Governor may soon hold agency purse strings

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Low-profile board to get say in borrowing

By Casey Ross, Globe Staff | August 5, 2008

The Patrick administration is about to gain unprecedented control over state borrowing after the Legislature last week gave an obscure advisory panel oversight of previously independent agencies such as the Massachusetts Turnpike Authority.

The legislation, expected to be signed by Governor Deval L. Patrick within days, gives the little-known Finance Advisory Board the authority to set rules on how state agencies borrow and manage their money. It also requires that all agencies fully disclose the details of their loan transactions and taxpayers' financial exposure.

Four of the advisory board's five members are appointed by the governor's office, giving the administration substantial control over its actions. The consolidation of power at the board has created some unease on Beacon Hill, but aides to the governor said it will provide financial oversight that is sorely lacking.

"This is a huge improvement in terms of accountability and ensuring funds are being managed in an appropriate way," said Jay Gonzalez, Patrick's undersecretary of administration and finance. "There is currently no single state entity to ensure that all these agencies are adhering to minimum standards that the public might expect."

Financial oversight is especially lacking at more than 20 quasi-public authorities where managers and boards of directors can enter into complex deals with investment banks without any sign off from state lawmakers or the governor.

The provision expanding the board's powers was included in a bill approved by lawmakers last week that authorizes the state to guarantee about $1 billion of the Turnpike Authority's debt, which will allow the cash-strapped highway agency to lower its borrowing costs.

The turnpike's problems, which arose because of complex loan transactions that went sour, generated demands for stronger oversight of quasi-public authorities. They also produced strong disagreements over how much of the turnpike's debt to guarantee and how to create oversight to prevent the turnpike and other agencies from exposing themselves to unnecessary financial risk in the future.

State Treasurer Timothy Cahill, who is the lone member of the finance advisory board not appointed by the governor, de clined to comment yesterday on the board's expanded powers. Cahill could see his authority over state finances diminished because of the governor's control over the finance board.

Since Patrick initially proposed a plan to bailout the turnpike, the treasurer has been urging the governor's office and the Legislature to assert stronger oversight of the turnpike and other entities in exchange for the state's financial backing.

For the past three decades, the finance board has been largely inactive and has regularly failed to produce an annual report on state borrowing, which is its primary function under current state law, officials said.

The legislation approved last week expands the board's powers by allowing it to enact regulations governing the way state agencies manage their debt and investments. For example, the board could require state agencies to seek more thorough consultation when entering into complex transactions that could expose them to heavy losses brought on by changes in the investment world.

In the case of the turnpike, state officials said the authority's managers entered into a series of interest rate swaps whose risks were not fully understood, and ultimately exposed the state to millions of dollars in unanticipated interest costs. Those costs are on pace to grow to $2 million in January, but the turnpike will now be able to use the higher credit rating of the state to refinance and lower borrowing costs.

Some lawmakers involved in negotiations over the bill said it does not go far enough to protect taxpayers. State Senator Mark Montigny, a New Bedford Democrat, wanted to require managers at state agencies to fully disclose taxpayers' exposure to their financial deals under "the pains and penalties of perjury." He said that language, which was struck from the bill, would have forced agency heads to eliminate the dysfunction and secrecy that he said has plagued projects like the $14.8 billion Big Dig.

"There's been a lot of corruption and ineptitude, and no one is going to be accountable unless they're sworn to it," he said. "I don't know how else you restore trust in the public's eyes."

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