire Regional Transit Authority; Brockton Area Transit Authority; Cape Ann Transportation Authority; Cape Cod Regional Transit Authority; Franklin Regional Transit Authority; Greater Attleboro-Taunton Regional Transit Authority; Lowell Regional Transit Authority; Montachusett Regional Transit Authority; Metrowest Regional Transit Authority; Merrimack Valley Regional Transit Authority; Nantucket Regional Transit Authority; Pioneer Valley Transit Authority; Southeastern Regional Transit Authority; Martha's Vineyard Transit Authority; and the Worcester Regional Transit Authority. MassDOT does not consider any of the discretely presented component units to be major.

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(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2020

(Dollars in thousands)

The separately audited financial statements of MassDOT's component units may be obtained by directly contacting the various entities.

Government-Wide Financial Statements

The statement of net position and the statement of activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are defined as either governmental or business-type activities. MassDOT's governmental activities generally are financed through toll revenues, contract assistance from the Commonwealth, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The statement of net position presents all of the reporting entity's non-fiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- Restricted net position results when constraints placed on asset use is either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- Unrestricted net position consists of net position, which does not meet the definition of the two preceding categories.

When both restricted and unrestricted resources are available for use, it is MassDOT's policy to use restricted resources first, then unrestricted resources as needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include (1) charges to customers who purchase, use, or directly benefit from goods or services provided by a given function; (2) grants and contributions that are restricted to meeting the operational requirements of a specific function and (3) grants and contributions that are restricted to meeting the capital requirements of a specific function. Other items not meeting the definition of program revenues are instead reported as general revenue and offset or supplant the net operating deficit or surplus from governmental or business-type activities.

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned. Interfund receivables and payables have been eliminated from the statement of net position, except for the residual amounts due between governmental and business-type activities.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

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Notes to Financial Statements

June 30, 2020

(Dollars in thousands)

Fund Financial Statements

MassDOT reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets and deferred outflows of resources, liabilities and deferred inflows of resources, fund equity, revenues, and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

Separate financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor funds being combined into a single column.

MassDOT is not required to and does not have a legally adopted annual budget for any of its governmental funds.

(c) *Measurement Focus and Basis of Accounting*

The Government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements account for the general governmental activities of MassDOT. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual and are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include expenditure driven federal grants and amounts due from the Commonwealth. MassDOT considers all revenues available if they are collected within 60 days after fiscal year end. For federal expenditure driven grants, revenue is recognized when the qualifying expenditures have been incurred and other eligibility requirements are met and amounts are considered available. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities and expenditures when due. Compensated absences, claims and judgments, termination benefits, and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources.

MassDOT reports the following fund types:

Governmental Fund Types

The General Fund is the primary operating fund of MassDOT. It is used to account for and report all financial resources not accounted for and reported in another fund. The MTTF is considered the general fund for MassDOT.

The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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Notes to Financial Statements

June 30, 2020

(Dollars in thousands)

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Within the governmental fund types, MassDOT has established the following major fund, in addition to the MTTF:

Highway Capital Projects, a capital projects fund, accounts for highway construction projects financed primarily through federal reimbursements passed through the Commonwealth and contract assistance payments received directly from the Commonwealth.

Proprietary Fund Types

Proprietary funds account for programs financed in whole or in part by fees charged to external parties for goods and services. MassDOT reports the MBTA (a blended component unit) as a major enterprise fund. MassDOT also operates one internal service fund – the Owner Controlled Insurance Program.

Revenues and expenses of proprietary funds are classified as operating or nonoperating as follows – operating revenues and expenses generally result from providing services or producing and delivering goods. All other revenues and expenses are reported as nonoperating.

Fiduciary Fund Types

Fiduciary funds account for assets held in a trustee capacity for others that cannot be used to support MassDOT's programs.

MassDOT reports an Agency Fund, which is used to account for assets held in a custodial capacity. Agency funds do not present the results of operations or have a measurement focus.

(d) *Cash and Short-Term Investments*

MassDOT's participation in the Massachusetts Municipal Depository Trust (MMDT) Cash Fund is presented as cash and short-term investments (both restricted and unrestricted) in the accompanying financial statements.

MMDT is an internal investment pool that meets the criteria established under GASB Statement No. 79 to report its investments at amortized cost. As such, the Authority reports its investment in MMDT at amortized cost which approximates the net asset value of \$1.00 (one dollar) per share. MMDT has a maturity of less than one year and is not rated.

Restricted cash and short-term investments also include certain amounts restricted for use by bond indentures and other external requirements. Such amounts are held by the Treasurer in the MMDT Cash Fund as well as amounts held by bond and other trustees.

(e) *Investments*

Investment securities are recorded at fair value, based on quoted market price.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

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Notes to Financial Statements

June 30, 2020

(Dollars in thousands)

The Treasurer of the Commonwealth can hold certain investments on behalf of MassDOT. In the event investments are held by the Treasurer they appear as “Investments” in the accompanying financial statements. Interest earned on specific MassDOT investments is allocated to MassDOT. As of June 30, 2020, the Treasurer held no investments on behalf of MassDOT.

Restricted investments include amounts restricted for use by bond indentures and other external requirements and include certain investments held by bond and other trustees.

For purposes of the statements of cash flows, unrestricted investments purchased with a maturity date of three months or less are considered cash equivalents.

(f) Accounts Receivable

Reimbursements due from the Commonwealth for state and federally funded construction project expenditures are reported as “Due from Commonwealth” in the financial statements and are considered 100% collectible. “Due from federal government” receivables include direct grants or reimbursements and are considered 100% collectible. “Other” receivables include rental/lease receivables and toll related receivables, including postpaid toll transactions and toll violations. Other receivables are reported net of estimated allowances for uncollectible accounts, which are based on historical trends and individual account analysis.

(g) Capital Assets

Capital assets include land, construction in progress, buildings, equipment, vehicles, software and infrastructure (e.g., roads, bridges, ramps, and other similar items). Such assets are reported in the governmental column of the government-wide financial statements. Donated capital assets are recorded at acquisition value at the date of donation. Assets transferred to MassDOT from other governments (subsequent to its formation) are recorded at net carrying value (historical cost less accumulated depreciation) at the date of transfer. Disclosures pertaining to business-type activity capital assets appear in footnotes 16 (g) and 21.

Equipment, vehicles, computer equipment and software purchases that equal or exceed \$50 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100 are capitalized. All land and non-depreciable land improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

Type of asset	Estimated useful life (in years)
Buildings	40
Infrastructure - roads, bridges, and tunnels	40
Equipment	10
Computer hardware and software	3 to 7
Vehicles	5

In the government-wide financial statements, depreciation expense is charged to the function to which the capital assets relate.

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(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2020

(Dollars in thousands)

Construction in progress includes all associated cumulative costs of a constructed capital asset. Construction in progress is relieved and a depreciable capital asset is reported at the point at which an asset is placed in service for its intended use. Interest incurred during the construction phase of capital assets is not capitalized as the debt related to the construction appears on the books of the Commonwealth.

(h) Fair Value

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that are required to be made at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure the fair value.

- Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are other than quoted prices in Level 1 that are observable for the asset or liability or similar assets or liabilities either directly or indirectly through corroboration with observable market data.
- Level 3 inputs are significant unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

(i) Other Assets

Other assets consist principally of prepaid expenses.

(j) Unearned Revenue

Unearned revenue in the governmental funds financial statements represents monies received in advance of providing goods or services in accordance with the current financial resources management focus and the modified accrual basis of accounting.

(k) Long-Term Debt

In the government-wide and proprietary funds, long-term debt is reported as liabilities in the statements of net position. Bond premiums and discounts are capitalized and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Gains and losses related to refunding transactions are presented as deferred inflows and outflows, respectively, and amortized using the straight-line method over the shorter of the maturity of the new debt or the defeased debt.

In the governmental funds, the face amount of long-term debt is reported as other financing sources when the debt is issued. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as Planning and Enterprise Services expenditures.

(l) Fund Balances

The following fund balance classifications describe the relative strength of spending constraints:

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Nonspendable – represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact.

Restricted – represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – represents amounts that can be used only for specific purposes imposed by a formal action of MassDOT's Board of Directors, which is the highest level of decision-making authority. Committed amounts may be established, modified, or rescinded only through actions approved by the Board of Directors. At June 30, 2020, MassDOT reported no committed fund balances.

Assigned – represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under MassDOT's structure, this intent can be expressed by the Secretary of Transportation (and Chief Executive Officer), Chief Financial Officer and Controller. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

Unassigned – represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

Encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

(m) *Compensated Absences*

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination, or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at an approved rate of pay.

In the government-wide and proprietary fund statements of net position, compensated absences are recorded as an expense and liability as the benefits accrue.

For the governmental fund financial statements, accumulated vacation and sick leave are reported as expenditures and fund liabilities when they become due and payable upon retirement, termination, or death.

(n) *Deferred Inflows and Outflows*

MassDOT accounts for certain transactions that result in the consumption or acquisition of resources in one period that are applicable to future periods as deferred outflows and deferred inflows, respectively, to distinguish them from assets and liabilities. For fiscal year 2020, MassDOT has reported deferred outflows pertaining to its derivative instruments, deferred losses on its debt

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refunding transactions, pension related activities and OPEB related activities. Deferred inflows relate to deferred gains on debt refunding transactions, pension related activities and OPEB related activities.

Deferred inflows of resources in the governmental funds financial statements relate to unavailable revenue for CTF operating assistance and toll revenue.

(o) Pension Benefits

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employees' Retirement System (SERS) and additions to/deductions from SERS's fiduciary net position have been determined on the same basis as they are reported by the SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(p) Other Postemployment Benefits

The Commonwealth of Massachusetts administers a single-employer defined benefit Postemployment Benefits Other Than Pensions (OPEB) Plan. Benefits are managed by the Group Insurance Commission (GIC) and investments are managed by the Pension Reserves Investment Management Board (PRIM). The OPEB Plan is reported as an OPEB Trust Fund in the Commonwealth's financial statements and does not issue a stand-alone audited financial report. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deductions from OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the Commonwealth of Massachusetts. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(q) Interfund Transfers

During the course of its operations, resources are permanently reallocated between funds. These transactions are reported as transfers in and transfers out.

For the year ended June 30, 2020, interfund transfers totaled \$44,058, which included the following:

- MassDOT transferred \$36,350 from the other governmental funds' motor vehicle inspection trust fund (MVITF) to the MTTF general fund to ensure the budget included sufficient revenue for MassDOT operations. Chapter 46 of the Acts of 2013 indicates available funds may be transferred "provided, however, that expenses of the administration and implementation of the motor vehicle inspection program" are met first.
- MassDOT transferred \$7,708 from the other governmental funds' central artery repairs & maintenance fund to the Metro Highway System sub-fund for expenses incurred by MassDOT related to costs associated with maintenance of the Central Artery.

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(r) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(2) Deposits and Investments

MassDOT invests in the Massachusetts Municipal Depository Trust (MMDT) Cash Fund. Authorized investments for the MMDT Cash Fund include primarily U.S. government and government agency obligations, certificates of deposits, commercial paper, notes and repurchase agreements, all with maturities of one year or less. MassDOT's investment in MMDT is presented in the accompanying financial statement captions as:

Cash and short-term investments	\$	155,898
Restricted cash and investments		1,226,030
	\$	<u>1,381,928</u>

MassDOT has other investments held by bond and other trustees in accordance with bond indentures and other external requirements. For investments held by trustees, MassDOT has implemented investment policies which incorporate the investment protocols within the Trust Agreements.

In most cases, MassDOT has chosen to limit investments to U.S. Government Treasuries or agencies of the U.S. Government. U.S. Government Agency Obligations purchased may include, but not be limited to, debt issued by: the Student Loan Marketing Association, the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association.

(a) Custodial Credit Risk

At June 30, 2020, all of MassDOT's bank balances were insured and not exposed to custodial credit risk. For deposits held by MMDT Cash Fund, MassDOT had minimal exposure to custodial credit risk.

MassDOT had no custodial credit risk for investments as all investments were either insured or held in MassDOT's name.

(b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. These investments include certain short-term cash equivalents, various long-term items and restricted assets by maturity in years. MassDOT does not have a formal policy related to interest rate risk.

MassDOT's investments at June 30, 2020 are presented below by investment type and maturity.

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Investment Type	Fair Value	Investments maturities (in years)	
		Less than	
		1 year	1-5
U.S. Treasuries	\$ 20,301	15,192	5,109
U.S. Agencies	30,361	28,341	2,020
Money market mutual funds	86,397	86,397	—
Guaranteed Investment Contract	86,429	25,179	61,250
MMDT	1,381,928	1,381,928	—
Total	<u>\$ 1,605,416</u>	<u>1,537,037</u>	<u>68,379</u>

(c) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following table presents the credit quality ratings of the primary government's fixed income investments at June 30, 2020:

Investment Type	Fair Value	AAA	AA1-AA3	Unrated
U.S. Treasuries	\$ 20,301	20,301	—	—
U.S. Agencies	30,361	—	30,361	—
Money market mutual funds	86,397	86,397	—	—
Guaranteed Investment Contract	86,429	—	86,429	—
MMDT	1,381,928	—	—	1,381,928
Total	<u>\$ 1,605,416</u>	<u>106,698</u>	<u>116,790</u>	<u>1,381,928</u>

Although the MMDT Cash Fund is not rated, the cash portfolio may only invest in securities rated in one of the two highest short-term rating categories by nationally recognized statistical rating organizations or unrated securities of comparable quality. Securities rated in the highest short-term rating category (and unrated securities of comparable quality) are identified as First Tier securities. Securities rated in the second highest short-term rating category (and unrated securities of comparable quality) are identified as Second Tier securities. At June 30, 2020, credit ratings associated with the investments of the Cash Fund were either First Tier or Second Tier.

(d) Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment in a single issuer. No investment category exceeded 5% of the total investments of the primary government at June 30, 2020.

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. MassDOT was not exposed to foreign currency risk as of June 30, 2020.

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(f) Restricted Cash and Investments by Fund

The following summarizes restricted cash and investments as of June 30, 2020 by the various funds and accounts established by MassDOT for debt covenant requirements and other purposes:

Held by Treasurer Commonwealth

General Fund - Toll related accounts as restricted by bond covenants	\$ 768,148
General Fund - MTTF Other	20,067
Major Capital Projects - Statewide Road and Bridge Program	70,598
Major Capital Projects- - Transportation Infrastructure and Development Fund	3,217
Other Government Funds - Central Artery Repairs and Maintenance	355,172
Other Government Funds - Motor Vehicle Safety Inspection	5,603
Other Governmental Funds - Other	3,225

Held by Bond Trustee

General - Toll related accounts as restricted by bond covenants	219,250
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Held by AIG

Internal Service Fund - Workers' compensation self - insurance	4,237
	<u>\$ 1,449,517</u>

(g) Fair Value Hierarchy and Measurements

MassDOT categorizes its fair value measurements within the fair value hierarchy established by GAAP.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020.

Institutional Money Market Funds – Valued at fair value, which is represented by the quoted price for the fund generally \$1.00 (one dollar). Institutional money market funds are generally classified as Level 1.

U.S. Treasury and Agency Securities – Securities issued by the U.S. government, its agencies, authorities and instrumentalities are valued using quoted prices, documented trade history in the security and a pricing model maximizing the use of observable inputs determined by investment managers.

- U.S. Treasury Securities consist principally of U.S. Treasury bills, notes and bonds are generally classified as Level 1 of the fair value hierarchy.
- U.S. Government sponsored enterprises securities principally of U.S. Government agency obligations including agency-issued debt, agency mortgage pass-through securities, and agency collateralized mortgage obligation (CMOs) are generally categorized in Level 1 of the fair value hierarchy.

Derivative instruments – MassDOT's interest rate swaps and forward delivery agreements are classified as Level 2 as valued using a market approach that considers benchmark interest rates.

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The following summarizes the recurring fair value measurement as of June 30, 2020:

	Fair Value	Level 1	Level 2
Investments by Fair Value Level			
Money Market Mutual Funds	\$ 86,397	86,397	—
U.S. Treasuries	20,301	20,301	—
U.S. Agencies	30,361	30,361	—
Total investments by fair value level	<u>137,059</u>	<u>137,059</u>	<u>—</u>
Investments measured at amortized cost			
MMDT	1,381,928		
Guaranteed Investment Contract	<u>86,429</u>		
Total investments	<u><u>\$ 1,605,416</u></u>		
Derivative instruments			
Interest rate swaps (liabilities)	\$ (183,510)	—	(183,510)
Forward delivery agreement	<u>10,567</u>	<u>—</u>	<u>10,567</u>
Total investment derivative instruments	<u><u>\$ (172,943)</u></u>	<u><u>—</u></u>	<u><u>(172,943)</u></u>

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates such as LIBOR and SIFMA.

(3) Accounts Receivable

Governmental funds accounts receivable at June 30, 2020 consisted of the following:

	Gross accounts receivable	Allowance for uncollectibles	Net accounts receivable
Due from Commonwealth	\$ 340,525	—	340,525
Due from federal government	11,394	—	11,394
Other receivables	126,147	14,579	111,568
	<u><u>\$ 478,066</u></u>	<u><u>14,579</u></u>	<u><u>463,487</u></u>

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(4) Capital Assets

Capital assets of the governmental activities consisted of the following at June 30, 2020:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated:				
Land	\$ 1,025,599	33,394	34	1,058,959
Construction in progress	9,253,819	842,121	445,791	9,650,149
Total capital assets, not being depreciated	10,279,418	875,515	445,825	10,709,108
Capital assets, being depreciated:				
Infrastructure	29,801,415	446,591	—	30,248,006
Buildings	171,047	1,039	700	171,386
Equipment	131,838	2,155	278	133,715
Vehicles	169,727	2,046	722	171,051
Software	34,967	1,588	—	36,555
Total capitals assets, being depreciated	30,308,994	453,419	1,700	30,760,713
Less accumulated depreciation for:				
Infrastructure	14,767,326	649,480	—	15,416,806
Buildings	106,171	6,768	350	112,589
Equipment	117,748	2,582	279	120,051
Vehicles	150,084	8,451	721	157,814
Software	30,059	3,106	—	33,165
Total accumulated depreciation	15,171,388	670,387	1,350	15,840,425
Total capital assets, being depreciated, net	15,137,606	(216,968)	350	14,920,288
Capital assets, net	<u>\$ 25,417,024</u>	<u>658,547</u>	<u>446,175</u>	<u>25,629,396</u>

Depreciation expense was charged to functions/programs of the governmental activities as follows:

Highway	\$ 664,810
Planning and Enterprise Services	3,102
Rail and Transit	2,475
	<u>\$ 670,387</u>

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(5) Bonds, Notes and Other Long-Term Liabilities

Long-term debt and other long-term liabilities of the governmental activities consisted of the following at June 30, 2020:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Senior revenue bonds:					
Metropolitan Highway System:					
1997 Series A, Capital Appreciation Bonds (CAB's), 5.60% to 5.65%, issued September 24, 1997, due 2024 to 2029	\$ 42,007	—	—	42,007	—
1997 Series C, Capital Appreciation Bonds (CAB's), 5.50% to 5.55%, issued September 24, 1997, due 2016 to 2023	39,891	—	10,738	29,153	10,215
2010 Refunding, Series A, variable rate bonds, issued May 27, 2010, due 2035 to 2037	207,665	—	—	207,665	—
Borrowings related to the associated interest rate swap	2,799	—	107	2,692	112
2010 Refunding, Series B, 4.00% to 5.00%, issued May 27, 2010, due 2011 to 2037	603,210	—	603,210	—	—
2019 Refunding, Series A, 5.00%, issued October 23, 2019, due 2021 to 2037	—	464,650	—	464,650	13,335
Total senior revenue bonds	895,572	464,650	614,055	746,167	23,662
Subordinated revenue bonds:					
Metropolitan Highway System:					
2010 Refunding, Series B, 3.25% to 5.00%, issued April 14, 2010, due 2019 to 2039	260,365	—	260,365	—	—
2018 Refunding, Series A, 5.00%, issued May 10, 2018, due 2024 to 2029	135,690	—	—	135,690	—
2019 Refunding, Series A, 5.00%, issued January 24, 2019, due 2030 to 2039	371,380	—	—	371,380	—
Borrowings related to the associated interest rate swap	118,992	—	—	118,992	—
2019 Refunding, Series B-1, 5.00%, issued January 24, 2019, due 2025 to 2037	51,230	—	—	51,230	—
2019 Refunding, Series B-2, 2.87% to 3.12%, issued January 24, 2019, due 2020 to 2025 (federally taxable)	14,585	—	2,790	11,795	3,060
2019 Refunding, Series C, 5.00%, issued October 23, 2019, due 2021 to 2035	—	199,505	—	199,505	21,155
Total subordinated revenue bonds	952,242	199,505	263,155	888,592	24,215
Total	1,847,814	664,155	877,210	1,634,759	47,877
Less: unamortized bond discounts	(7,234)	1,824	(5,591)	(3,467)	—
Plus: unamortized premiums	109,250	144,943	60,231	193,962	—
Total bonds payable	1,949,830	810,922	931,850	1,825,254	47,877
Other noncurrent liabilities:					
Workers' compensation	19,940	7,539	6,330	21,149	6,330
Judgments and claims	3,729	—	1,795	1,934	444
Compensated absences	37,151	32,449	22,945	46,655	28,323
Environmental remediation	1,647	708	752	1,603	430
Total other	62,467	40,696	31,822	71,341	35,527
Total noncurrent	\$ 2,012,297	851,618	963,672	1,896,595	83,404

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Interest is payable semiannually on all debt, except on Capital Appreciation Bonds which is accrued over the lives of the Bonds and is payable upon maturity of the Bonds.

Revenue bonds are secured by a lien and pledge of cash and revenues derived from the Metropolitan Highway System. In addition, the Commonwealth has pledged \$100,000 per fiscal year until June 30, 2039 to provide contractual assistance with repayment of the bonds. These contractual payments constitute dedicated payments from the Commonwealth that are deposited directly to the Subordinated Debt Service Fund. The Commonwealth has also pledged \$25,000 per fiscal year until June 30, 2050 to provide contract assistance toward repayment of the senior bonds (until June 2037) and toward payment of subordinated bonds (until June 2039). These contractual payments constitute dedicated payments from the Commonwealth and are deposited into the Senior Debt Service Fund. The amount of pledged revenue is approximately equal to the remaining principal and interest requirements of the outstanding Metropolitan Highway System bonds and Western Turnpike bonds.

Debt service requirements, excluding derivative borrowings, are as follows:

	Principal	Interest	Total
Year ending June 30,			
2021	\$ 47,765	87,984	135,749
2022	48,441	86,830	135,271
2023	49,902	85,575	135,477
2024	51,825	83,366	135,191
2025	54,163	81,766	135,929
2026 - 2030	331,038	335,359	666,397
2031 - 2035	424,575	147,111	571,686
2036 - 2039	505,366	56,430	561,796
Total	<u>\$ 1,513,075</u>	<u>964,421</u>	<u>2,477,496</u>

As rates change, interest payments on the 2010 Bonds will vary. Outstanding bonds that are redeemable before their scheduled due dates are as follows at June 30, 2020:

Description	Redemption date	Redemption price	Principal amount outstanding
Metropolitan Highway System:			
2010 Series A - Senior Debt	2035 to 2037	100	\$ 207,665
2019 Series A - Subordinated Debt	2023 to 2039	100	371,380
2019 Series B-1 - Subordinated Debt	2029 to 2037	100	44,885
2019 Series A - Senior Debt	2029 to 2037	100	288,870
2019 Series C - Subordinated Debt	2029 to 2035	100	107,090

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Current Refunding

On October 23, 2019, MassDOT issued \$464,650 in senior revenue bonds to refund \$593,285 of outstanding 2010 Series B Senior Bonds. MassDOT also issued \$199,505 in subordinated revenue bonds to refund \$238,210 of outstanding 2010 Series B Subordinated Bonds. MassDOT received net proceeds of \$849,402 (after payment of \$1,824 in underwriting fees, \$931 in costs of issuance and \$38,000 to fund the required debt service reserve fund on the 2019 senior revenue bonds). Bond premiums totaling \$144,943 and funds released from debt service accounts in the amount of \$81,059 were also used to retire the 2010 Series B Senior and Subordinated bonds.

The 2019 Series A Senior Bonds with a par value of \$464,650, have a fixed rate of 5.0% and mature on January 1, 2037. The 2019 Series C Subordinated Bonds with a par value of \$199,505, have a fixed rate of 5.0% and mature on January 1, 2035.

As a result of this refunding, MassDOT will reduce its total debt service payments over the next 17 years by approximately \$258,397 and will realize an economic gain (difference between the present values of the debt service payments on the old debt and new debt) of approximately \$182,308. This transaction also resulted in a deferred loss of \$(23,055) that will be amortized over the life of the new bonds.

Demand Bonds

Included in long-term debt is \$207,665 of Senior variable rate demand bonds. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest. The ability of MassDOT, through its Trustee and remarketing agent, to purchase such bonds is secured through letters of credit with various nationally recognized financial institutions that expire between May 2022 and October 2023. Under generally accepted accounting principles, variable rate demand obligations (VRDO's) are generally classified as current, rather than long-term, liabilities if, among other things, the supporting security agreements expire less than one year after year end. Neither letter of credit agreement expires less than one year after year end. If the letters of credit expired less than one year after year end, they are subject to a "Mandatory Tender for Purchase" requirement that results in the VRDO's being treated as long-term debt. As such, these amounts have been presented as long-term liabilities, rather than current liabilities, in the accompanying financial statements.

Prior Defeasances of Debt

At June 30, 2020, the principal amounts outstanding on revenue bonds and notes that are considered defeased are as follows:

Description	Redemption date	Redemption price	Principal amount outstanding
1993 Series A Term	2020 to 2023	100%	\$69,160

Derivative Instruments

Interest Rate Swaps/Swaptions

The former Massachusetts Turnpike Authority (the Turnpike) entered into swaptions, which upon exercise became interest rate swaps (hereinafter referred to as Swaps) to (1) lock in long-term fixed rate payments and (2) hedge changes in cash flows on variable-rate bonds due to interest rate risk. As of November 1, 2009 (MassDOT's inception), these Swaps were classified as investment derivatives, as they were not associated with a then existing asset or liability of MassDOT. During the year ended June 30, 2010, these Swaps became associated with and were

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determined to be effective hedges of the 2010 Series A Senior and Subordinated Revenue Bonds issued by MassDOT to refund long-term debt previously issued by the Turnpike. At June 30, 2020, the remaining Swap continues to be an effective hedge of the refunding bonds.

Additionally, the Turnpike received premiums in connection with these swaps upon issuance of the related swaptions. A portion of the premiums is considered borrowings and is valued separately from the swaps. The balance of the borrowings at June 30, 2020 totals \$2,692 and is presented as part of bonds payable in the accompanying government-wide financial statements.

In fiscal year 2019, MassDOT terminated Swap agreements and simultaneously entered into two forward swap contracts that commence January 1, 2023. As part of the swap termination, novation payments were made by two counterparties on behalf of MassDOT and are considered premiums received related to the forward swaps. The on behalf payments/premiums are considered borrowings and are valued separately from the swaps. The balance of the borrowings at June 30, 2020 totals \$118,992 and is presented as part of bonds payable in the accompanying government-wide financial statements.

Forward Delivery Agreement

MassDOT's bond trustee has invested certain of the debt service funds it holds through a Forward Delivery Agreement (Agreement). The Agreement, administered by Wells Fargo Bank, N.A., provides MassDOT with a guaranteed rate of return on trustee deposits held for debt payments until such time as payments are due. These deposits are recorded on MassDOT's financial statements at the fair value of the underlying securities provided by Wells Fargo through the Agreement. The Agreement qualifies as an investment derivative instrument and is reported at its fair value of \$10,567 as of June 30, 2020. The credit rating of Wells Fargo Bank, N.A. at June 30, 2020, as determined by S&P, was A+.

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2020, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2020 financial statements are as follows:

Changes in fair value			Fair value at June 30, 2020		
Classification	Amount debit (credit)		Classification	Amount debit (credit)	Notional
Governmental activities:					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow	\$ 68,301	Derivative liability	\$ (178,886)	\$ 561,665
Investment derivatives:					
Pay-fixed interest rate swaps	Investment revenue	3,436	Derivative liability	(4,624)	17,380
Subtotal		71,737		(183,510)	
Forward delivery agreements	Investment revenue	(1,986)	Derivative asset	10,567	
		<u>\$ 69,751</u>		<u>\$ (172,943)</u>	

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The fair values of the interest rate swaps and the Forward Delivery Agreement were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the derivative, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the derivatives.

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The following table displays the terms of MassDOT's derivative instruments outstanding at June 30, 2020:

Derivative Item	Type	Objective	Effective Date	Notional amount	Term date	Payable swap rate	Receivable swap rate	Premiums received	Fair value at June 30, 2020
Cash flow hedges:									
1	Pay-fixed interest rate swap	Hedge interest rate risk from 2010 senior debt (Series A-1 and A-2)	7/1/2008	\$207,665	1/1/2037	4.750%	68% of 1 month LIBOR (0.11033%) (a)	\$ 10,375	\$ (119,622)
2	Pay-fixed interest rate swap	Hedge interest rate risk from 2019 sub. debt (Series A)	1/1/2023	236,000	1/1/2039	4.750%	68% of 1 month LIBOR	80,211	(39,829)
3	Pay-fixed interest rate swap	Hedge interest rate risk from 2019 sub. debt (Series A)	1/1/2023	118,000	1/1/2039	4.750%	68% of 1 month LIBOR	38,781	(19,435)
Investment derivatives:									
4	Pay-fixed interest rate swap		1/1/2023	11,587	1/1/2039	4.750%	68% of 1 month LIBOR	—	(3,125)
5	Pay-fixed interest rate swap		1/1/2023	5,793	1/1/2039	4.750%	68% of 1 month LIBOR	—	(1,499)
		Subtotal		<u>\$579,045</u>					(183,510)
6	Forward delivery agreement		—	—	1/1/2029	—	Fixed	—	<u>10,567</u> <u>\$ (172,943)</u>

(a) - Swap Rates as of June 30, 2020

Swap Payments and Related Debt

The table below shows debt service requirements for the 2019 Series A Subordinated bonds used to refund the 2010 Subordinated Series A-3 through A-6 and suspend the derivatives contract associated with those bonds until January 1, 2023. In addition, the table provides debt service requirements on the 2010 Senior A-1 and A-2 bonds and net swap payments for the cash flow hedge applying the synthetic fixed rate of 4.75% on the 2010 Senior bonds assuming a 68% of 1 month LIBOR rate of (0.11033%) and variable rates of (0.11% and 0.14%) on the 2010 Senior A-1 and A-2 as of June 30, 2020, through the term of the swap. The 2019 Series A Subordinated bonds are reflected at 4.75% since these are fixed rate bonds which will be refunded in 2022 and may cause MassDOT to be liable for the same terms of the swap that was suspended and associated with the 2010 Subordinated A-3 through A-6 bonds commencing on January 1, 2023 if the swap is not suspended or fully terminated at the point in time.

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	Principal	Interest	Interest rate swap, net	Total
2021	\$ —	261	9,635	9,896
2022	—	261	9,635	9,896
2023	—	261	9,635	9,896
2024	—	261	27,276	27,537
2025	—	261	27,276	27,537
2026 - 2030	14,880	1,304	136,378	152,562
2031 - 2035	65,705	1,304	128,806	195,815
2036 - 2039	498,460	358	56,559	555,377
	<u>\$ 579,045</u>	<u>4,271</u>	<u>405,200</u>	<u>988,516</u>

As rates change, interest payments on the 2010 Bonds and net swap payments will vary.

Risk Disclosures

Credit Risk – MassDOT is not exposed to credit risk on its interest rate swaps as none of these instruments are in an asset position. However, if interest rates and volatilities change and the fair values of the swaps were to become positive, MassDOT would be exposed to credit risk in the amount of the positive fair values. To mitigate credit risk, MassDOT's counterparties are all required to be rated in the A category or higher by the three rating agencies.

The following represents the credit ratings of the swap counter parties at June 30, 2020:

Derivative swap item	Counterparty credit rating(Moody's, S&P and Fitch)
Derivative 1	Aa2, A+, AA-
Derivative 2	Aa3, A+, A+
Derivative 3	A2, A, A+
Derivative 4	Aa3, A+, A+
Derivative 5	A2, A, A+

Basis Risk – MassDOT is exposed to basis risk related to its pay-fixed and receive-variable interest rate basis swaps. The fixed rate MassDOT pays is 4.75% while it receives 68% of 1 month LIBOR.

Tax Risk – If maximum tax rates were to decline, it is possible that the 68% of one month LIBOR the MassDOT receives under the 2001 UBS swap would be less than the amount needed to pay its variable rate bonds. The MassDOT and its financial advisor take this risk into consideration when analyzing the sufficiency of the hedge reserve fund balance.

Termination Risk – MassDOT or the counter party may terminate the swap if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the related variable rate bonds would no longer be hedged. Finally, if at the time of termination the swap has a negative fair value, MassDOT would be liable for a payment equal to the swaps' fair value.

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(6) Pledged Revenues

MassDOT has pledged toll and certain related revenues, generated from the Metropolitan Highway System (MHS) to repay revenue bonds after deducting the amount necessary to pay all operating and maintenance costs, capital reinvestment and the maintenance of certain debt service reserve funds as required by the applicable bond covenants. The bonds were originally issued to provide financing for construction related to the MHS. Certain revenue bonds associated with the original issuance were refunded, for which the pledge remains. The bonds are payable through 2039 from the pledged revenues and a \$100,000 annual contract assistance payment from the Commonwealth. Annual principal and interest payments (including net swap payments) on the bonds, net of the Commonwealth's \$100,000 annual contract assistance payment, are expected to require approximately 25% of pledged revenues.

The remaining principal balance to repay MHS revenue bonds amounts to \$1,513,075. The remaining principal and interest (including net swap payments) related to MHS to be paid on the bonds is \$2,882,696. Principal and interest (including net swap payments) paid and pledged revenue received for the year ended June 30, 2020 were \$154,753 and \$185,621, respectively.

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(7) Governmental Fund Balances

The constraints on fund balances as listed in aggregate in the Governmental Funds Balance Sheet are detailed as follows.

Governmental Funds - Fund Balance

	MTTF (general)	Highway capital projects	Other governmental funds	Total
Nonspendable:				
Prepaid expenditures	\$ 2,627	—	—	2,627
Restricted:				
Debt service	219,250	—	—	219,250
Turnpike (toll) operations and capital reinvestment	511,679	—	—	511,679
Tobin bridge and metropolitan highway system operations	146,857		—	146,857
Transportation infrastructure fund	—	70,598	—	70,598
Transportation Infrastructure & Development Fund	—	3,217	—	3,217
Central Artery repairs and maintenance	—	—	351,226	351,226
Motor vehicle safety inspection	—	—	5,260	5,260
Planning and Enterprise Services	—	—	2,417	2,417
Registry	277	—	—	277
Rail and Transit	—	—	11,658	11,658
Total restricted fund balances	878,063	73,815	370,561	1,322,439
Assigned:				
Highway operations	—	—	508	508
Registry operations	—	—	300	300
Total assigned fund balances	—	—	808	808
Unassigned	94,706	—	—	94,706
Total governmental fund balances	\$ 975,396	73,815	371,369	1,420,580

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(8) Employee Benefit Plans

(a) Pension Plan

General Information about the Pension Plan

Plan description: Pensions are provided to eligible MassDOT employees through the Massachusetts State Employees' Retirement System (MSERS), a cost-sharing multiple employer defined benefit pension plan as defined in GASB Statement No. 67, *Financial Reporting for Pension Plans*. The former Massachusetts Turnpike Authority (MTA) employees and retirees became members of MSERS upon the creation of the MassDOT. Other employees who transferred to MassDOT have been, and remain, members of MSERS. The assets and liabilities of the former MTA have been transferred to MSERS.

The MSERS is governed by the Massachusetts State Retirement Board (MSRB), which consists of five members—two elected by current and active MSERS members, one by the remaining members of the MSRB, one who is appointed by the State Treasurer and the State Treasurer, who serves as ex-officio and is the Chair of the MSRB. Membership in the MSERS is mandatory immediately upon the commencement of employment for all permanent employees working a minimum of 25 hours per week. MSERS is part of the Commonwealth of Massachusetts' reporting entity and does not issue a stand-alone audited financial report.

Benefits provided: MSERS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory public employee retirement systems (PERS). These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MSERS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MSERS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Contributions: Chapter 32 of the MGL assigns authority to establish and amend contribution requirements of the plan. Active plan members contribute between 5 and 9% of their gross regular compensation except for State Police which is 12% of regular compensation. The contribution rate is based on the date plan membership commences. Members hired on or after January 1, 1979, contribute an additional 2% of annual regular compensation in excess of \$30.

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The MGLs governing employer contribution requirements to MSERS are varied and vary among employers to such an extent that there is no uniform contribution method. Consequently, MSERS developed an effective contribution methodology that allocates total actual contributions among the employers in a consistent manner (based on an employer's share of total covered payroll). Any differences between the effective contribution and an employer's actual contributions are considered a nonemployer contribution from the Commonwealth. While certain nonemployer contributions are the legal responsibility of the Commonwealth and are identified by MSERS as special funding situations, MassDOT does not fall within this category. For the June 30, 2019 measurement date, the Commonwealth made contributions on behalf of MassDOT totaling \$11,650 and MassDOT made contributions totaling \$30,826 to the pension plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020, MassDOT reported a liability of \$624,213 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2019 for which update procedures were used to roll forward the total pension liability to the measurement date (June 30, 2019). MassDOT's proportion of the net pension liability is based on actual contributions adjusted for nonemployer contributions (as described above). At June 30, 2019, MassDOT's proportion was 4.26544%, which compared to a proportion of 4.31966% at June 30, 2018.

For the year ended June 30, 2020, MassDOT recognized pension expense of \$83,171. At June 30, 2020, MassDOT reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ —	9,311
Changes of assumptions	46,269	—
Changes in proportion	775	35,021
Difference between expected and actual experience	20,730	8,118
Contributions subsequent to the measurement date	40,765	—
	<u>\$ 108,539</u>	<u>52,450</u>

Excluding contributions made subsequent to the measurement date, the amount reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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Year ending June 30,	Amount
2021	\$ 7,204
2022	(4,470)
2023	2,427
2024	8,895
2025	1,268
Totals	<u>\$ 15,324</u>

Actuarial assumptions: The total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of January 1, 2019 rolled forward to June 30, 2019. This valuation used the following assumptions:

1. (a) 7.25% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase on the first \$13,000 of allowance each year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 9.0% depending on group and length of service.
3. Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 Blue Collar Employees Table projected generationally with Scale MP-2016, set forward 1 year for females
 - Post-retirement – reflects RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2016, set forward 1 year for females
 - Disability – the mortality rate is assumed to be in accordance with the RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2016, set forward 1 year
4. Experience studies were performed as follows:
 - Dated February 27, 2014 and encompasses the period January 1, 2006 to December 31, 2011, updated to reflect actual experience from 2012 through 2016 for post-retirement mortality.

Investment assets of MSERS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the target asset allocation as of June 30, 2019 are summarized in the following table:

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	39 %	4.9 %
Core Fixed Income	15	1.3
Private Equity	13	8.2
Portfolio Completion Strategies	11	3.9
Real Estate	10	3.6
Value Added Fixed Income	8	4.7
Timberland / Natural Resources	4	4.1
Totals	100 %	

Discount rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the Commonwealth's contributions will be made at rates equal to difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the pension plan's net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of MassDOT's proportionate share of the net pension liability to changes in the discount rate: The following presents MassDOT's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what the MassDOT's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
MassDOT's Proportionate Share of the Net Pension Liability	\$ 830,848	624,213	447,654

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the Commonwealth of Massachusetts' Comprehensive Annual Financial Report.

(b) Other Postemployment Benefits (OPEB)

Plan Description. MassDOT participates in the Commonwealth's OPEB plan, an single employer defined Postemployment Benefits Other Than Pensions (OPEB) Plan. Benefits are managed by the Commonwealth's Group Insurance Commission (GIC) and investments are managed by the Pension Reserves Investment Management (PRIM) Board.

At the inception of MassDOT, the employees of the former Massachusetts Turnpike Authority became eligible to participate in the Commonwealth's OPEB plan. All other employees of MassDOT were members of the plan prior to the creation of MassDOT and remain so.

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The State Retiree Benefits Trust Fund (SRBT) is set up solely to pay for OPEB benefits and the cost to administer those benefits. It can only be revoked when all such health care and other non-pension benefits, current and future, have been paid or defeased. GIC administers benefit payments, while the Trustees are responsible for investment decisions. The SRBT is administered by the board of trustees and is reported as an OPEB Trust Fund in the Commonwealth's financial statements and does not issue a stand-alone audited financial report.

Management of the SRBT is vested with a board of trustees, which consists of seven members including the Secretary of Administration and Finance (or their designee), the Executive Director of the GIC (or their designee), the Executive Director of PERAC (or their designee), the State Treasurer (or their designee), the Comptroller (or their designee), one person appointed by the Governor and one person appointed by the State Treasurer. The members elect one person to serve as chair of the board.

Benefits provided. Under Chapter 32A of the Massachusetts General Laws the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care/benefits costs, which are comparable to contributions required from employees.

Funding Policy. Employer and employee contributions rates are set in the General Law. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2020 and as of the valuation date (January 1, 2019), participants contributed 0% to 20% of the premium cost, depending on the date of hire and whether the participant is active, retiree or survivor status. As part of the fiscal 2010 General Appropriation Act, all active employees pay an additional 5% of premium costs. MassDOT is required to reimburse the Commonwealth at their contractual fringe rate of 7.29% based on current payroll. MassDOT's reimbursement to the Commonwealth for the year ending June 30, 2020 was approximately \$21,117, which equaled the required contribution.

The Massachusetts General Laws (MGLs) governing employer contributions to OPEB determine whether entities are billed for OPEB costs. Consequently, OPEB developed an effective contribution methodology which allocates total actual contributions amongst the employers in a consistent manner (based on an employer's share of total covered payroll). Any differences between the effective contribution and an employer's actual contributions are considered a nonemployer contribution from the Commonwealth. According to MGL, certain nonemployer contributions are the legal responsibility of the Commonwealth and have accordingly been reflected on the schedule of employer and nonemployer allocations as special funding situations. MassDOT is not a special funding situation.

OPEB Liabilities, OPEB Expense, and Deferred Inflows of Resources Related to Pensions

Amounts previously reported in the 2019 financial statements have been revised to reflect certain immaterial corrections of errors in connection with the amounts reported for net OPEB liability and the related deferred outflows of resources, deferred inflows of resources, and OPEB expense.

At June 30, 2020 MassDOT reported a liability of \$808,483 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2019 for which procedures were used to roll forward the total OPEB liability to the measurement date.

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MassDOT's proportion of the net OPEB liability is based on actual contributions adjusted for nonemployer contributions. At June 30, 2019, MassDOT's proportion was 4.4195%.

For the year ended June 30, 2020, MassDOT recognized OPEB expense of \$21,300. At June 30, 2020, MassDOT reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflow of Resources
Net difference between projected and actual investment earnings on OPEB plan investments	\$ —	372
Changes of assumptions	622	121,575
Changes in proportion	—	46,846
Difference between expected and actual experience	32,424	1,035
Contributions subsequent to the measurement date	21,117	—
	<u>\$ 54,163</u>	<u>169,828</u>

Excluding contributions made subsequent to the measurement date, the amount reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30	Amount
2021	\$ (46,397)
2022	(46,397)
2023	(40,260)
2024	(12,098)
2025	8,370
Totals	<u>\$ (136,782)</u>

Actuarial Assumptions: The total OPEB liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of January 1, 2019 rolled forward to June 30, 2019. This valuation used the following assumptions:

1. The following annual health care cost trend rates: (1) 7.5%, decreasing by 0.5% each year to 5.5% in 2023 and 2024 and then decreasing 0.5% each year to an ultimate rate of 4.5% in 2026 for medical, (2) 4.5% for administration costs. Healthcare costs are offset by reimbursements for Employer Group Waiver Plans ("EGWP"), which are assumed to increase 5.0% per year until 2025, then decrease to 4.5% in 2026.
2. The mortality rate was in accordance with RP 2014 Blue Collar Mortality Table projected with scale MP-2016 from the central year, with females set forward one year.

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3. Participation rates:

- a. 100% of all retirees who currently have health care coverage will continue with the same coverage, except that retirees under age 65 with POS/PPO coverage switch to Indemnity at age 65 and those over age 65 with POS/PPO coverage switch to HMO.
- b. All current retirees, other than those indicated on the census data as not being eligible by Medicare, have Medicare coverage upon attainment of age 65, as do their spouses. All future retirees are assumed to have Medicare coverage upon attainment of age 65.
- c. 85% of current and future contingent eligible participants will elect health care benefits at age 55, or current age if later.
- d. Actives, upon retirement, take coverage, and are assumed to have the following coverage:

	Retirement Age	
	Under 65	Age 65 +
Indemnity	25.0 %	85.0 %
POS/PPO	60.0	—
HMO	15.0	15.0

Investment assets of the OPEB plan are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	39.0 %	4.9 %
Core Fixed Income	15.0	1.3
Private Equity	13.0	8.2
Portfolio Completion Strategies	11.0	3.9
Real Estate	10.0	3.6
Value Added Fixed Income	8.0	4.7
Timberland/Natural Resources	4.0	4.1
Total	100.0 %	

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Discount rate: The discount rate used to measure the OPEB liability as of June 30, 2019 was 3.63%. The rate was based on a blend of the Bond Buyer Index rate of 3.51% as of the measurement date and the expected rate of return. The OPEB plan's fiduciary net position was not projected to be available to make all projected future benefit payments for current plan members. The projected "depletion date" when projected benefits are not covered by projected assets is 2029. Therefore, the long-term expected rate of return on plan investments of 7.25% per annum was not applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2019.

Sensitivity of MassDOT's proportionate share of the net OPEB liability to changes in the discount rate: The following presents MassDOT's proportionate share of the net OPEB liability calculated using the discount rate, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1- percentage point lower or 1- percentage point higher than the current rate:

		1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
MassDOT's Proportionate Share of the Net OPEB Liability	\$	965,068	808,483	684,680

Sensitivity of MassDOT's proportionate share of the net OPEB liability to changes in the healthcare cost trend rate: The following presents MassDOT's proportionate share of the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rate:

		1% Decrease	Current Rate	1% Increase
MassDOT's Proportionate Share of the Net OPEB Liability	\$	666,293	808,483	996,090

(9) Leases**(a) Commitments**

MassDOT has commitments under various operating leases. Total lease expense for the year ending June 30, 2020 was \$9,735. The following is a summary of the future minimum lease payments for operating lease obligations:

Years :	Amount
2021	\$ 9,507
2022	6,235
2023	5,170
2024	4,359
2025	3,989
Thereafter	15,739
Total	<u>\$ 44,999</u>

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Capital lease obligations are not material to MassDOT's financial statements.

(b) Rental Income

MassDOT leases property and air rights to others. For the year ended June 30, 2020, MassDOT earned \$58,139 in rental income. The following is a schedule by years of minimum future rental income on non-cancelable operating leases as of June 30, 2020:

Years:	Amount
2021	\$ 43,449
2022	41,104
2023	41,170
2024	39,848
2025	13,724
Thereafter	543,015
Total	<u>\$ 722,310</u>

(10) Risk Management

As part of its normal operations, MassDOT encounters the risk of accidental loss stemming from third party liability claims, property loss or damage, and job related injuries and illnesses. In managing these loss exposures, MassDOT applies a combination of risk management measures, including safety and loss prevention program, emergency planning, contractual risk transfer, self-insurance (internal retention) and commercial insurance. Settled claims resulting from the risks discussed above did not exceed the amount of insurance coverage in force during the year ended June 30, 2020.

In connection with the self-insurance and insurance programs, MassDOT retains part of the losses incurred and internally manages the self-insured claims. The current MassDOT self-insured retention includes (i) up to \$2,500 per loss for public official liability (ii) \$7,500 per loss for privacy & network liability, (iii) \$250 per loss involving damage to buildings and their contents, and (iv) \$50,000 per bridge and tunnel loss. Insurance is purchased above self-insured amounts, subject to availability and reasonableness of cost. Liability insurance policies related to the former Massachusetts Turnpike Authority's exposures in prior periods (for incurred but not reported claims) have been assigned to MassDOT and remain in force.

(a) Workers' Compensation

MassDOT's fully self-insured workers' compensation program is administered by the Commonwealth of Massachusetts' Human Resources Division (HRD). HRD assumed responsibility for making fair and timely payments of indemnity and medical benefits to injured MassDOT employees, maintaining the claim and financial records and for negotiating appropriate settlements for all workers' compensation claims. This includes all legacy claims from the predecessor entities.

Liabilities for self-insured claims are reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred

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but not reported at year-end and are based on the historical cost of settling similar claims. MassDOT records such liabilities as other liabilities.

The estimated workers' compensation liability for occurrences through June 30, 2020 is \$21,149. This amount is based on the results of a review performed by an independent actuarial firm retained by MassDOT, and represents an estimate of liabilities incurred based on past experience for claims reported and not reported as of June 30, 2020.

Changes in the workers' compensation claims liability since July 1, 2018 were as follows:

Liability balance, July 1, 2018	\$	20,844
Provision to record estimated losses		5,279
Payments		(6,183)
Liability balance, June 30, 2019	\$	<u>19,940</u>
Liability balance, July 1, 2019	\$	19,940
Provision to record estimated losses		7,539
Payments		(6,330)
Liability balance, June 30, 2020	\$	<u>21,149</u>

(b) Owner Controlled Insurance Program (OCIP)

MassDOT has assumed responsibility for providing worker's compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery/Tunnel Project (Project) by establishing an OCIP. A Trust, managed and administered by an independent third party (trustee), was established to protect a portion of the assets set aside with the insurance carrier to fund project liabilities. During fiscal 2018, the Trust was dissolved and MassDOT commenced managing and administering OCIP. Amounts related to OCIP are restricted and cannot be used for other purposes and continue to be recorded in the internal service fund.

These insurance programs within the OCIP are structured as retrospectively rated insurance programs with retained loss limits of \$1,000 per claim, \$3,000 on aggregate per occurrence for worker's compensation and \$2,000 per contractor, \$6,000 on aggregate per occurrence for general liability coverage. MassDOT is responsible for loss costs up to these amounts.

The estimated Claims and Judgments liability for the OCIP for occurrences through June 30, 2020 is \$1,490. This amount is based on the results of a review performed by an independent actuarial firm and it represents an estimate of liabilities incurred based on past experience for claims incurred and not reported as of June 30, 2020. Any residual amount remaining at the end of the program will be transferred to MassDOT's Transportation Infrastructure Fund.

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Changes in the claims liability since July 1, 2018 were as follows:

Liability balance, July 1, 2018	\$	2,000
Provision to record estimated losses		(21)
Payments		(419)
Liability balance, June 30, 2019	\$	<u>1,560</u>
Liability balance, July 1, 2019	\$	1,560
Provision to record estimated losses		(70)
Payments		—
Liability balance, June 30, 2020	\$	<u>1,490</u>

(11) Commitments

MassDOT enters into construction contracts for roads, bridges, highways (including the Metropolitan Highway System and Western Turnpike) with various construction and engineering companies, as well as collaborating with the MBTA on various projects. Significant construction contracts outstanding at June 30, 2020 approximated \$4.7 billion.

(12) Litigation

MassDOT from time to time is engaged in various matters of routine litigation. These matters include personal injury and property damage claims for which MassDOT's liability is covered in whole or in part by insurance. MassDOT does not expect that these matters will require any amounts to be paid which in the aggregate would materially affect the financial statements. MassDOT accrued \$444 for legal claims related to the Fore River Bridge at June 30, 2020.

(13) Impacts of Pandemic

On March 11, 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The impact of the COVID-19 pandemic to MassDOT is still emerging. The continued spread of COVID-19 may adversely impact the local, regional, national and global economics.

Also refer to Note 28 for additional disclosures.

(14) Subsequent Events

Subsequent to year end, MassDOT's fiscal 2021 operating budget was revised and approved for \$964,300 in expenditures and debt service. The amount will be funded from operating revenue from CTF (\$611,000), pledged and unpledged revenues (\$355,800), motor vehicle inspection trust fund (\$65,100), federal funds (\$31,300) and other revenues (\$50,200) including departmental, leases, investment income and reserves.

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(15) MBTA - The Reporting Entity

The Massachusetts Bay Transportation Authority (the “Authority”) was originally created in 1964 as a body politic and corporate and a political subdivision of the Commonwealth of Massachusetts (the Commonwealth) to finance and operate mass transportation facilities within, and, to a limited extent, outside of its territorial area of 176 cities and towns and is authorized to enter into agreements for providing mass transportation service by private companies, including railroads. The 176 cities and towns are grouped into three categories, based upon the weighting of each member’s allocable percentage of population and assessments: (i) the inner 14 cities and towns; (ii) the outer 51 cities and towns; and (iii) the other 111 served communities.

Chapter 161A is referred to herein, together with Section 35T of Chapter 10 of Massachusetts General Laws, as the “Enabling Act.”

The Authority is governed and its corporate powers exercised by the board of directors (the “Board of Directors” or “Board”) of the Massachusetts Department of Transportation (“MassDOT”). However, during its existence, the Fiscal Management Control Board (FMCB) is afforded all the powers, responsibilities, and obligations relative to the Authority that are vested in the Board with the exception of authorizing the issuance of debt, which remains the responsibility of the Board. Furthermore, the General Manager is hired and retained by the Secretary of Transportation, as the FMCB reports to the Secretary.

The Control Board may (i) establish separate operating and capital budgets each with clearly designated revenue sources and uses and establish policies and procedures to ensure that no funds are commingled between operating and capital budgets; (ii) establish one-year and five-year operating budgets, which are balanced primarily through a combination of internal cost controls and increased own-source revenues and which facilitate the transfer of all MBTA employees from the capital budget to the operating budget; (iii) establish five-year and twenty-year capital plans that include a phased program for the complete restoration of the physical assets of the Authority including its vehicle fleet, a plan to address failings within the existing capital program and funding recommendations to meet the region’s transit needs; (iv) establish a rigorous performance management system and performance metrics and targets that address, among other things, maximizing of own-source revenues, increasing ridership, reducing absenteeism, addressing vacancies and attrition, improving employee morale, achieving procurement and contracting improvements and improving customer focus and orientation; (v) review any contract for the provision of services entered into by the Authority, including contracts entered into before the establishment of the Control Board, including, but not limited to, commuter rail and paratransit service contracts, and amend those contracts, as necessary, in accordance with their terms; and (vi) establish, increase, or decrease any fare, fee, rate, or charge for any service, license or activity within the scope of the MBTA. The Control Board may: (i) reorganize or consolidate MBTA departments, divisions or entities, in whole or in part, except the Metropolitan Boston Transit Parking Corporation; (ii) establish any new departments, divisions, or entities as it considers necessary; and (iii) transfer the duties, powers, functions and appropriations of a department, division or entity, except the duties, powers, functions and appropriations of the Metropolitan Boston Transit Parking Corporation, to another. Any reorganization or consolidation that affects MassDOT shall be approved by the Board.

The Control Board consists of five members appointed by the Governor. Three members shall be members of the Board, one shall have experience in transportation finance and one shall have experience in mass transit operation. On May 25, 2017, the Governor accepted the FMCB’s recommendation to extend its governance by two years and will continue until June 30, 2020, as allowed under the authorizing statute. On July 2, 2020, Chapter 114 of the Acts of 2020 extend the Control Board term to June 30, 2021.

The Control Board shall appear before and provide updates to the Board not less than once per month.

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Following the dissolution of the Control Board, the MassDOT Board will resume sole governance of the Authority. The Board consists of 11-members. The Secretary of Transportation shall serve ex-officio as Chair and ten other members are appointed by the Governor, one of whom shall be a rider, as defined in the Enabling Act; one of whom shall have experience in the field of public or private finance; one of whom shall have experience in transportation planning and policy; one of whom shall have experience in civil engineering; one of whom shall have experience in the field of public or private finance or transportation planning and policy; one of whom shall have municipal government experience in one of the fourteen cities and towns, as defined in the Enabling Act; one of whom shall have municipal government experience in one of the fifty-one cities and towns, as defined in the Enabling Act; one of whom shall have municipal government experience in one of the other served communities, as defined in the Enabling Act; one of whom shall have municipal government experience in a city or town not part of the area constituting the authority, as defined in the Enabling Act; and one of whom shall be a representative of a labor organization selected from a list of three nominees provided by the Massachusetts State Labor Council, AFL-CIO. Four of the members, other than the Chair, shall serve for terms that are coterminous with the Governor; provided, however, that at least three of the coterminous members shall have experience in transportation policy, public finance or civil engineering and at least one of the coterminous members shall be a rider. The six remaining members appointed by the Governor shall serve for terms of four years. No more than six of the eleven directors, except the ex-officio director, shall be members of the same political party.

Under the Enabling Act, the Advisory Board, consisting of a representative of each of the cities and towns paying Assessments, shall have certain specified powers, including the power to review the Authority's long term capital program and annual operating budget. The Enabling Act does not provide for the Authority to be a debtor under the federal bankruptcy code.

On May 4, 2011, the Authority approved the establishment of Metropolitan Boston Transit Parking Corporation (MBTPC) a private Massachusetts nonprofit corporation organized under the provisions of Chapter 180 of Massachusetts General Laws, for the limited purpose of taking action necessary to provide for issuance of bonds on behalf of the Authority secured by the revenues from the parking system of the Authority. The MBTPC Systemwide Senior Lien Parking Revenue Bonds, Series 2011 were issued on June 22, 2011. The Authority is the sole member of MBTPC and the Board of Directors consists of three ex officio management employees of the Authority. MBTPC has no employees. MBTPC is authorized under the Systemwide Parking Revenue Bonds Resolution (the "General Resolution") to issue debt payable and has assumed certain rights to receive gross revenues from the parking system of the Authority under a Transfer and Disposition Agreement. The obligations of the corporation, the bonds and Transfer and Disposition Agreement are limited obligations, payable solely from the assets of MBTPC, which are pledged under the General Resolution and recourse shall be limited to such assets. Due to its relationship with the Authority, the MBTPC is considered a blended component of the Authority.

In accordance with the requirements of Governmental Accounting Standards Board (GASB), Statements, of the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criterion, no component units, other than the MBTPC, were identified for inclusion in the accompanying financial statements. Additionally, the accompanying financial statements are incorporated into the financial statements of MassDOT, as the Authority is a component unit of MassDOT.

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(16) MBTA - Summary of Significant Accounting Policies

(a) *Basis of Financial Reporting*

The Authority applies U.S. generally accepted accounting principles ("GAAP") as prescribed by GASB. The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Authority, the reporting entity. The Authority accounts for its operations as an enterprise fund. Operating revenues and expenses result from providing transportation services to member communities. All other revenues and expenses are reported as nonoperating revenues and expenses.

(b) *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(c) *Cash*

Cash and cash equivalents include cash on deposit and money market funds.

(d) *Investments*

Investments are generally presented at fair value, other than certain investments that are recorded at amortized cost as prescribed by GASB (MMDT and guaranteed investment contracts). The MBTA uses an independent pricing source to determine the fair value of investments at quoted market prices. The Authority also records its investments in state & local government series obligations at cost due to prohibition of transferability of the obligations.

(e) *Statements of Cash Flows*

For purposes of the statements of cash flows, the Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents, which are reported as temporary cash investments.

(f) *Cash and Investment Accounts*

Certain cash and investments are segregated from operating cash and investments and labeled restricted due to certain internal or external restrictions as follows:

- Bond Construction Accounts – represent unexpended bond proceeds.
- Stabilization Accounts – represent funds held in accordance with statutory requirements to be used when annual revenues are projected to be less than annual expenses, or if the Authority has insufficient funds on hand to pay current expenses.
- Lease Deposits – represent investments (Treasury STRIPS) held by trustees that will be used to make scheduled equity payments on the Authority's capital leases.
- Bond Reserve Accounts – represent funds required to be maintained by trust agreements and bond resolutions.

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- Forward Delivery Agreements - Represent derivative instruments related to the bond reserve accounts.

Unrestricted cash and temporary investments are free of any internal or external restrictions. Other cash and temporary investments represent internally restricted funds held for capital maintenance, debt service and other expenses.

(g) Capital Assets

All capital assets exceeding \$5, with a useful life of greater than one year, are stated at historical cost. These costs include the Authority's labor costs for employees working on capital projects, related fringe benefits, and an allocated share of general and administrative costs. Ordinary maintenance and repairs are charged to expense as incurred.

Depreciation of capital assets is computed using the straight line method over the estimated useful life of the asset. The major categories of transportation property in service and their estimated useful lives are as follows at June 30, 2020:

	Estimated useful life
Ways and structures	10 - 60 years
Building and equipment	3 - 25 years
Other capital assets	5 - 98 years

(h) Construction in Progress

For the year ended June 30, 2020, \$1.7 billion was expended towards the completion of major construction projects and improvements in progress. The projects and improvements completed were transferred to the appropriate transportation property accounts. Major projects included transit service extensions, right-of-way improvements, and purchases of new rolling stock and other equipment.

The Authority does not capitalize interest.

(i) Materials and Supplies

Materials and supplies are stated at average cost and include items to support the Authority's operations.

(j) Self-Insurance

The Authority is fully self-insured for various risks including workers' compensation, and injuries and damages claims. The Authority also self-insures a portion of casualty, liability claims, and property losses.

(k) Revenue Recognition

The Authority realizes revenue from a variety of different sources including but not limited to dedicated sales tax revenue and dedicated assessment revenue (collectively referred to as Dedicated Revenues), state contract assistance appropriated funds, fare revenue, and nonfare revenue such as real estate, parking, and advertising revenues.

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Under the Enabling Act, the Dedicated Revenues are impressed with a trust for the benefit of Authority bondholders. Furthermore, the Commonwealth covenants that while any Authority bonds or notes secured by the Dedicated Revenues are outstanding and remain unpaid, the Dedicated Revenues shall not be diverted, and, so long as the Dedicated Revenues are necessary for the purpose for which they have been pledged. The Authority recognizes the Dedicated Revenues as nonoperating revenue.

The Dedicated Sales Tax is equal to the greater of the base revenue amount (as defined in the Enabling Act) and the amount raised by a 1% statewide sales tax to be funded from existing sales tax receipts, subject to adjustment under certain circumstances set forth in the Enabling Act, plus \$160,000 annually. The dedicated assessment revenue consists of the obligation of 176 cities and towns in the Authority's expanded district to pay assessments for transportation services and benefits rendered. The Commonwealth deducts the assessments from each municipality's local aid payments; as such, these payments are received from the Commonwealth.

The dedicated assessments shall be adjusted each July 1 by the growth rate of the inflation index over the preceding 12 months not to exceed 102.5% of the previous year's assessment.

The Transportation Reform Act established the Commonwealth Transportation Fund (CTF), a budgetary fund of the Commonwealth for transportation related purposes, to receive essentially the same revenue previously deposited into the Highway Fund, including gasoline tax receipts and registry fee revenue. The Transportation Finance Act also provided funding for various transportation services and infrastructure needs within the various units of MassDOT. The Commonwealth appropriated the amount of \$127,000 from the CTF to the Authority for FY20. In addition, the Commonwealth made \$60,000 available to the Authority in the FY20 capital budget for pay-go capital purposes. These amounts are subject to appropriation by the Commonwealth in future years. The Authority recognizes the state appropriated funds from the CTF on an accrual basis as nonoperating revenue.

The Authority generates significant revenue from the operation of its transportation system, including both fare revenue and nonfare revenue such as those derived from real estate, parking, and advertising. Fare revenue is recorded on an accrual basis as operating revenue when fare media is purchased by riding customers through fare vending equipment and pass programs administered by the Authority. Real estate, parking, and advertising revenue is recorded on an accrual basis as operating revenue upon reporting of independent contractors managing these revenue streams on behalf of the Authority. Such activity is reflected as operating revenue in the accompanying financial statements

(I) Capital Grants and Contributions

The Authority receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization, and expansion of transportation facilities and equipment.

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(m) *Compensated Absences*

The Authority accrues for vested vacation pay when it is earned by employees. The amount of vested vacation pay accrued as of June 30, 2020 was \$20,952.

(n) *Postemployment Benefits*

The Authority sponsors three defined benefit pension plans, including the MBTA Retirement Fund, the MBTA Police Association Retirement Plan and the MBTA Deferred Compensation Plan. The Authority measures and records a net pension liability on its statement of net position which represents its unfunded pension plans' obligation. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the MBTA Retirement Fund, the MBTA Police Association Retirement Plan, and the MBTA Deferred Compensation Plan, and additions to/ deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments held by the plans are measured at fair value.

The Authority also sponsors an unfunded other post-employment benefit (OPEB) plan which is more fully described in note 27.

(o) *Environmental and other Remediation Obligations*

The Authority recognizes pollution remediation liabilities in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and GASB Statement No. 83, *Certain Asset Retirement Obligations*. At June 30, 2020 the Authority recorded a long-term liability of \$8,141 related to certain underground storage tanks and for the removal of Polychlorinated Biophenyls (PCB) at one of its facilities.

(p) *Derivatives*

The Authority's derivative activities included various forward delivery agreements (FDA) and various interest rate swaps which are recorded at fair value. At June 30, 2020, the fair value of the FDA which are considered investment derivatives totaled \$73,466. At June 30, 2020, the fair value of the interest rate swaps which are considered as hedge instruments totaled (\$10,631).

Changes in fair value of the FDA for the year ended June 30, 2020 totaled approximately \$22.1 million and is reported in the statement of revenue, expenses, and changes in net position.

(q) *Available Unrestricted Resources*

The Authority's policy is to utilize available unrestricted resources prior to restricted resources.

(r) *Deferred Inflows and Outflows*

The Authority accounts for certain transactions that result in the consumption or acquisition of one period that are applicable to future periods as deferred outflows and deferred inflows, respectively,

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to distinguish them from assets and liabilities. Deferred outflows of resources increase net position, similar to assets and deferred inflows of resources decrease net position similar to liabilities.

(s) *Statement of Net Position*

The statement of net position presents all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted net position result when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.

Unrestricted net position consists of net position which does not meet the definition of the two preceding categories.

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(17) MBTA - Deposits and Investments

The Authority's investment policy is to only invest in securities named in the respective trust agreements.

The Authority is authorized by its board of directors to make deposits into checking and savings accounts and to invest in direct obligations of the U.S. Treasury, its agencies and instrumentalities, bankers' acceptances, investment agreements, municipal bonds, repurchase agreements secured by U.S. government and agency obligations, and certain other investments permitted under the trust indentures.

Obligations of any agency or instrumentality of the United States of America including, but not limited to, the following may be acceptable as collateral to secure certificates of deposit or other instruments:

- (A) Federal Home Loan Banks
- (B) Federal Land Banks
- (C) Federal Intermediate Credit Banks
- (D) Bank for Cooperatives
- (E) Federal National Mortgage Association
- (F) Federal Farm Credit Banks

The Authority may invest in prime commercial paper of corporate issuers with a minimum quality rating of P-1 by Moody's Investors Service (Moody's) or A-1 by Standard and Poor's (S&P). These instruments can vary in maturity; however, no more than 10% of the investment funds shall be invested in the commercial paper of a single corporation.

Deposits and investments consisted of the following amounts presented in the accompanying statement of net position at June 30, 2020:

	2020
Restricted:	
Bond construction accounts	\$ 186,971
Bond reserve accounts	670,557
Stabilization accounts	20,869
Forward delivery agreements	73,466
Lease deposits	78,332
Subtotal	1,030,195
Unrestricted cash and temporary investments	316,278
	<u>\$ 1,346,473</u>

The Board approved the establishment of a Lockbox Capital Maintenance Fund (the Fund) that is to be funded by the increase in fare revenue generated by the fare changes. Resources deposited in the Fund will be used for pay-as-you-go capital improvements. Spending from the Fund for any purpose other than capital improvements requires at least a two-thirds vote of the FMCB. The Fund had a balance of \$57,766 as part of the unrestricted cash balance as of June 30, 2020.

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(a) Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority's deposits may not be recovered. The deposits in the bank in excess of the insured amount and collateralized amount are uninsured and uncollateralized. The carrying amount of the Authority's deposits at June 30, 2020 was \$92,179. The bank balances at June 30, 2020 were \$96,389. Of this amount, \$0 was exposed to custodial credit risk as uninsured and uncollateralized. These amounts reflect the Federal Deposit Insurance Corporation limit of \$250 per institution at June 30, 2020.

(b) Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Authority follows the guidelines in the Authority's trust agreements, and does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Authority's fixed income investments at June 30, 2020 are presented below. All investments are presented by investment type and maturity.

Investment type	2020				
	Amount	Investment maturities (in years)			
		Less than 1 year	1 - 3	4 - 8	More than 8
Money Market Funds	\$ 397,689	397,689	—	—	—
MMDT	431,938	431,938	—	—	—
Guaranteed investment contracts	1,321	—	—	—	1,321
U.S. Treasury STRIPS	78,332	—	—	—	78,332
U.S. Treasury Securities	20,701	20,701	—	—	—
U.S. government-sponsored enterprises	140,176	113,087	—	—	27,089
Municipal bonds	47,360	—	8,223	8,362	30,775
State and Local Government	63,310	—	12,180	—	51,130
	<u>\$ 1,180,827</u>	<u>963,415</u>	<u>20,403</u>	<u>8,362</u>	<u>188,647</u>

(c) Credit Ratings

The Authority has \$397,689 invested in money market funds as of June 30, 2020. These investments are not rated.

The Authority has \$431,938 invested in MMDT as of June 30, 2020, MMDT is unrated.

The Authority holds guaranteed investment contracts with a fair value of \$1,321 at June 30, 2020. These investments are not rated.

The Authority had \$209,703 in U.S. Treasury STRIPS, U.S. Treasury securities, State and local government series and municipal bonds as of June 30, 2020. The investments in Treasury STRIPS, U.S. Treasury Securities and State and local government series obligations are backed by the full faith and credit of the U.S. government. The municipal bonds represent debt obligations issued by the Commonwealth of Massachusetts and have an implied credit rating of Aaa/AA+.

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The Authority has \$140,176 invested in US government-sponsored enterprises as of June 30, 2020. These investments have an implied credit rating of AAaa/AA+ or they have been collateralized to AAA.

(d) Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributable to the magnitude of the Authority's investment in a single issuer. The issuers where securities at year-end exceeded 5% of the total investments, other than U.S. government obligations and mutual funds, are as follows:

	Credit rating by Moody's/S&P	2020	Percentage of portfolio
Federal National Mortgage Association	Aaa/AA+	69,165	5.87 %

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Authority was not exposed to foreign currency risk as of June 30, 2020.

(f) Fair Value Hierarchy and Measurements of Investments

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that are required to be made at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure the fair value.

- Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are other than quoted prices in Level 1 that are observable for the asset or liability or similar assets or liabilities either directly or indirectly through corroboration with the observable market data.
- Level 3 inputs are significant unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020.

Institutional Money Market Funds – Valued at fair value, which is represented by the quoted price for the fund – generally \$1.00 (one dollar) per share. Money market funds are generally classified as Level 1.

U.S. Treasury Strips - Treasury strips are typically valued based on pricing sources with reasonable level of price transparency or derived from a treasury curve. Treasury strips are generally categorized as Level 2 of the fair value hierarchy.

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U.S. Treasury Securities - Securities issued by the U.S. Government, its agencies, authorities and instrumentalities are valued using quoted prices, documented trade history in the security and a pricing model maximizing the use of observable inputs determined by investment managers.

- U.S. Treasury Securities consist principally of U.S. Treasury bills, notes and bonds are generally classified as Level 2 of the fair value hierarchy
- U.S. Government sponsored enterprises securities consist principally of U.S. Government agency obligations including agency-issued debt, agency mortgage pass-through securities, and agency collateralized mortgage obligations are generally categorized in Level 2 of the fair value hierarchy.

Municipal bonds – State and municipal bonds are generally valued based on the independent prices obtained from third party valuation services. Where prices of recently executed market transactions of similar securities and of comparable size are easily observed, those are taken into consideration for arriving at the fair value. When independent prices are available for state and municipal bonds, these are categorized as Level 2 of the fair value hierarchy.

Derivative Instruments – The Authority's interest rate swaps and forward delivery agreements are classified as Level 2 as valued using a market approach that considers benchmark interest rates.

The Authority has no securities classified as Level 3.

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(g) Fair Value and Amortized Cost Measurements

The Authority categorizes its investments within the fair value hierarchy as of June 30, 2020 as follows:

	2020		
	Total	Fair Value Level 1	Fair Value Level 2
Investments by fair value level			
Money Market Funds	\$ 397,689	397,689	—
U.S. Treasury STRIPS	78,332	—	78,332
U.S. Treasury securities	20,701	—	20,701
U.S. Government-sponsored enterprises	140,176	—	140,176
Municipal bonds	47,360	—	47,360
Total Investments by fair value level	684,258	397,689	286,569
Investments measured at amortized cost			
MMDT	431,938	—	—
State & Local Government Series	63,310	—	—
Guaranteed investment contracts	1,321	—	—
Total Investments measured at amortized cost	496,569	—	—
Total Investments	\$ 1,180,827	397,689	286,569
Interest rate swaps	\$ (10,631)	—	(10,631)
Forward delivery agreements	\$ 73,466	—	73,466

(h) Forward Delivery Agreements

The Authority has entered into several forward delivery agreements (FDAs) with various counterparties related to its debt service and debt service reserve funds (collectively, the Funds). These FDAs provide for the counterparties to pay the Authority a fixed rate of return on the amounts on deposit in the Funds in exchange for the Authority's obligation to purchase securities at specified dates in the future. Under the FDAs, the Authority receives fixed return rates ranging from 4.000% to 6.765% and commits to purchase the securities at their market value on the specified future dates through June 30, 2037. The credit ratings of the counterparties to the FDAs as of June 30, 2020, as determined by Standard and Poor's, were from "A" to "AA".

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(18) MBTA - Pledged Revenues

The Authority has pledged, as security for Sales Tax Series Bonds issued and Assessment Bonds issued, a portion of the Commonwealth sales tax (excluding meals tax) that is restricted for purposes of providing a dedicated revenue source to the Authority and a portion of the assessments obligated to be paid by cities and towns for which the Authority provides specified transportation services. Such bonds, issued by the Authority, provide financing for a portion of the capital improvement projects included in the Authority's approved Capital Investment Program ("CIP"), and are payable through June 30, 2050. The pledge of dedicated sales tax receipts and assessments from local communities remains in place until all bonds outstanding are retired and paid. The Authority generally issues bonds annually to fund its CIP, and these funds will continue to be pledged as security for the bonds until such time as the Authority no longer finances its CIP through the issuance of bonds secured by such pledged revenues and all such Authority bonds issued and outstanding have been retired. The total amount of dedicated sales tax revenues and local assessment revenues received in fiscal year 2020 was \$1,075,631 and \$173,887, respectively, a total of \$1,249,518. Total annual debt service (principal and interest) paid during fiscal year 2020 on outstanding Sales Tax Bond Series and, Assessment Bonds was \$469,428, representing 37.6% of pledged revenues.

The MBTPC pledge of dedicated parking receipts of the parking system of the Authority remains in place until all bonds outstanding are retired and paid. The debt service requirement in fiscal year 2020 was \$15,373, which represents 47.3% of \$32,498 revenue in the fiscal year 2020.

Total principal and interest remaining on Sales Tax Series Bonds, Assessment Bonds, and MBTPC Bonds outstanding as of June 30, 2020 are \$5,093,424.

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(19) MBTA - Net Investment in Direct Financing Lease

The Authority entered into a direct financing lease related to the underground parking garage structure located at Nashua Street and Legends Way in the City of Boston effective on June 6, 2012. The lease is for a subsurface building area with five levels of parking with a capacity for 1,275 automobiles (unaudited). The lease agreement is for a 75 year term with an initial rent payment of \$50,000 paid on the commencement date of the lease. Future annual base rent payments will commence on the tenth anniversary of the lease, June 6, 2022, and continue for a 30 year period.

The following lists the components of the net investment in direct financing lease as of June 30, 2020 ;

	2020
Total minimum lease payments receivable	\$ 68,981
Less unearned income	(39,881)
Net investment in direct financing lease	<u>\$ 29,100</u>

(20) MBTA - Lease Obligations

(a) Capital Lease Arrangements

Transportation property and facilities under capital leases are summarized in the capital assets note 21.

In fiscal 2006, the Authority entered in a Sale-in/Lease-out (SILO) transaction involving 80 commuter rail cars. The agreement provides for the lease of rolling stock for a period of 11 years for 48 cars and 17 years for the remaining 32 cars. Because the transaction did not meet the "in-substance defeasance" criteria, the lease liability and the related refunding trust established to pay off the lease payments as they come due are included in the accompanying financial statements. As of June 30, 2020, the outstanding lease liabilities were \$78,332.

(b) Operating Leases

As of June 30, 2020, the Authority leased approximately 37,000 square feet of office space and equipment within a property in Somerville, Massachusetts. This lease requires minimum lease payments of \$687 in fiscal year 2020. The lease terminates as of June 30, 2021.

In June 2017, the Authority, as lessor, entered into a 99-year lease with a third party for space at the South Station for an annual lease payment of \$1,000 plus contractual increases over the life of the lease.

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(21) MBTA - Capital Assets

A summary rollforward of capital assets at June 30, 2020 is as follows:

	Beginning balance June 30, 2019	Increases	Decreases	Ending balance June 30, 2020
Capital assets not being depreciated:				
Land	\$ 393,845	—	—	393,845
Construction work in progress	2,977,084	1,668,179	244,764	4,400,499
Total capital assets not being depreciated	3,370,929	1,668,179	244,764	4,794,344
Capital assets being depreciated:				
Ways and structures	11,003,674	97,081	—	11,100,755
Buildings and equipment	3,632,002	145,758	21,101	3,756,659
Capital assets - Other	338,976	220	—	339,196
Total capital assets being depreciated	14,974,652	243,059	21,101	15,196,610
Less accumulated depreciation for:				
Ways and structures	5,125,465	233,648	—	5,359,113
Buildings and equipment	2,379,833	155,003	21,101	2,513,735
Capital assets - Other	232,779	9,972	—	242,751
Total	7,738,077	398,623	21,101	8,115,599
Other capital assets, net	7,236,575	(155,564)	—	7,081,011
Capital assets, net	<u>\$ 10,607,504</u>	<u>1,512,615</u>	<u>244,764</u>	<u>11,875,355</u>

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(22) MBTA - Long-Term Debt

(a) Bonds Payable

Debt issued by the Authority prior to and outstanding as of July 1, 2000 (the Prior Obligations) is backed by the full faith and credit of the Commonwealth to the extent revenues collected by the Authority are insufficient to pay the debt, until the debt is paid off. Principal and interest payments on that debt were subsidized by the Commonwealth prior to June 30, 2000. As of June 30, 2020, Prior Obligations in the amount of \$141,585 is outstanding.

Principal on GTS bonds, all issued prior to July 1, 2000, is payable in annual installments on March 1st and interest is payable semiannually on March 1st and September 1st. The GTS bonds were issued to provide funds for the financing of the Authority's transportation properties.

Debt issued by the Authority after June 30, 2000 (new debt) is not supported by the Commonwealth's guarantee. Additionally, the Authority is not expected to receive any principal or interest subsidies from the Commonwealth, for the repayment of the prior obligations and new debt of the Authority, unless authorized by special legislation.

On June 11, 2020, the Authority issued Subordinated Sales Tax Fixed Rate Demand Obligation Bonds, Subseries 2020 B-1 in the amount of \$339,080 and Subseries 2020 B-2 in the amount of \$45,685. Both issues have an interest rate of 5.00%. Principal payments are made annually on July 1 through the maturity date of July 1, 2050 for Subseries B-1 and July 1, 2022 for Subseries B-2. The 2020 B-1 sales tax bonds were issued to refund \$80,255 of 2010 Series A Senior Sales Tax Bonds and \$66,460 of 2010 Series B Senior Sales Tax Bonds.

On December 8, 2017, the Authority entered into a TIFIA loan and a RRIF loan with the United States Department Transportation in the amount of \$162,000 and \$220,000, respectively. The Authority can draw on either loan no later than December 31, 2021. During fiscal 2020, there was no activity on either the TIFIA or RRIF loans. At June 30, 2020, there was no outstanding loan balance on either loan.

On July 1, 2020, the Authority finalized a refinancing of the TIFIA and RIFF loans. The two loans were consolidated under the RRIF program and the total loan amount increased to \$851,150. The new RIFF loan program consists of three tranches: (a) a PTC Tranche for \$382,000; (b) an ATC Tranche for \$369,065; and (c) a Resiliency Tranche for \$100,085. The PTC Tranche has an annual interest rate of 1.15%; the ATC Tranche has an annual interest rate of 1.29%; and the Resiliency Tranche has an annual interest rate of 1.45%. The Authority can draw on this new consolidated loan no later than December 1, 2021 and amortization commences on July 1 after the draw date. The final maturity on the Tranches is as follows: (a) PTC Tranche final maturity occurs on January 1, 2039; (b) ATC Tranche final maturity occurs on July 1, 2042; and (c) Resiliency Tranche final maturity occurs on July 1, 2054. Interest payments will be made on January 1 and July 1.

The Authority issued Commercial Paper Sales Tax Series B notes (CP) in the amount of \$144,000 during fiscal year 2020. As of June 30, 2020, \$35,000 in commercial paper was outstanding.

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The Authority's outstanding bonds payable at June 30, 2020 are as follows:

	Final fiscal year of maturity	Interest rates	Outstanding principal as of June 30, 2020	Due in fiscal year 2021
General transportation system bonds:				
1991 Series A dated November 1, 1991	2021	7.07% - 7.15%	\$ 9,980	9,980
1998 Series C dated November 1, 1998	2022	5.50%	1,970	1,055
2000 Series Variable Rate Demand Obligation dated March 10, 2000 (a)	2030	Variable	129,635	9,385
			<u>141,585</u>	<u>20,420</u>
Revenue Bonds:				
2003 Series A Senior Sales Tax dated January 29, 2003	2022	5.25%	44,580	18,645
2003 Series C Senior Sales Tax dated February 3, 2004	2024	5.25%	68,715	25,005
2004 Series B Senior Sales Tax dated March 9, 2004	2031	4.00%-5.25%	173,495	56,225
2004 Series C Senior Sales Tax dated December 22, 2004	2025	5.50%	59,255	12,480
2005 Series A Senior Sales Tax dated March 24, 2005	2032	5.00%	723,435	13,665
2005 Series B Senior Sales Tax dated December 21, 2005	2030	4.25%-5.50%	91,695	70
2006 Series A Senior Sales Tax dated March 2, 2006	2035	5.25%	238,850	—
2006 Series B Senior Sales Tax dated December 5, 2006	2024	5.25%	99,300	25,375
2006 Series Series A Assessment dated September 13, 2006 (b)	2036	Variable & Fixed	161,340	—
2007 Series A-1 Senior Sales Tax dated May 24, 2007	2035	5.25%	205,675	—
2008 Series B Senior Sales Tax dated April 20, 2008	2034	5.00% -5.25%	30,885	1,565

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	Final fiscal year of maturity	Interest rates	Outstanding principal as of June 30, 2020	Due in fiscal year 2021
Revenue Bonds continued:				
2010 Series C Senior Sales Tax dated December 8, 2010	2021	5.00%	\$ 23,270	23,270
2012 Series A Assessment dated June 21, 2012	2042	4.00%-5.00%	338,595	44,790
2014 Series A Senior Sales Tax dated April 23, 2014	2045	3.00%-5.00%	179,030	5,740
2015 Series A Senior Sales Tax dated October 14, 2015	2046	2.00%-5.00%	177,855	—
2015 Series B Senior Sales Tax dated October 14, 2015	2036	4.00%-5.00%	169,095	—
2016 Series A Senior Sales Tax dated July 19, 2016	2034	Zero Coupon	288,195	—
2016 Series A Assessment dated July 19, 2016	2029	2.00%-5.00%	119,260	—
2017 Series A-1 Subordinated Sales Tax dated October 12, 2017	2047	5.00%	99,170	—
2017 Series A-2 Subordinated Sales Tax dated October 12, 2017	2047	5.00%	130,930	—
2017 Bond Anticipation Notes Subordinated Sales Tax dated October 12, 2017	2022	4.00%	271,095	—
2018 Senior Series A, Subordinated Sales Series A-1 dated October 12, 2018 (c)	2027	Variable	84,325	10,865
2018 Senior Series A, Subordinated Sales Series A-2 dated October 12, 2018 (c)	2027	Variable	84,325	10,865
2020 Series B-1 Subordinated Sales, Tax dated June 11, 2020	2051	5.00%	339,080	—
2020 Series B-2 Subordinated Sales, Tax dates June 11, 2020	2023	5.00%	45,685	—
			<u>4,247,135</u>	<u>248,560</u>

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	Final fiscal year of maturity	Interest rates	Outstanding principal as of June 30, 2020	Due in fiscal year 2021
Metropolitan Boston Transit Parking (MBTPC) Bonds:				
2011 Series A MBTPC dated June 22, 2011	2042	4.00% - 5.25%	304,585	—
			<u>304,585</u>	<u>—</u>
Revenue Build America (BABs) Bonds				
2009 Series C Senior Sales Tax dated October 29, 2009	2040	4.75% - 5.569%	\$ 218,300	7,755
2010 Series D Senior Sales Tax dated December 8, 2010	2041	4.546% - 5.869%	210,000	—
			<u>428,300</u>	<u>7,755</u>
Commercial Paper	2021		35,000	\$ 35,000
Total outstanding principal			<u>5,156,605</u>	<u>311,735</u>
Unamortized capital appreciation			(47,821)	
Total bonds and note payable			5,108,784	
Less current maturities			(311,735)	
Plus unamortized bond premiums/discounts, net			<u>407,444</u>	
Total long-term bonds and note payable			<u>\$ 5,204,493</u>	

- (a) The bonds were issued as variable rate demand obligations (VRDO) and their variable interest is based on a weekly reset tied to SIFMA. As of September 28, 2011, the 2000 Series VRDO was split into 2000 Series A-1 VRDO and 2000 Series A-2 VRDO. The Authority classifies these bonds as long term and has a standby purchase agreement providing liquidity support from Barclays Bank PLC.
- (b) The 2024 maturity in the amount of \$19,260 and the 2025 maturity in the amount of \$5,000 is variable debt based on the MUNI CPI rate, plus 123 basis points.
- (c) These bonds were issued as VRDOs and their variable interest is based on a weekly reset tied to SIFMA. The Authority classifies these bonds as long term and has a standby purchase agreement providing liquidity support from State Street Bank and Trust Company.

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The contractual principal and interest maturities of the bonds and notes payable as of June 30, 2020 are as follows:

	<u>Principal</u>	<u>Interest</u>
Fiscal Year(s):		
2021	\$ 311,735	220,027
2022	303,618	214,624
2023	533,092	196,402
2024	287,869	182,330
2025	265,919	170,270
2026-2030	1,346,334	663,511
2031-2035	939,467	379,774
2036-2040	617,530	202,164
2041-2045	366,940	69,892
2046-2050	121,210	14,963
2051	15,070	377
Total	<u>\$ 5,108,784</u>	<u>2,314,334</u>

A summary roll forward of bonds payable for the year ended June 30, 2020 is as follows:

	2020					
	Balance 2019	Bonds issued	Principal payments	Refunded/ redeemed principal	Capital appreciation bond accretion	Balance 2020
GTS	\$ 160,680	—	(19,095)	—	—	141,585
Revenue	4,203,101	384,765	(247,635)	(146,715)	5,798	4,199,314
BABs	428,300	—	—	—	—	428,300
Commercial Paper	50,000	144,000	(159,000)	—	—	35,000
MBTPC	304,585	—	—	—	—	304,585
	<u>\$ 5,146,666</u>	<u>528,765</u>	<u>(425,730)</u>	<u>(146,715)</u>	<u>5,798</u>	<u>5,108,784</u>

A rollforward of the 2016A capital appreciation bonds for the year ended June 30, 2020 is as follows:

	<u>Due at Maturity</u>	<u>Unamortized appreciation</u>	<u>Outstanding balance</u>
June 30, 2019	\$ 288,195	(53,620)	234,575
Accretion	—	5,799	5,799
June 30, 2020	<u>\$ 288,195</u>	<u>(47,821)</u>	<u>240,374</u>

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The following funds are included in restricted assets at June 30, 2020 in connection with the Authority's revenue bond trust agreements and bond resolutions:

	Assessment bonds	Sales tax bonds	MBTPC bonds	Outstanding balance
Debt service	\$ 89,027	328,242	7,687	424,956
Debt service reserve	29,490	202,163	13,948	245,601
	<u>\$ 118,517</u>	<u>530,405</u>	<u>21,635</u>	<u>670,557</u>

The minimum required balances in the debt service reserve funds at June 30, 2020 were \$26,677 for the Assessment Bonds and \$146,950 for the Sales Tax Series Bonds. The minimum required balances in the debt service reserve funds at June 30, 2020 for MBTPC Bonds were \$12,294. The Authority has complied with its financial bond covenants by maintaining sufficient cash and investments in the debt service reserve funds.

In order to take advantage of low interest rates and easily accessible short-term capital markets, the Authority has the ability to issue commercial paper to raise funds in order to meet its capital needs. The Authority has a \$250,000 commercial paper program in total of which \$150,000 is administered by JP Morgan and \$100,000 by Barclays Capital Inc. The Authority's commercial paper program has been assigned short-term ratings of P-1 and A-1+ by Moody's and S&P, respectively. The Authority had \$35,000 outstanding commercial paper as of June 30, 2020.

(b) Debt Refundings

In prior years, the Authority defeased debt by placing the proceeds of new bonds or available cash in an irrevocable trust fund to provide for future debt service payments on the old debt. As of June 30, 2020, 100% of all previously defeased in-substance debt has been retired.

(c) Standby Purchase Agreements

The GTS 2000 Series Bonds issued March 10, 2000 were issued as a Variable Rate Demand Obligation. The Authority's obligation to purchase these Bonds in the event of a failed remarketing is secured by a Standby Bond Purchase Agreement (SBPA) with Barclays Bank PLC, a nationally recognized financial institution. The SBPA was renewed on September 14, 2018 and will expire on September 21, 2022.

The 2018 Subseries A-1 and 2018 Subseries A-2 Series Bonds were issued on July 2, 2018 as Variable Rate Demand Obligations. The Authority's obligation to purchase these Bonds in the event of a failed remarketing is secured by a Standby Bond Purchase Agreement (SBPA) with State Street Bank and Trust Company, a nationally recognized financial institution. The SBPA will expire on July 2, 2023.

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(23) MBTA - Commitments and Contingencies**(a) Capital Investment Program (CIP)**

The Authority's continuing CIP for mass transportation has projects in service and in various stages of approval, planning, and implementation. The following tables show, as of June 30, 2020, capital project costs approved, expenditures against these projects, and estimated costs to complete these projects, as well as the major funding sources:

Funding source	Approved project costs	Expenditures through June 30, 2020	Unexpended costs
Federal grants	\$ 10,076,968	9,225,253	851,715
State and local sources	5,743,389	4,253,688	1,489,701
Authority bonds	9,341,525	7,153,476	2,188,049
Total	<u>\$ 25,161,882</u>	<u>20,632,417</u>	<u>4,529,465</u>

The terms of the federal grant contracts require the Authority to, in part, utilize the equipment and facilities for the purposes specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and comply with the Equal Employment Opportunity and Affirmative Action programs required by the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users. Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the Federal Transit Administration. In management's opinion, no events have occurred that would result in the termination of these grants or require the refund of a significant amount of funds received under these grants.

Other cases and claims include disputes with contractors and others arising out of the Authority's CIP. In the opinion of the general counsel to the Authority, amounts reasonably expected to be paid by the Authority would be within the scope of grant funds and other funds available to the Authority for the respective projects.

The Authority has entered into several long-term contracts to purchase coaches, locomotives, buses, rapid transit cars, and other transportation equipment. Unexpended amounts under these contracts total approximately \$1.0 billion at June 30, 2020.

(b) Automated Fare Collection Commitment

In March 2018, the Authority entered into an agreement with a third-party System Implementor (SI) to design, implement, integrate, test, finance, operate, maintain, and manage a new automated fare collection (AFC 2.0) system (the Project). The agreement hereafter referred to as the Project Agreement was amended and restated in June 2020. The Project Agreement's initial term is approximately 13.5 years and can be extended at the Authority's discretion for up to two additional five-year periods.

Upon satisfaction of the Project Agreements terms and conditions, the Authority is obligated to make milestone payments to the SI totaling approximately \$217.3 million through the Full Service Commencement Date, beginning on May 31, 2021 as defined. Thereafter, for the remainder of the initial term, the Authority is obligated to make availability payments to the SI for capital (APC) and

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availability payments for operations (APO) totaling approximately \$368.7 million and \$275.7 million, respectively. In addition to the APC and APO, the Authority is also required to make availability payments to the SI for transactions (APT) as defined in the Project Agreement.

The Project is expected to operational in fiscal 2024 with the initial term expiring in fiscal 2034. The Authority will capitalize all milestone and APC payments and will expense all APO and APT payments when made. As of June 30, 2020, the Authority has made no payments, milestone or otherwise. The first milestone payment of \$8.0 million was made in September 2020.

(c) *Legal and Other*

The Authority is involved in numerous lawsuits, claims, and grievances arising in the normal course of business, including claims for personal injury and personnel practices, property damage, and disputes over eminent domain proceedings. In the opinion of the general counsel to the Authority, payments of claims by the Authority, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

The Authority participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. In the opinion of the Authority's management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

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(24) MBTA - Risk Management

The Authority is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, and unemployment.

Buildings are fully insured to the extent that losses exceed the self-insured retention of \$2,500 for buildings valued over \$25,000 and the self-insured retention of \$1,000 for buildings valued under \$25,000 effective March 1, 2014. The Authority is self-insured for workers' compensation, unemployment claims and vehicle damage and loss. Beginning July 1, 2015, the Authority provided all its employees with health insurance through the health insurance plans administered by the Group Insurance Commission of the Commonwealth (GIC) and was no longer self-insured. Under GIC, the Authority pays 75% to 80% of all healthcare premiums for active employees within the health insurance plans administered by GIC; and pays 80% to 90% of all health premiums for retired employees within the health insurance plans administered by the GIC. Supplemental postemployment benefits for certain retirees are provided by the Authority as well.

The Authority self-funds a \$7,500 per occurrence deductible for general liability. The Authority has a program of excess public liability insurance to provide for \$67,500 of layered coverage on a per occurrence and annual aggregate basis. In the opinion of the general counsel to the Authority, payments of claims by the Authority for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

Expenditures for claims and judgments and workers' compensation were \$8,015 and \$12,234, respectively, for the year ended June 30, 2020.

The requirements of GASB, Statements require that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The Authority reserves such liabilities, which consist of workers' compensation, health claims, and injuries and damages (legal claims) as accrued expenses as of June 30, 2020 and 2019. Changes in the self-insurance liabilities in FY20 were as follows:

	2020	2019
Liability, beginning of year	\$ 141,357	162,288
Provisions for claims	15,180	2,845
Payments	(20,249)	(23,776)
Liability, end of year	<u>\$ 136,288</u>	<u>141,357</u>

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(25) MBTA - Commuter Railroad

Under the Enabling Act, the Authority may enter into agreements with private transportation companies, railroads, and other concerns providing for joint or cooperative operation of any mass transportation facility and for operation and use of any mass transportation facility and equipment for the account of the Authority.

On February 5, 2014, the Authority and Keolis Commuter Services (Keolis) entered into an operating agreement effective July 1, 2014 to provide commuter railroad service over the Authority's rail lines. The original contract was for a period of eight (8) years, through June 30, 2022. The Authority had a fixed-base contract amount of \$2,686,342 over the eight-year term of the agreement. The contract also had a provision for an extension period comprising the option to extend for no less than two, but no greater than four, years. This extension was approved by the MBTA FMCB on June 15, 2020, and began on July 1, 2020. The fixed-base contract over the term of the contract and the extension through June 30, 2026 is \$4,073,776. The payments for all commuter rail costs incurred by Keolis totaled \$482,953 in FY20.

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(26) MBTA - Retirement Plans

The Authority provides retirement benefits to employees through six defined benefit retirement plans and one defined contribution plan: The MBTA Retirement Fund, the MBTA Police Association Retirement Plan, the MBTA Deferred Compensation Plan, the MBTA Executive Deferred Compensation Plan, the MBTA Executive Deferred Compensation Annuity Plan, the MBTA Excess Benefit Annuity Plan and the MBTA Deferred Compensation Savings Plan.

The MBTA Retirement Fund, a single employer plan, covers all employees except the MBTA police, who are covered separately, and certain executives who elect coverage under an alternate plan. The MBTA Retirement Fund and the MBTA Police Association Retirement Plan, a single employer plan, both provide retirement, disability, and death benefits to their members. The MBTA Retirement Fund issues separately audited financial statements that may be obtained by writing to One Washington Mall, Boston, Massachusetts 02108, or by calling (617) 316-3800. The MBTA Police Association Retirement Plan also issues separately audited financial statements that may be obtained by writing to the Board of Directors, MBTA Police Association Retirement Plan, P.O. Box 35, Grafton, Massachusetts 01519.

The MBTA Deferred Compensation Plan, a single-employer plan, provides supplemental pension benefits for certain Local 453, Steelworkers, Transit Employee Administrators (collective bargaining units) and executive employees after retirement. Employees may participate in both the MBTA Retirement Fund and the MBTA Deferred Compensation Plan. The MBTA Deferred Compensation Plan is unfunded and does not issue separately audited financial statements.

The remaining defined benefit plans are single employer plans that are unfunded and do not issue separately audited financial statements. These plans collectively have less than ten active and retired participants. A copy of the actuarial report for any of these retirement plans can be obtained by writing to the Office of the Chief Financial Officer, MBTA, Ten Park Plaza, Boston, Massachusetts 02116.

Employees covered by benefit terms.

At December 31, 2019, the following employees were covered by the benefit terms:

	MBTA Retirement Fund	MBTA Police Association Retirement Fund	MBTA Deferred Compensation Plan
Retired employees or beneficiaries receiving benefits	6,813	122	940
Active employees	5,507	221	680
Inactive employees entitled to, but not yet receiving benefits	390	45	—
Totals:	12,710	388	1,620

(a) Funding Policy and Annual Pension Cost

The pension agreements between the Authority and Local 589, dated July 1, 2014 for the MBTA Retirement Fund and the MBTA Police Association dated June 30, 2003, designates that the board of trustees of each retirement plan establish the contribution requirements; however, the Authority may amend these requirements.

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The historical MBTA Retirement Fund contribution rates are as follows:

Valuation Date	Effective Date	Contribution Percentage		
		Employer	Employee	Total
12/31/2017	7/1/2018	22.6811%	8.0089%	30.6900%
12/31/2018	7/31/2019	25.1261%	8.8239%	33.9500%
12/31/2019	7/31/2020	26.6561%	9.3339%	35.9900%

Actual contributions made in were in accordance with these contribution requirements.

The historical MBTA Police Association Retirement Plan contribution rates are as follows:

Valuation Date	Effective Date	Contribution Percentage		
		Employer	Employee	Total
12/31/2017	7/1/2018	14.1800%	8.7900%	22.9700%
12/31/2018	7/31/2019	14.4600%	8.7900%	23.2500%
12/31/2019	7/31/2020	13.7600%	8.3800%	22.1400%

Contributions are not required to be made for the MBTA Deferred Compensation Plan. Rather, benefit payments are made on a “pay as you go” basis.

(i) Net Pension Liability

The Authority’s June 30, 2020 net pension liability for each retirement plan was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019.

Actuarial assumptions. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Pension	MBTA Retirement Fund	MBTA Police Association Plan	MBTA Deferred Compensation Plan
Actuarial assumptions:			
Inflation rate	2.75%	3.03%	2.75%
Salary increases	2.75% - 8%	3.25%	2.75% - 8%
Investment rate of return*	7.25%	7.00%	3.26%

*Net of pension plan investment expense, including inflation

For the December 31, 2019 MBTA Retirement Fund and MBTA Deferred Compensation Plan actuarial valuations, mortality rates are used for all active employees and were based on the RP-2014 Blue Collar

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Mortality Tables with generational projection using the Scale MP-2018. 94.5% of the RP-2014 Blue Collar Mortality Tables projected by Scale MP-2018 generationally are the basis for all retirees. 107.5% of the RP-2014 Blue Collar Tables projected by Scale MP-2018 generationally are the basis for all beneficiary participants. The RP-2014 Disabled Mortality Tables projected by Scale MP-2018 generationally are used for the period after disability retirement. Among pre-retirement deaths, 7.5% are assumed to qualify for accidental death benefits.

For the December 31, 2019 MBTA Police Association Plan actuarial valuation, the PubS-2010 (Below Median) Amount Weighted Safety Mortality Tables generational projection using Scale MP-2019 are used for all active participants. 97.2% of the PubS-2010 (Below Median) Amount Weighted Safety Mortality Tables generational projection using Scale MP-2019 are used for all retirees and deferred vested participants. 116.5% of the PubS-2010 (Below Median) Amount Weighted Contingent Survivor Mortality Tables generational projection using Scale MP-2019 are used for all current and future beneficiaries. The PubS-2010 Amount Weighted Safety Mortality Disability Tables generational projection using Scale MP-2019 are used for the periods after disability retirement. Among pre-retirement deaths, 25% are assumed to qualify for accidental death benefits.

The actuarial assumptions used in the December 31, 2019 valuation for the MBTA Retirement Fund were based on the results of an actuarial experience study for the five-year period ending December 31, 2017. There was no separate experience study performed for the MBTA Deferred Compensation Plan.

The actuarial assumptions used in the December 31, 2019 valuation for the MBTA Police Association were based on the results of an actuarial experience study for the five-year period ending December 31, 2019.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target allocation as of December 31, 2019 are summarized in the following tables:

MBTA Retirement Fund

2019	
	Long Term Expected Real Rate of Return
Target Allocation	
Equity	43%
Fixed Income	25%
Alternatives	30%
Cash	2%
Total	100%

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MBTA Police Association

	2019	
	Target Allocation	Long Term Expected Real Rate of Return
Equity	46%	8.11%
Fixed Income	37%	1.10
Alternatives	17%	4.95
Total	100%	

Discount rate: The discount rate used to measure the total pension liability was 7.25% for the MBTA Retirement Fund while the discount rate for the MBTA Police Association Retirement Plan was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will continue to be made in accordance with the current funding policy. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current MBTA Retirement Fund and MBTA Police Association Retirement Plan members. The discount rate used to measure the total pension liability for the MBTA Deferred Compensation Plan was 3.26%. Since this plan is unfunded, the assumed discount rate has been determined in accordance with the method prescribed by GASB No. 67 and is based on the S&P Municipal Bond 20 Year Grade Rate Index, whose yield to maturity was 3.26% as of December 31, 2019.

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(ii) Change in the Net Pension Liability – MBTA Retirement Fund

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balances at December 31, 2018	\$ 2,916,801	1,449,695	1,467,106
Changes for the year:			
Service cost	47,943	—	47,943
Interest	214,112	—	214,112
Difference between expected and actual experience	(3,179)	—	(3,179)
Changes in assumptions	69,299	—	69,299
Contributions - employer	—	103,264	(103,264)
Contributions - employee	—	36,366	(36,366)
Net investment Income	—	253,731	(253,731)
Benefit payments, including refund of employee contributions	(223,865)	(223,865)	—
Administrative expense	—	(5,046)	5,046
Net changes	104,310	164,450	(60,140)
Balances at December 31, 2019	\$ 3,021,111	1,614,145	1,406,966

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(iii) Change in the Net Pension Liability – MBTA Police Association Retirement Plan

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c)
Balances at December 31, 2018	\$ 108,057	83,012	25,045
Changes for the year:			
Service cost	2,074	—	2,074
Interest	7,525	—	7,525
Contributions - employer	—	3,309	(3,309)
Contributions- employee	—	2,013	(2,013)
Net investment Income	—	11,815	(11,815)
Difference between expected and actual experience	4,118	—	4,118
Change in assumptions	(4,616)	—	(4,616)
Benefit payments, including refund of employee contributions	(5,343)	(5,343)	—
Administrative expense	—	(262)	262
Net changes	3,758	11,532	(7,774)
Balances at December 31, 2019	\$ 111,815	94,544	17,271

(iv) Change in the Net Pension Liability – MBTA Deferred Compensation Plan

	Increase (Decrease)
	Total Pension Liability
Balances at December 31, 2018	\$ 92,816
Changes for the year:	
Service cost	2,417
Interest	3,352
Difference between expected and actual experience	672
Changes in assumptions	3,777
Benefit payments, including refund of employee contributions	(6,358)
Net changes	3,860
Balances at December 31, 2019	\$ 96,676

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Sensitivity of net pension liability to changes in the rate

The following presents the net pension liability of the Authority, calculated using the discount rates disclosed as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate as of December 31, 2019:

	<u>Current Rate</u>	<u>1 % Decrease of Current Rate</u>	<u>Current Discount Rate</u>	<u>1 % Increase of Current Rate</u>
MBTA Retirement Fund	7.25%	\$ 1,714,806	\$ 1,406,966	\$ 1,145,684
MBTA Police Association Retirement Plan	7.00%	31,500	17,271	5,403
MBTA Deferred Compensation	3.26%	107,965	96,676	87,253

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2020 the Authority recognized pension expense of \$226,775; \$2,342; and \$9,795 for the MBTA Retirement Fund, the MBTA Police Association Retirement Plan and the MBTA Deferred Compensation Plan, respectively.

At June 30, 2020 the Authority reported deferred outflows of resources and deferred inflow of resources related to pension amounts from the following sources:

	<u>MBTA Retirement Fund</u>	<u>MBTA Police Assoc. Retirement Plan</u>	<u>MBTA Deferred Compensation Plan</u>	<u>Total</u>
Deferred Outflows of Resources:				
Changes in assumptions	\$ 125,413	224	3,799	129,436
Contributions subsequent to the measurement date	55,251	1,271	3,158	59,680
Differences between expected and actual experience	41,664	5,132	1,718	48,514
Total deferred outflows of resources	<u>222,328</u>	<u>6,627</u>	<u>8,675</u>	<u>237,630</u>
Deferred Inflows of Resources:				
Differences between expected and actual experience	\$ (2,385)	(2,463)	—	(4,848)
Changes in assumptions	—	(3,957)	(193)	(4,150)
Differences between projected and actual earnings on pension plan investments	(51,920)	(796)	—	(52,716)
Total deferred inflows of resources	<u>(54,305)</u>	<u>(7,216)</u>	<u>(193)</u>	<u>(61,714)</u>
Less: Contributions subsequent to the measurement date	<u>(55,251)</u>	<u>(1,271)</u>	<u>(3,158)</u>	<u>(59,680)</u>
Net deferred outflows and inflows of resources exclusive of employer specific deferrals	<u>\$ 112,772</u>	<u>(1,860)</u>	<u>5,324</u>	<u>116,236</u>

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Amounts reported as deferred outflows of resources related to pensions resulting from the Authority contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the subsequent year.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized/(amortized) into pension expense as follows:

	MBTA Retirement Fund	MBTA Police Assoc. Retirement Plan	MBTA Deferred Compensation Plan
Year ended June 30:			
2021	\$ 72,844	(637)	3,841
2022	48,999	(587)	1,483
2023	20,587	808	—
2024	(29,658)	(1,302)	—
2025	—	(71)	—
Thereafter	—	(71)	—
Totals:	\$ 112,772	(1,860)	5,324

Payable to the Pension Plans

At June 30, 2020 the Authority reported a payable for \$5,242 for the outstanding amount of contributions to pension plans required for the year ended June 30, 2020.

(b) The MBTA Deferred Compensation Savings Plan

The Authority provides a defined contribution retirement plan for nonunion and certain grandfathered union management not participating in the MBTA Retirement Fund. Authority employee trustees administer the plan and recommend benefit amendments that require approval from the Authority's general manager. The plan requires members to contribute 8.8% of total covered payroll for the year ended June 30, 2020, with the Authority contributing 8%. The plan had 493 members as of June 30, 2020. The cost of the Plan to the Authority was \$2,107 for the year ended June 30, 2020. Member contributions vest to plan members immediately, while contributions made by the Authority vest to plan members as follows: 50% after three years, 75% after four years, and 100% after five years of credited service. The total asset balance of \$41,687 as of June 30, 2020, was held by a third party administrator who allocates the assets of fully funded member account balance at the direction of individual member discretion.

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(27) MBTA - Other Postemployment Benefits (OPEB)

In addition to providing the pension benefits described, the Authority provides OPEB for eligible retired employees under two arrangements. The Authority participates in the Commonwealth of Massachusetts' Group Insurance Commission ("GIC") plan which provides health and other benefits to both Medicare and Non-Medicare eligible retirees. The Authority also provides eligible retirees with additional non-duplicative supplemental life insurance and Medicare Part B premium benefits through the Transit Employees Health and Welfare Fund. The benefits, benefit levels, employee contributions, and employer contributions are governed by the Authority, collective bargaining agreements, and state statute. Plan membership as of July 1, 2018 is as follows:

Retirees or beneficiaries currently receiving benefit payments	\$	6,225
Active employees		6,095
	\$	<u>12,320</u>

Benefits Provided

Through the GIC, the Authority provides medical, prescription drug, mental health/substance abuse, and life insurance to retirees and their covered dependents. All active employees who retire from the Authority and meet the eligibility criteria will receive these benefits.

(a) Funding Policy

Retiree contributions to the GIC plan vary based on the date of retirement. Pre- and post-65 retirees with a retirement date on or before July 1, 1994 contribute 10% to the cost of the health plan. Retirees who retired after July 1, 1994 and filed for retirement prior to August 10, 2009 contribute 15% of the cost of the health plan. Retirees who retired after July 1, 1994 and filed for retirement on or after August 10, 2009 but on or before October 1, 2009 with a retirement date on or before January 31, 2010 contribute 15% of the cost of the health plan. Retirees who file for retirement after October 1, 2009 will contribute 20% of the cost of the health plan. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis.

(b) Total OPEB Liability

The Authority's total OPEB liability of \$2,329,201 was measured as of June 30, 2019 and was determined by an actuarial valuation as of July 1, 2019

Actuarial assumptions and other inputs: The total OPEB liability as of June 30, 2019 was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75% to 3.03%
Salary Increase	2.75% to 8.00%
Discount Rate	2.79% based on the S&P Municipal Bond 20 Year High Grade Rate Index
Healthcare cost trend rate	Pre-Medicare and Medicare, 7.0% decreasing to an ultimate trend rate of 4.5%

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Actuarial Cost Method: Entry age normal based on level percentage of projected salary.

Mortality Rates for MBTA Retirement Fund eligible employees:

Active and Deferred Mortality: The RP-2014 Blue Collar Mortality Tables with fully generational projection using Scale MP-2018 Improvement

Retired Mortality: 94.5% of the RP-2014 Blue Collar Mortality Tables with fully generational projection using Scale MP-2018 Improvement

Surviving Spouse Mortality: 107.5% of the RP-2014 Blue Collar Mortality Tables with fully generational projection using Scale MP-2018 Improvement

Disabled Mortality: The RP-2014 Disability Mortality Tables with fully generational projection using Scale MP-2018 Improvement.

Mortality Rates for MBTA Police Association eligible employees:

Active Mortality: PubS-2010 (Below Median) Amount Weighted Safety Mortality Tables – Fully Generational Scale MP-2019

Retired and Deferred Mortality: 97.2% of PubS-2010 (Below Median) Amount Weighted Safety Mortality Tables – Fully Generational Scale MP-2019

Surviving Spouse Mortality: 116.5% of Pub-2010 (Below Median) Amount Weighted Contingent Survivor Mortality Tables – Fully Generational Scale MP-2019

Disabled Mortality: PubS-2010 Amount Weighted Safety Mortality Disability Tables – Fully Generational Scale MP-2019

Experience study for MBTA Retirement Fund eligible employees: termination, retirement, mortality and disability rates reflect The MBTA Retirement Fund experience study dated April 12, 2019. The study evaluated five years of experience from January 1, 2013 to December 31, 2017.

Experience study for MBTA Police Association eligible employees: termination, retirement, mortality, and disability rates reflect the MBTA Police Association Retirement Plan experience study dated May 2020. The study evaluated six years of experience from January 1, 2014 to December 31, 2019

Significant Change of Assumptions:

The discount rate changed from 2.98% as of June 30, 2018 to 2.79% as of June 30, 2019.

Healthcare cost trend rates: the assumed health care cost trend rates have been updated. The July 1, 2018 valuation utilized pre-Medicare and Medicare trends that graded down gradually over time to a 5.0% ultimate trend rate reached by the fiscal year ending June 30, 2028. The

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updated July 1, 2019 valuation increased the initial trend rates, which then grade down to an ultimate trend rate of 4.5% fiscal year ending June 30, 2033.

The "Cadillac" tax was repealed and is no longer in the plan's cost projections

(i) Change in Total OPEB Liability

	<u>Increase (Decrease)</u>
Balances at June 30, 2019	\$ 2,458,432
Changes for the year:	
Service cost	87,346
Interest	74,941
Differences between expected and actual experience	(304,320)
Changes of assumptions	75,199
Benefit payments, including refund of employee contributions	(62,397)
Net changes	<u>(129,231)</u>
Balances at June 30, 2020	<u>\$ 2,329,201</u>

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.79%) or 1-percentage-point higher (3.79%) than the current discount rate (in thousands):

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
Total OPEB liability	\$ 2,809,404	2,329,201	1,960,144

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or cost trend rates that are 1-percentage point higher than the current healthcare cost trend rates (in thousands):

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 1,947,986	2,329,201	2,829,129

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(ii) OPEB expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

For the year ended June 30, 2020 the Authority recognized OPEB expense of \$122,726. At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB amounts from the following sources:

Deferred outflows of resources:	
Change in assumptions	\$ 227,961
Contributions subsequent to the measurement date	49,625
Total deferred outflows of resources	<u>277,586</u>
Deferred inflows of resources:	
Difference between expected and actual results	(309,270)
Changes in assumptions	(86,290)
Total deferred inflows of resources	<u>(395,560)</u>
Net deferred outflows and inflows of resources	(117,974)
Less contributions subsequent to the measurement date	<u>(49,625)</u>
Net deferred outflows and inflows of resources exclusive of employer specific deferrals	<u><u>\$ (167,599)</u></u>

Amounts reported as deferred outflows of resources related to OPEB resulting from the Authority contributions subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the year ending June 30, 2020.

Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized / (amortized) into pension expense as follows:

Year ended June 30:	
2021	\$ (39,561)
2022	(39,561)
2023	(39,561)
2024	(32,730)
2025	<u>(16,186)</u>
Totals	<u><u>\$ (167,599)</u></u>

(c) Transit Employees Health and Welfare Trust

In fiscal 2015 the Authority and Local 589 (Local Union 589, Amalgamated Transit union, AFL-CIO and CLC) as a result of an arbitration award established a separate trust fund, the Transit Employee Health and Welfare Trust Fund (the "Trust Fund"), to address legislative changes impacting healthcare and other coverage (medical, dental, vision and life insurance) for Local 589 active and retired employees (collectively, the "employees"). The Authority and the employees are required to make contributions to the Trust Fund based on the rates agreed to in the Collective

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Bargaining Agreement. Contributions, once received by the Trust Fund, must be used exclusively “to provide benefits to eligible participants and/or appropriate administrative or operating expenditures.” The Trust allows participation of any Authority employee and retiree and provides pre and post retiree benefits to those individuals through the Trust Fund. As such the Trust Fund does not meet the definition of a qualifying trust under the requirements of GASB 75 and its assets cannot be used to reduce the Authority's total OPEB liability.

In fiscal 2020, the Authority made contributions to the Trust Fund of \$18,488. The liability for the Authority's obligation for the benefits administered by this Trust Fund is recorded as part of the Authority's total OPEB liability. All operating activities of the Trust Fund have been excluded from the accompanying financial statements.

(28) MBTA - Impact of Coronavirus (COVID-19)

On March 10, 2020, the Massachusetts Governor declared a State of Emergency as a result of impact of COVID-19 on the residents of the Commonwealth. The World Health Organization subsequently formally classified COVID-19 as Global Pandemic on March 11, 2020. Finally, on March 13, 2020 was declared national state of emergency as a result of the COVID-19 pandemic.

The impact of COVID-19 State of Emergency declaration, including but not limited to social distancing and the classification of nonessential businesses and activities resulted in a corresponding decline in the use of the MBTA transit system as a whole.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, is a \$2.2 trillion economic stimulus bill passed by Congress and signed into law resulting in the CARES Act as a means to protect the American people from the public health and economic impacts of COVID-19. The CARES Act, through the Federal Transit Administration's (FTA), provided \$25 billion grant to transit agencies to help to prevent, prepare for and respond to the COVID-19 pandemic. The CARES Act is providing approximately \$875.85 million to the MBTA and is available to support the Authority's revenue loss as well as all operating expenses generally eligible under the program. Transit entities nationwide could receive funding for approved costs incurred beginning on January 20, 2020. As of June 30, 2020, a total of \$221.8 million has been received by the MBTA for operating assistance that occurred from January 20, 2020 through June 30, 2020 and an additional \$127.1 million was to be received in FY21 for FY20 related expenses.

On December 21, 2020 the Consolidated Appropriations Act, 2021, established a second round of economic stimulus assistance in the amount of \$2.2 trillion. A certain apportionment of the \$2.2 trillion is being allocated to affected Transportation agencies nationwide. As of the publication of these financial statements, the amount apportioned to the MBTA remains unknown.

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**SCHEDULE OF MASSDOT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY (1)**

	2020	2019	2018	2017	2016	2015
	(measurement date June 30, 2019)	(measurement date June 30, 2018)	(measurement date June 30, 2017)	(measurement date June 30, 2016)	(measurement date June 30, 2015)	(measurement date June 30, 2014)
MassDOT's proportion % of the net pension liability	4.26544 %	4.31966 %	4.43888 %	4.67817 %	5.07498 %	4.98100 %
MassDOT's proportionate share of the net pension liability	624,213 \$	571,492 \$	569,276 \$	645,065 \$	577,676 \$	369,795 \$
MassDOT's covered-employee payroll	\$ 255,607	\$ 248,834	256,471	263,416	280,329	266,308
MassDOT's nonemployer contributions provided by the Commonwealth	\$ 11,650	\$ 10,189	9,185	8,701	2,648	8,199
MassDOT's proportionate share of the net pension liability as a percentage of its covered-employee payroll	244.21 %	229.67 %	221.96 %	244.88 %	206.07 %	138.86 %
Plan fiduciary net position as a percentage of the total pension liability	66.28 %	67.91 %	67.21 %	63.48 %	67.87 %	76.32 %

(1) Data is being accumulated annually to present 10 years of the reported information.

See accompanying independent auditors' report.

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SCHEDULE OF MASSDOT'S PENSION CONTRIBUTIONS (1)

	2020	2019	2018	2017	2016
Contractually required contribution	\$ 40,765	30,826	29,313	25,519	24,893
Contributions in relation to the contractually required contribution	(40,765)	(30,826)	(29,313)	(25,519)	(24,893)
Contribution deficiency (excess)	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
MassDOT's covered-employee payroll	\$ 289,528	255,607	248,834	256,471	263,416
Contributions as a percentage of covered employee payroll	14.08 %	12.06 %	11.78 %	9.95 %	9.45 %
	2015	2014	2013	2012	2011
Contractually required contribution	\$ 29,126	21,118	17,220	22,376	13,469
Contributions in relation to the contractually required contribution	(29,126)	(21,118)	(17,220)	(22,376)	(13,469)
Contribution deficiency (excess)	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
MassDOT's covered-employee payroll	\$ 280,329	266,308	254,807	249,176	255,095
Contributions as a percentage of covered employee payroll	10.39 %	7.93 %	6.76 %	8.98 %	5.28 %

(1) Data is being accumulated annually to present 10 years of the reported information.

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SCHEDULE OF MASSDOT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (1)

	2020 (measurement date June 30, 2019)	2019 (measurement date June 30, 2018)	2018 (measurement date June 30, 2017)
MassDOT's proportion % of the net OPEB liability	4.4195 %	4.47456 %	4.59294 %
MassDOT's proportionate share of the net OPEB liability	808,483 \$	831,094 *	803,052
MassDOT's covered-employee payroll	255,607 \$	248,834	256,471
MassDOT's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	316.30 %	334.00 %	313.12 %
Plan fiduciary net position as a percentage of the total OPEB liability	6.96 %	6.01 % *	5.39 %

(1) Data is being accumulated annually to present 10 years of the reported information.

* As restated

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SCHEDULE OF MASSDOT'S OPEB CONTRIBUTIONS (1)

	2020	2019	2018
Actuarially determined contribution	21,117 \$	22,478	22,193
Contributions in relation to the actuarially determined contribution	(21,117)	(22,478)	(22,193)
Contribution deficiency (excess)	\$ — \$	—	—
Covered employee payroll	\$ 289,528 \$	255,607	248,834
Contributions as a percentage of covered employee payroll	7.29 %	8.79 %	8.92 %

(1) Data is being accumulated annually to present 10 years of the reported information.

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Massachusetts Transportation Trust Fund
Combining Balance Sheet
June 30, 2020
(Dollars in thousands)

Assets	Metropolitan Highway System	Western Turnpike	Tobin Bridge	Other operations	Total
Cash and short-term investments	\$ —	—	—	115,530	115,530
Restricted cash and investments	517,117	318,773	151,508	20,067	1,007,465
Other receivables, net	60,328	35,595	9,155	6,490	111,568
Due from other funds	—	—	—	—	—
Other assets	1,753	450	141	283	2,627
Total assets	<u>\$ 579,198</u>	<u>354,818</u>	<u>160,804</u>	<u>142,370</u>	<u>1,237,190</u>
Liabilities, Deferred Inflows of Resources and Fund Balances:					
Liabilities:					
Accounts payable and accrued expenditures	16,832	13,809	5,413	26,793	62,847
Unearned revenue	112,548	1,939	—	522	115,009
Total liabilities	<u>129,380</u>	<u>15,748</u>	<u>5,413</u>	<u>27,315</u>	<u>177,856</u>
Deferred Inflows of Resources:					
Unavailable Revenue	<u>43,648</u>	<u>31,897</u>	<u>8,393</u>	<u>—</u>	<u>83,938</u>
Fund balances:					
Nonspendable	1,753	450	141	283	2,627
Restricted	404,417	306,723	146,857	20,066	878,063
Unassigned	—	—	—	94,706	94,706
Total fund balances	<u>406,170</u>	<u>307,173</u>	<u>146,998</u>	<u>115,055</u>	<u>975,396</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 579,198</u>	<u>354,818</u>	<u>160,804</u>	<u>142,370</u>	<u>1,237,190</u>

See accompanying independent auditors' report.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION

(A Component Unit of the Commonwealth of Massachusetts)

Massachusetts Transportation Trust Fund
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Fiscal year ended June 30, 2020
(Dollars in thousands)

	Metropolitan Highway System	Western Turnpike	Tobin Bridge	Other operations	Total
Revenues					
Toll revenue:					
Pledged as security for revenue bonds	\$ 185,621	—	—	—	185,621
Unpledged	—	135,169	34,310	—	169,479
Commonwealth transportation fund:					
Operations	—	—	—	491,149	491,149
Metropolitan highway system bonds	100,000	—	—	—	100,000
Central artery operations and maintenance	25,000	—	—	—	25,000
Rental/lease income	12,660	26,634	—	13,901	53,195
Investment income	11,058	4,618	2,312	2,876	20,864
Departmental and other	15,600	9,217	2,157	20,730	47,704
Total revenues	<u>349,939</u>	<u>175,638</u>	<u>38,779</u>	<u>528,656</u>	<u>1,093,012</u>
Expenditures					
Current					
Highway**	139,102	117,717	27,240	268,951	553,010
Planning and Enterprise Services	22,616	12,219	870	97,582	133,287
Registry of motor vehicles	—	—	—	105,099	105,099
Rail and Transit	—	—	—	94,672	94,672
Aeronautics	—	—	—	2,767	2,767
Debt service:					
Principal	45,610	—	—	—	45,610
Interest	109,143	—	—	—	109,143
Total expenditures	<u>316,471</u>	<u>129,936</u>	<u>28,110</u>	<u>569,071</u>	<u>1,043,588</u>
Excess (deficiency) of revenues over expenditures	<u>33,468</u>	<u>45,702</u>	<u>10,669</u>	<u>(40,415)</u>	<u>49,424</u>
Other financing sources (uses):					
Transfers in	7,707	—	—	36,351	44,058
Transfers out	—	—	—	—	—
Issuance of refunding bonds	664,155	—	—	—	664,155
Premium from issuance of refunding bonds	144,943	—	—	—	144,943
Debt Service-principal,current refunding	(831,496)	—	—	—	(831,496)
Total other financing sources (uses)	<u>(14,691)</u>	<u>—</u>	<u>—</u>	<u>36,351</u>	<u>21,660</u>
Net change in fund balances	<u>18,777</u>	<u>45,702</u>	<u>10,669</u>	<u>(4,064)</u>	<u>71,084</u>
Fund balances at beginning of year	<u>387,393</u>	<u>261,471</u>	<u>136,329</u>	<u>119,119</u>	<u>904,312</u>
Fund balances at end of year	<u>\$ 406,170</u>	<u>307,173</u>	<u>146,998</u>	<u>115,055</u>	<u>975,396</u>

See accompanying independent auditors' report.

** Pay go Maintenance expenditures of \$103 million are included in total line (\$45 million in MHS & \$58 million WT)