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# **Maryland Department of Transportation Fiscal 2019 Budget Overview**

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**Department of Legislative Services  
Office of Policy Analysis  
Annapolis, Maryland**

**February 2018**



## ***Analysis in Brief***

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### **Budget Discussion**

***Operating Expense Forecast Does Not Conform to Budget Committee Directive:*** Committee narrative in the 2017 *Joint Chairmen's Report* directed the Maryland Department of Transportation (MDOT) to use, at a minimum, the five-year average annual increase for the period ending with the most recent actual spending when calculating operating expenses beyond the allowance year to be included in the Transportation Trust Fund (TTF) forecast. For fiscal 2018 to 2023, the average annual increase in departmental operating expenses included in MDOT's forecast is 2.4% whereas the most recent five-year average annual increase is 4.4%. **The Department of Legislative Services recommends amending the Transportation Article to add the requirement that for years three through six of the TTF forecast, operational expenses for the department increase by at least the most recent five-year average annual rate of change in the department's operational spending. This recommendation can be accomplished by adding a provision in the Budget Reconciliation and Financing Act of 2018.**

### **Issues**

***Proposed Traffic Relief Plan to Be Implemented as a Public-private Partnership:*** In September 2017, the Administration announced plans to add electronic toll lanes to I-270, I-495, and MD-295. The Maryland Transportation Authority would construct the lanes for MD-295, while a public-private partnership agreement would be used for the other two corridors. **If the General Assembly wishes to have meaningful input on how these projects proceed, it should restrict or withhold planning funds until the Administration commits to a process that recognizes the co-equal role of the General Assembly in establishing transportation policies that serve the best interests of the citizens of Maryland.**

***Bid to Attract Amazon Includes \$2 Billion in Transportation Funding:*** In January 2018, Amazon announced the selection of Montgomery County as one of 20 potential sites to serve as the location for its second headquarters. The Administration has announced an incentive package of over \$5 billion to help convince Amazon to choose Maryland. The Administration has indicated that the incentives comprise over \$3 billion in tax credits and \$2 billion in road and transit improvements. MDOT has not identified the components that make up the \$2 billion transportation package nor whether these components are already planned or would represent new spending. **MDOT should brief the committees on the transportation components of the incentive package and indicate how much of the proposed spending represents improvements already programmed in the CTP and how any new spending would be accommodated.**

## **Recommended Actions**

1. Add annual budget bill language requiring notification of capital budget changes.
2. Add annual budget bill language establishing a position cap.

## **Budget Reconciliation and Financing Act Recommendations**

1. Add a provision to the Transportation Article to require forecasts to reflect actual operating budget growth expenditures.

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**Maryland Department of Transportation**  
**Fiscal 2019 Budget Overview**

***Transportation Trust Fund Overview***

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The Transportation Trust Fund (TTF) is a nonlapsing special fund that provides funding for transportation. It consists of tax and fee revenues, operating revenues, bond proceeds, and fund transfers. The Maryland Department of Transportation (MDOT) issues bonds backed by TTF revenues and invests the TTF fund balance to generate investment income. The Maryland Transit Administration (MTA), the Motor Vehicle Administration, the Maryland Port Administration (MPA), and the Maryland Aviation Administration generate operating revenues that cover a portion of their operating expenditures.

The tax and fee revenues include motor fuel taxes, rental car sales taxes, titling taxes, vehicle registration fees, a portion of the corporate income tax, and other miscellaneous motor vehicle fees. A portion of these revenues is credited to the Gasoline and Motor Vehicle Revenue Account (GMVRA). Of the revenues deposited into the GMVRA, distributions are made to local jurisdictions and the TTF. The funds retained by the TTF support the capital program, debt service, and operating costs.

**Fiscal 2017 TTF Revenue Closeout**

As shown in **Exhibit 1**, the TTF ended fiscal 2017 with a fund balance of \$163 million, an amount \$38 million higher than the \$125 million projected ending balance. Both revenues and expenditures were higher than projected.

Spending was a net \$114 million more than estimated. Increased capital spending exceeded projections by \$123 million, with almost half the increase due to the unplanned purchase of property by MPA. This increase was partially offset by the use of nonbudgeted bond sale premium revenue to pay a portion of fiscal 2017 debt service costs. Nonbond-related revenues exceeded projections by a net \$52 million.

**Exhibit 1**  
**Fiscal 2017 Transportation Trust Fund Closeout**  
**State Funds Only**  
**(\$ in Millions)**

	<u><b>Projected</b></u>	<u><b>Actual</b></u>	<u><b>Variance</b></u>
<b>Starting Fund Balance</b>	<b>\$126</b>	<b>\$126</b>	<b>\$0</b>
<b>Revenues</b>			
Motor Fuel Taxes	\$1,040	\$1,079	\$39
Titling Taxes	882	886	4
Corporate Income Tax, Registrations, and Misc.			
Motor Vehicle Administration Fees	832	839	7
Sales Tax – Rental Vehicles	31	32	1
MDOT Operating Revenues (MAA, MPA, and MTA)	445	441	-4
Other Receipts and Adjustments	113	120	7
Bond Proceeds and Premiums	623	723	100
<b>Total Revenues</b>	<b>\$3,966</b>	<b>\$4,118</b>	<b>\$152</b>
<b>Uses of Funds</b>			
MDOT Operating Expenditures	\$1,850	\$1,854	\$4
MDOT Capital Expenditures	1,577	1,700	123
MDOT Debt Service	300	288	-12
Highway User Revenues	173	175	2
Other Expenditures	67	65	-3
<b>Total Expenditures</b>	<b>\$3,967</b>	<b>\$4,082</b>	<b>\$114</b>
<b>Final Ending Fund Balance</b>	<b>\$125</b>	<b>\$163</b>	<b>\$38</b>

MAA: Maryland Aviation Administration  
MDOT: Maryland Department of Transportation  
MPA: Maryland Port Administration  
MTA: Maryland Transit Administration

Note: Numbers may not sum to total due to rounding.

Source: Maryland Department of Transportation

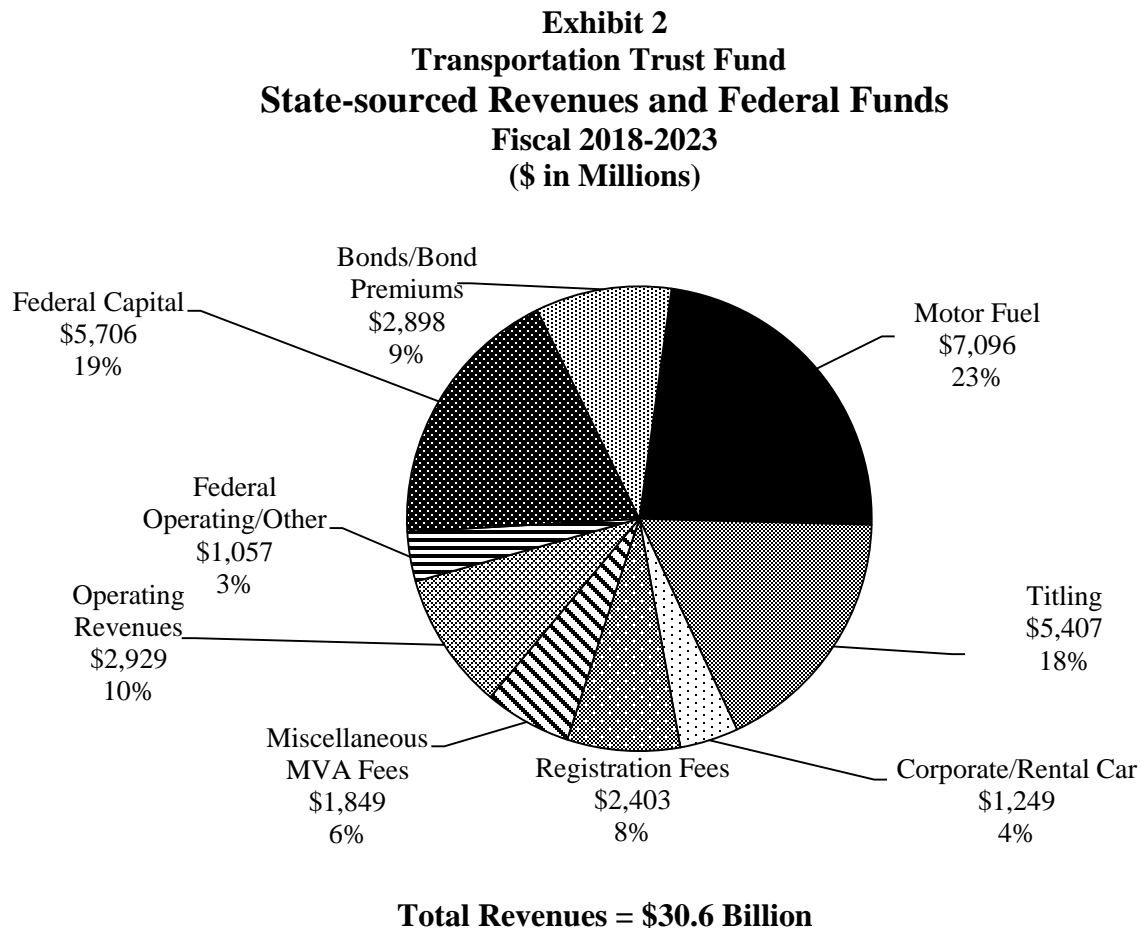
**Fiscal 2018 Year-to-date Revenue Receipts**

Fiscal 2018 revenue attainment for the TTF's three largest revenue sources – motor fuel taxes, titling taxes, and vehicle registrations – is exceeding projections based on five-year average attainment

rates. With collections recorded through November 2017, combined attainment was up \$24.8 million. Motor fuel tax revenues were \$10.5 million higher than projected, motor vehicle titling tax revenues were \$4.9 million higher, and motor vehicle registration revenues were \$9.4 million higher. This puts attainment on pace to exceed estimates by over \$67.0 million for all of fiscal 2018. It is worth noting, however, that at this same point in fiscal 2016, attainment for these three sources was on track to end the year \$74.0 million above estimates but actually ended the year \$16.7 million lower than the estimate.

## **Fiscal 2018 through 2023 Revenues**

**Exhibit 2** shows that the TTF's largest revenue sources in the fiscal 2018 to 2023 forecast period are the motor fuel tax, federal capital aid, titling tax, and operating revenues, which collectively represent 69.1% of all projected revenues. In support of the capital program, MDOT is projecting \$2.9 billion in bond proceeds and bond premiums, representing 9.5% of projected revenues.



MVA: Motor Vehicle Administration

Source: Maryland Department of Transportation, Fiscal 2018-2023 *Transportation Trust Fund Forecast*, January 2018

## Six-year Transportation Trust Fund Forecast Summary

**Exhibit 3** shows the TTF forecast summary, including the fiscal 2017 actual and the fiscal 2018 to 2023 projections. It reflects the decision of MDOT to increase the target closing balance beginning in fiscal 2019 to \$150 million from the \$125 million used in the earlier years of the forecast. The increased fund balance is intended to accommodate working cash flow requirements during the year.

### Exhibit 3 Transportation Trust Fund Forecast Summary Fiscal 2017-2023 (\$ in Millions)

	<u>Actual</u> <u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Total</u> <u>2018-23</u>
<b>Opening Fund Balance</b>	<b>\$126</b>	<b>\$163</b>	<b>\$125</b>	<b>\$150</b>	<b>\$150</b>	<b>\$150</b>	<b>\$150</b>	
<b>Closing Fund Balance</b>	<b>\$163</b>	<b>\$125</b>	<b>\$150</b>	<b>\$150</b>	<b>\$150</b>	<b>\$150</b>	<b>\$150</b>	
<b>Net Revenues</b>								
Taxes and Fees	\$2,594	\$2,563	\$2,649	\$2,705	\$2,776	\$2,853	\$2,946	\$16,491
Operating and Miscellaneous	655	654	625	619	665	707	716	3,986
<b>Subtotal</b>	<b>\$3,250</b>	<b>\$3,217</b>	<b>\$3,274</b>	<b>\$3,324</b>	<b>\$3,441</b>	<b>\$3,560</b>	<b>\$3,662</b>	<b>\$20,477</b>
Bond Proceeds	\$650	\$555	\$710	\$400	\$270	\$420	\$465	\$2,820
Bond Premiums	73	78	0	0	0	0	0	78
Fund Balance Increase/Use	-37	38	-25	0	0	0	0	13
<b>Total Net Revenues</b>	<b>\$3,936</b>	<b>\$3,888</b>	<b>\$3,959</b>	<b>\$3,724</b>	<b>\$3,711</b>	<b>\$3,980</b>	<b>\$4,127</b>	<b>\$23,388</b>
<b>Expenditures</b>								
Debt Service	\$288	\$340	\$334	\$354	\$409	\$457	\$491	\$2,387
Operating Budget	1,948	2,022	2,074	2,127	2,181	2,245	2,273	12,922
Purple Line Availability Payments	0	0	0	0	0	19	131	150
State Capital	1,700	1,526	1,549	1,242	1,122	1,259	1,232	7,929
<b>Total Expenditures</b>	<b>\$3,936</b>	<b>\$3,888</b>	<b>\$3,959</b>	<b>\$3,724</b>	<b>\$3,711</b>	<b>\$3,980</b>	<b>\$4,127</b>	<b>\$23,388</b>
<b>Debt</b>								
Debt Outstanding	\$2,578	\$2,912	\$3,422	\$3,617	\$3,630	\$3,746	\$3,879	
Debt Coverage – Net Income	3.6	3.5	2.8	2.6	2.5	2.6	2.6	
<b>Local Highway User Revenue</b>	<b>\$176</b>	<b>\$174</b>	<b>\$178</b>	<b>\$179</b>	<b>\$182</b>	<b>\$184</b>	<b>\$188</b>	<b>\$1,085</b>
<b>Capital Summary</b>								
State Capital\HUR Capital	\$1,680	\$1,526	\$1,549	\$1,242	\$1,122	\$1,259	\$1,232	\$7,929
Net Federal Capital (Cash Flow)	858	1,078	1,129	1,075	966	813	645	5,706
<b>Total Capital Expenditures</b>	<b>\$2,558</b>	<b>\$2,604</b>	<b>\$2,678</b>	<b>\$2,317</b>	<b>\$2,088</b>	<b>\$2,072</b>	<b>\$1,877</b>	<b>\$13,635</b>
GARVEE Debt Service	\$87	\$86	\$86	\$51	\$0	\$0	\$0	\$226

GARVEE: Grant Anticipation Revenue Vehicle

HUR: Highway User Revenues

Note: Numbers may not sum to total due to rounding.

Source: Maryland Department of Transportation, Fiscal 2018-2023 *Transportation Trust Fund Forecast*, January 2018; Department of Legislative Services



Revenues are first used to pay debt service and then cover the department's operating expenses. Remaining revenues are used for the capital program, which is also funded through the sale of bonds and with federal aid. Over the six-year forecast period, bond proceeds and premiums are projected to cover almost 19.6% of all capital expenditures. The projected issuance of debt will increase the amount of debt outstanding from \$2.6 billion in fiscal 2017 to \$3.9 billion by the end of fiscal 2023. Bond covenants require MDOT to maintain a net income to debt service ratio of at least 2.0 and the department has an administrative practice to maintain a ratio of no less than 2.5. As shown in Exhibit 3, the debt service coverage ratio is 3.5 in fiscal 2018, declines to the 2.5 minimum target level in fiscal 2021, and rises to 2.6 for the final two years of the forecast. By fiscal 2022, debt service will consume 13.4% of net revenues to the department.

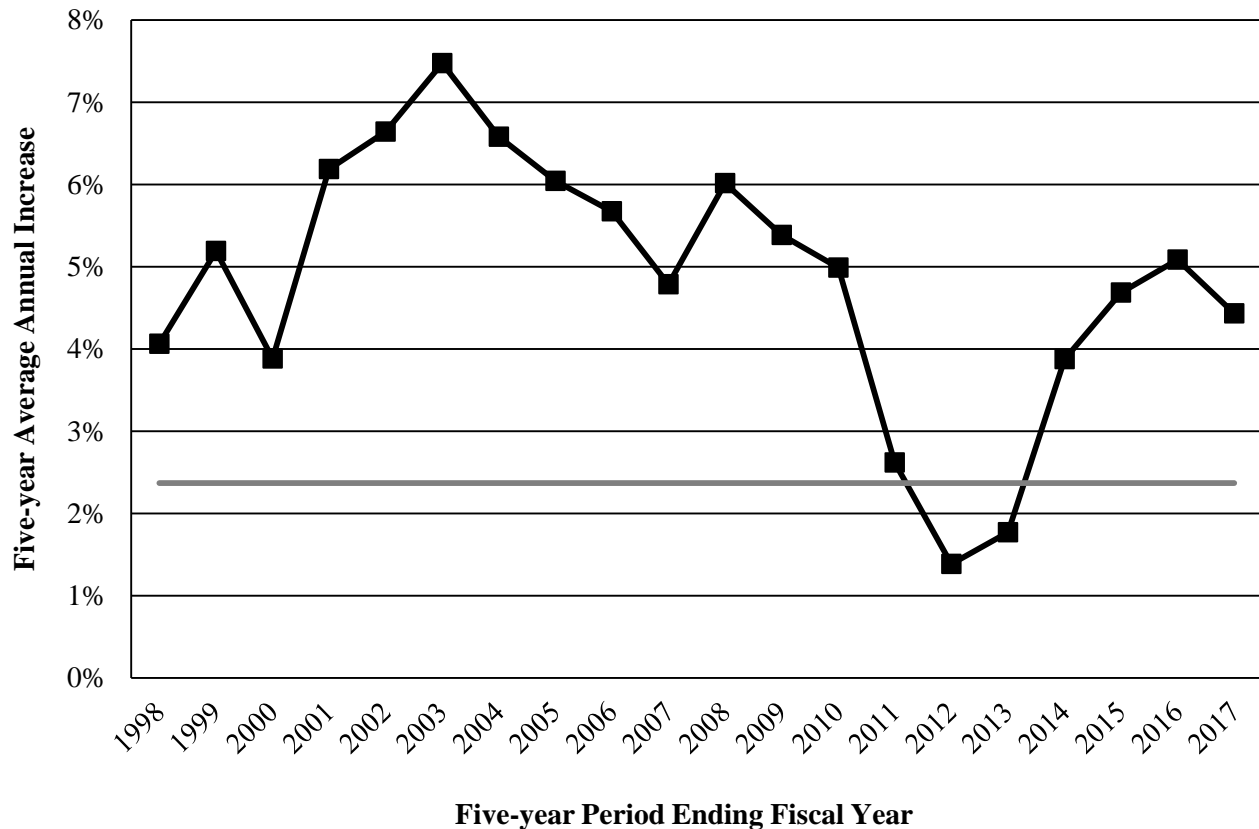
### **Operating Expense Forecast Does Not Conform to Budget Committee Directive**

Committee narrative in the 2017 *Joint Chairmen's Report* directed MDOT to use, at a minimum, the five-year average annual increase for the period ending with the most recent actual spending when calculating operating expenses beyond the allowance year to be included in the TTF forecast. For fiscal 2018 to 2023, the average annual increase in departmental operating expenses included in MDOT's forecast is 2.4%. As shown in **Exhibit 4**, the five-year average annual increase has dipped below 2.4% only twice since fiscal 1998, and those five-year averages encompass the year prior to and the years of the Great Recession. Applying the five-year average annual increase for the period ending with fiscal 2017 (4.4%) to MDOT's fiscal 2020 to 2023 operating expenses would result in a total increase in operating expenses for this period of \$431 million, or 3.3% more than MDOT included in its forecast.

Underestimating the level of operating expenses results in capital spending levels that are overstated, since operating expenses and debt service are deducted from available revenues to determine the amounts available for the capital program. By understating the likely amount of operating spending in the forecast, MDOT was able to program an additional \$783 million in capital spending (comprising \$431 million not programmed for operating expenses, \$419 million in bond funds for which capacity to issue would not have existed due to debt service coverage ratios reaching the minimum acceptable level in fiscal 2021 of the MDOT forecast, and a \$66 million offset representing debt service savings on the lower bond issuance level.)

It is important to note that complying with the directive to forecast operating expenses using the most recent five-year average annual increase would have no impact on what will actually be spent for operating or capital purposes. It would simply result in a more accurate depiction of the capital spending that is likely to occur in the latter years of the forecast. MDOT is in no way limited by this directive in what it can include in any budget year. Furthermore, if MDOT is able to limit operational spending to the levels that it is projecting over the next five years, this issue will disappear because the five-year average annual increase will match its forecasted increases.

**Exhibit 4**  
**Maryland Department of Transportation**  
**Operating Expenses – Five-year Average Annual Change**  
**For Five-year Periods Ending Fiscal 1998-2017**



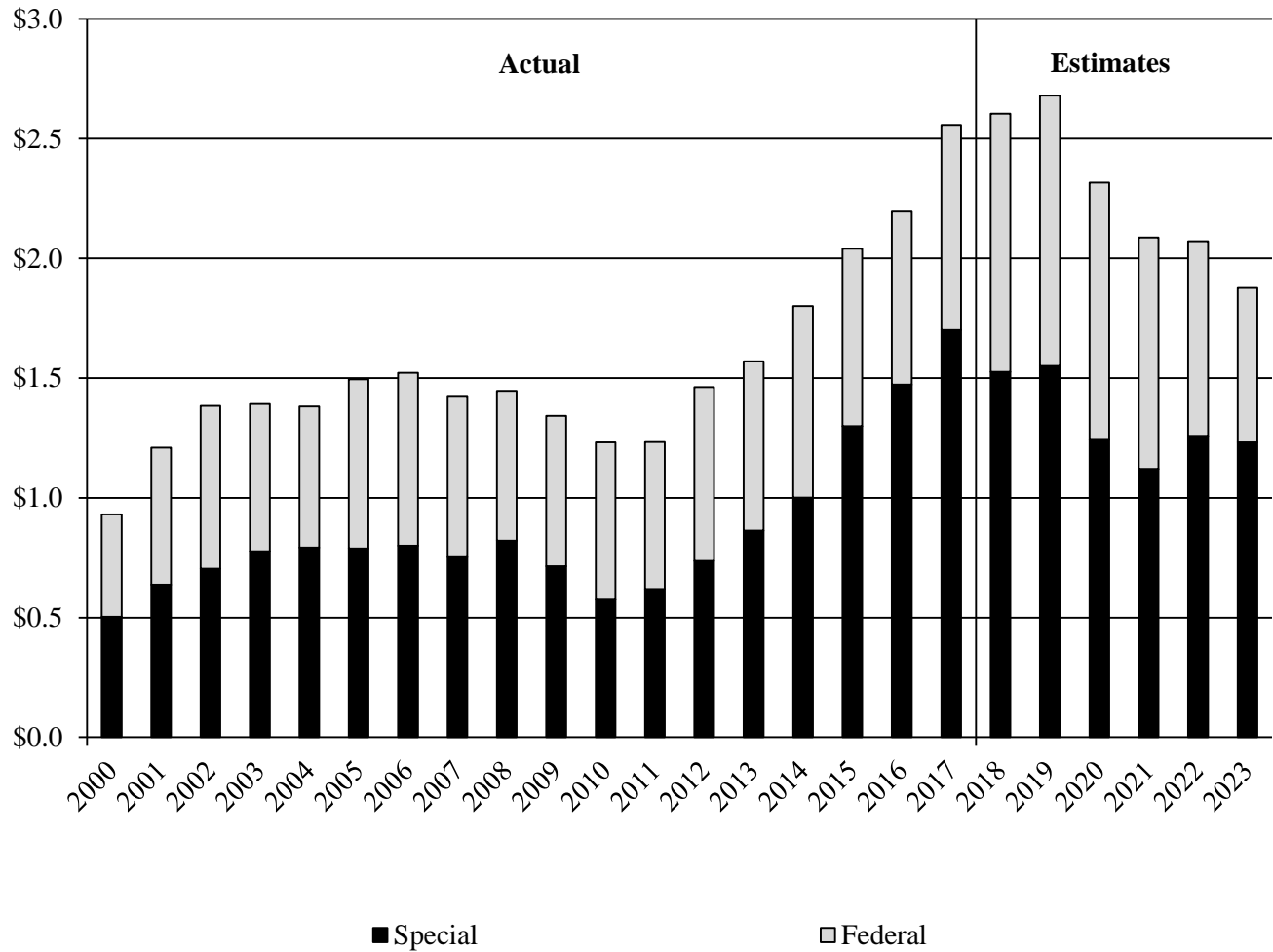
Source: Maryland Department of Transportation, *Transportation Trust Fund Forecasts*, 1994-2018

The Department of Legislative Services (DLS) recommends amending the Transportation Article to add the requirement that for years three through six of the TTF forecast, operational expenses for the department increase by at least the most recent five-year average annual rate of change in the department's operational spending. This recommendation can be accomplished by adding a provision in the Budget Reconciliation and Financing Act of 2018.

### Capital Spending Trends

**Exhibit 5** shows the level of planned capital spending compared with past years. Combined special and federal capital spending exceeded \$2.0 billion for the first time in fiscal 2015. It is projected to peak in fiscal 2019 at \$2.7 billion and then decline through the rest of the forecast.

**Exhibit 5**  
**Capital Spending Trends**  
**Fiscal 2000-2023**  
**(\$ in Billions)**



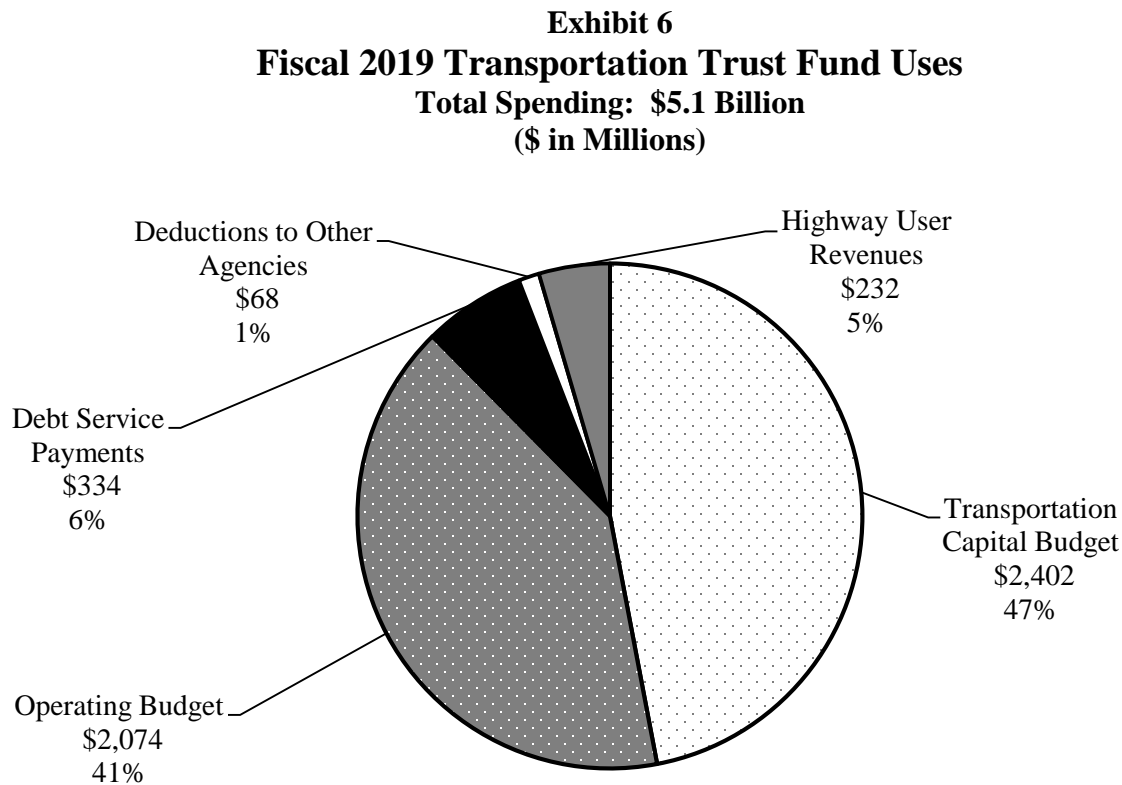
Source: Maryland Department of Transportation; Department of Legislative Services

## Budget Overview

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**Exhibit 6** shows all expenditures from the TTF by category for fiscal 2019. The capital program comprises nearly half the spending, and the operating budget for the department comprises an additional 41% of total spending. The remainder of TTF expenditures go toward debt service on Consolidated Transportation Bonds (CTB), the share of the Highway User Revenues (HUR) distributed to counties and municipalities, and deductions to other State agencies.

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Note: The chart includes special funds from the Transportation Trust Fund and federal funds only. It excludes \$224 million in other funding for the capital program. For illustrative purposes, other funding can include the Maryland Transportation Authority, passenger facility charges, customer facility changes, local county participation, pass-through federal funding for the Washington Metropolitan Area Transit Authority, and funding from the Transportation Security Administration.

The \$54 million capital grant to local governments is included in the Highway User Revenues slice and deducted from the Transportation Capital Budget slice.

Source: Maryland Department of Transportation, *Transportation Trust Fund Forecast*, January 2018

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## **Fiscal 2018 Actions**

### **Across-the-board Employee and Retiree Health Insurance Reduction**

The budget bill includes an across-the-board reduction for employee and retiree health insurance in fiscal 2018 to reflect a surplus balance in the fund. MDOT's share of this reduction is \$8,292,612 in special funds and \$343,195 in federal funds.

## **Proposed Budget**

### **General Salary Increase**

The fiscal 2019 allowance includes funds for a 2.0% general salary increase for all State employees, effective January 1, 2019. These funds are budgeted in the Department of Budget and Management's statewide program and will be distributed to agencies during the fiscal year. MDOT's share of the general salary increase is \$4,184,016 in special funds and \$215,956 in federal funds. In addition, employees will receive another 0.5% increase and a \$500 bonus effective April 1, 2019, if actual fiscal 2018 general fund revenues exceed the December 2017 estimate by \$75 million. These funds have not been budgeted. The Administration will need to process a deficiency appropriation if revenues are \$75 million more than projected.

**Exhibit 7** shows the operating and transportation capital budgets for the modal administrations, along with amounts budgeted for debt service and local transportation grants from the fiscal 2017 actual through the 2019 allowance. Capital grants to local governments have been reflected in the Local Highway User Grants line and subtracted from the capital budget line for the Secretary's Office. The fiscal 2018 amounts have been adjusted to reflect reductions contained in Section 19 of the budget to funds budgeted for health insurance subsidies, and the fiscal 2019 amounts have been adjusted to reflect the general salary increase.

MDOT's total fiscal 2019 allowance of \$5.3 billion is an increase of \$143.1 million (2.8%) over the current year working appropriation. The modal operating portion of the allowance increases \$56.3 million (2.8%); local HUR grant funding, including capital grants to local governments, increases \$18.0 million (8.4%); and debt service increases \$5.1 million (1.5%). The allowance for the transportation capital budget increases by \$63.7 million (2.5%) from the current year working appropriation. Special funds increase by \$91.2 million (2.3%) and federal funds increase by \$51.9 million (4.4%).

**Exhibit 7**  
**Transportation Budget Overview**  
**Fiscal 2017-2019**

	<b><u>Actual</u></b> <b><u>2017</u></b>	<b><u>Working App.</u></b> <b><u>2018<sup>1</sup></u></b>	<b><u>Allowance</u></b> <b><u>2019<sup>1</sup></u></b>	<b><u>\$ Change</u></b> <b><u>2018-2019</u></b>	<b><u>% Change</u></b> <b><u>2018-19</u></b>
<b>Operating</b>					
Secretary's Office	\$86,009,815	\$88,147,293	\$93,156,458	\$5,009,165	5.7%
WMATA	321,349,368	365,284,953	366,027,953	743,000	0.2%
State Highway Administration	264,038,571	276,085,118	294,566,676	18,481,557	6.7%
Port Administration	46,841,516	51,312,243	50,891,478	-420,764	-0.8%
Motor Vehicle Administration	201,545,576	204,386,450	205,367,050	980,601	0.5%
Maryland Transit Administration	840,446,169	827,379,065	851,086,633	23,707,568	2.9%
Aviation Administration	187,965,359	193,743,208	201,548,680	7,805,471	4.0%
<b>Subtotal</b>	<b>\$1,948,196,374</b>	<b>\$2,006,338,330</b>	<b>\$2,062,644,928</b>	<b>\$56,306,598</b>	<b>2.8%</b>
<b>Debt Service</b>	<b>\$287,891,525</b>	<b>\$328,755,010</b>	<b>\$333,815,631</b>	<b>\$5,060,621</b>	<b>1.5%</b>
<b>Local Highway User Grants</b>	<b>\$200,102,252</b>	<b>\$213,892,497</b>	<b>\$231,868,999</b>	<b>\$17,976,502</b>	<b>8.4%</b>
<b>Capital</b>					
Secretary's Office	\$67,613,953	\$45,763,079	\$50,443,013	\$4,679,934	10.2%
WMATA	126,846,888	155,922,000	155,922,000	0	0.0%
State Highway Administration	1,443,736,310	1,510,538,854	1,448,129,994	-62,408,860	-4.1%
Port Administration	172,922,312	101,433,743	126,978,301	25,544,558	25.2%
Motor Vehicle Administration	18,252,389	21,362,138	37,584,101	16,221,963	75.9%
Maryland Transit Administration	576,470,173	604,422,619	746,854,174	142,431,555	23.6%
Aviation Administration	127,505,268	123,599,495	60,859,407	-62,740,088	-50.8%
<b>Subtotal</b>	<b>\$2,533,347,293</b>	<b>\$2,563,041,928</b>	<b>\$2,626,770,990</b>	<b>\$63,729,062</b>	<b>2.5%</b>
<b>Total of All Funds</b>					
Special Fund	\$4,016,852,616	\$3,936,374,890	\$4,027,579,981	\$91,205,091	2.3%
Federal Fund	952,684,828	1,175,652,875	1,227,520,567	51,867,692	4.4%
<b>Grand Total</b>	<b>\$4,969,537,444</b>	<b>\$5,112,027,765</b>	<b>\$5,255,100,548</b>	<b>\$143,072,783</b>	<b>2.8%</b>

WMATA: Washington Metropolitan Area Transit Authority

<sup>1</sup> Fiscal 2018 is adjusted to reflect reductions made to health insurance subsidy funding in Section 19 of the budget bill, and fiscal 2019 is adjusted to reflect the general salary increase.

Note: Capital grants to local governments have been added to the Local Highway User Grants line and subtracted from the capital line for the Secretary's Office.

Source: Maryland State Budget

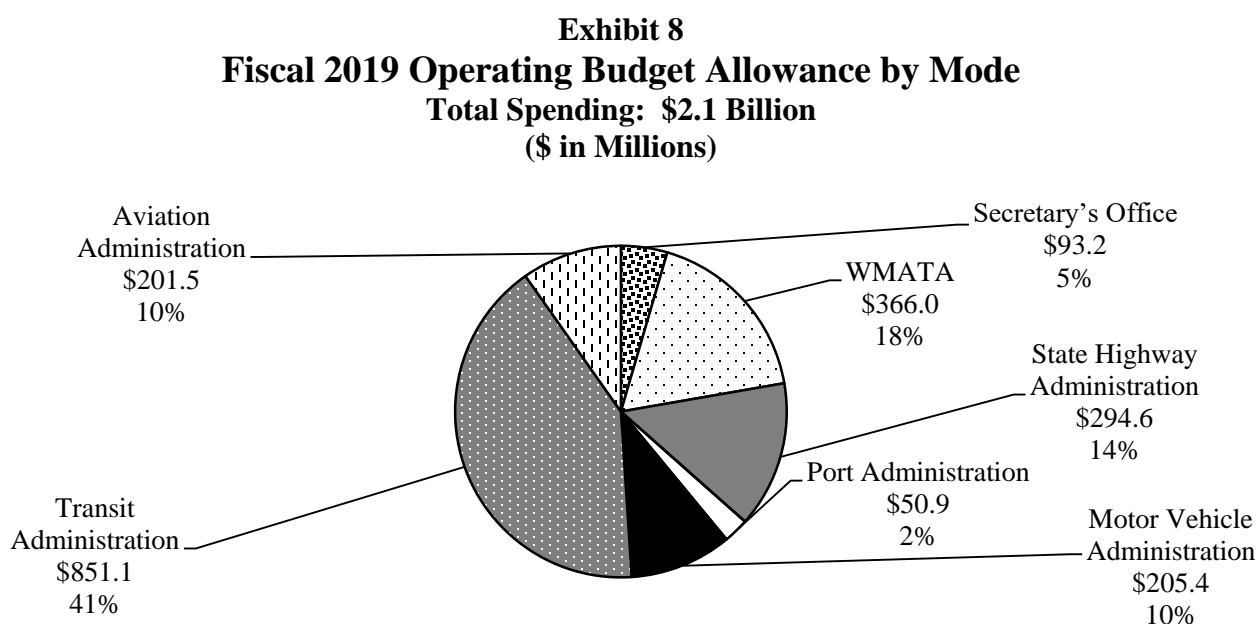
## Operating Budget Analysis

MDOT's operating allowance includes funding for the operations of each of the modes, as well as debt service and local aid through HURs. MDOT's fiscal 2019 operating budget allowance totals just over \$2.6 billion, an increase of \$79.3 million compared to the current year working appropriation. Almost 78.5% of the operating allowance is used for the operating budget of each of the modes. Debt service accounts for 12.7% of operational spending, and local HUR/capital grants comprise almost 8.8% of operational spending.

### Fiscal 2019 Proposed Budget

#### Operating Programs

The fiscal 2019 allowance for the modal operating budgets, adjusted to reflect the general salary increase, totals \$2.1 billion, an increase of \$56.3 million, or 2.8%, over the fiscal 2018 working appropriation. The State Highway Administration (SHA) receives the largest percent increase at 6.7% (\$18.5 million) while the largest dollar increase occurs in MTA (\$23.7 million or 2.9%). **Exhibit 8** shows fiscal 2019 operating budget allowances by mode and provides the percentage of total operating spending that the budget for each mode represents. Combined MTA and the Washington Metropolitan Area Transit Authority (WMATA) transit spending represents the largest share of the MDOT operating budget at 59.0%.



WMATA: Washington Metropolitan Area Transit Authority

Source: Department of Legislative Services; Maryland State Budget Books, Fiscal 2019, Volume 1

## Personnel

As shown in **Exhibit 9**, the fiscal 2019 allowance contains 9,057.5 regular positions – unchanged from the fiscal 2018 working appropriation. Four human resource positions are transferred in the allowance from MPA to the Secretary’s Office as part of a consolidation of human resource functions. Contractual full-time equivalents are also unchanged between the working appropriation and the allowance.

### Exhibit 9 Regular and Contractual Full-time Equivalents Operating and Capital Programs Fiscal 2017-2019

	<u>2017</u>	<u>Working 2018</u>	<u>Allowance 2019</u>	<u>Change 2018-19</u>	<u>% Change 2018-19</u>
<b>Regular Positions</b>					
Secretary’s Office	317.5	315.5	319.5	4.0	1.3%
State Highway Administration	2,976.5	2,959.5	2,959.5	0.0	0.0%
Port Administration	213.0	213.0	209.0	-4.0	-1.9%
Motor Vehicle Administration	1,714.5	1,707.5	1,707.5	0.0	0.0%
Transit Administration	3,389.5	3,367.5	3,367.5	0.0	0.0%
Aviation Administration	496.5	494.5	494.5	0.0	0.0%
<b>Subtotal</b>	<b>9,107.5</b>	<b>9,057.5</b>	<b>9,057.5</b>	<b>0.0</b>	<b>0.0%</b>
<b>Contractual Positions</b>					
Secretary’s Office	6.0	10.0	10.0	0.0	0.0%
State Highway Administration	17.0	88.0	88.0	0.0	0.0%
Port Administration	1.2	1.2	1.2	0.0	0.0%
Motor Vehicle Administration	0.0	6.5	6.5	0.0	0.0%
Transit Administration	16.0	16.0	16.0	0.0	0.0%
Aviation Administration	0.5	0.5	0.5	0.0	0.0%
<b>Subtotal</b>	<b>40.7</b>	<b>122.2</b>	<b>122.2</b>	<b>0.0</b>	<b>0.0%</b>

Source: Department of Budget and Management

## Debt Service

The fiscal 2019 allowance for debt service payments is \$333.8 million, an increase of \$5.1 million, or 1.5%, from the fiscal 2018 working appropriation. The increase is the result of debt service on currently outstanding debt plus the estimated debt service due to the planned issuance of an additional \$130.0 million in bonds in fiscal 2018 (which will bring total issuances in fiscal 2018 to \$555.0 million) and \$710.0 million in bonds in fiscal 2019.



At the end of fiscal 2019, CTB debt outstanding is projected to total \$3.4 billion, which remains below the statutory cap of \$4.5 billion. The MDOT forecast indicates that bond coverage ratios will be adequate throughout the forecast period, although the fiscal 2021 ratio will be at the minimum acceptable level.

### **Local Highway User Revenues**

HURs are derived from a portion of tax and fee revenues that are deposited into the GMVRA and subsequently distributed among the TTF, Baltimore City, counties, and municipalities. The local share of HUR in fiscal 2019 is \$178.1 million, a \$2.6 million increase from the fiscal 2018 working appropriation and a reflection of the higher estimated revenues for fiscal 2019.

In addition to the HUR distribution, local governments received capital grants totaling \$25.0 million in fiscal 2017, \$38.4 million in fiscal 2018, and the allowance contains capital grants to local governments totaling \$53.7 million. The combined HUR and capital grant amount in fiscal 2019 equals approximately 12.5% of estimated HUR revenues.

**Exhibit 10** provides a summary of HUR and capital grant distributions for fiscal 2017 to 2019. The capital grants, when added to the base HUR distributions, change the relative allocation percentages among the counties, municipalities, and Baltimore City. Under the statutory allocation of HUR, Baltimore City receives 80.2% of total local HUR, counties receive 15.6%, and municipalities receive 4.2%. The combined HUR/capital grant percentages are 64.0% for Baltimore City, 24.0% for counties, and 12.0% for municipalities.

**Exhibit 10**  
**Distribution of Highway User Revenues and Local Transportation Capital Grants**  
**Fiscal 2017-2019**

	<u>Percent Share</u>	<u>Actual Fiscal 2017</u>	<u>Working Fiscal 2018</u>	<u>Allowance Fiscal 2019</u>
<b>Highway User Revenues</b>				
MDOT	90.4%	\$1,648,879,540	\$1,652,639,464	\$1,677,415,392
Local Share	9.6%	175,102,252	175,501,536	178,132,608
<b>Total HUR</b>	<b>100.0%</b>	<b>\$1,823,981,792</b>	<b>\$1,828,141,000</b>	<b>\$1,855,548,000</b>
<b>HUR Local Distribution</b>				
Baltimore City	7.7%	\$140,446,598	\$140,766,857	\$142,877,196
Counties	1.5%	27,359,727	27,422,115	27,833,220
Municipalities	0.4%	7,295,927	7,312,564	7,422,192
<b>Total</b>	<b>9.6%</b>	<b>\$175,102,252</b>	<b>\$175,501,536</b>	<b>\$178,132,608</b>
<b>Local Transportation Capital Grants</b>				
Baltimore City		\$2,000,000	\$5,484,423	\$5,558,937
Counties		4,000,000	12,796,987	27,794,685
Municipalities		19,000,000	20,109,551	20,382,769
<b>Total</b>		<b>\$25,000,000</b>	<b>\$38,390,961</b>	<b>\$53,736,391</b>
<b>Total Local HUR and Capital Grants</b>		<b>\$200,102,252</b>	<b>\$213,892,497</b>	<b>\$231,868,999</b>

MDOT: Maryland Department of Transportation

HUR: Highway User Revenues

Source: Maryland State Budget Books, Fiscal 2019, Volume 1

## ***PAYGO Capital Budget Analysis***

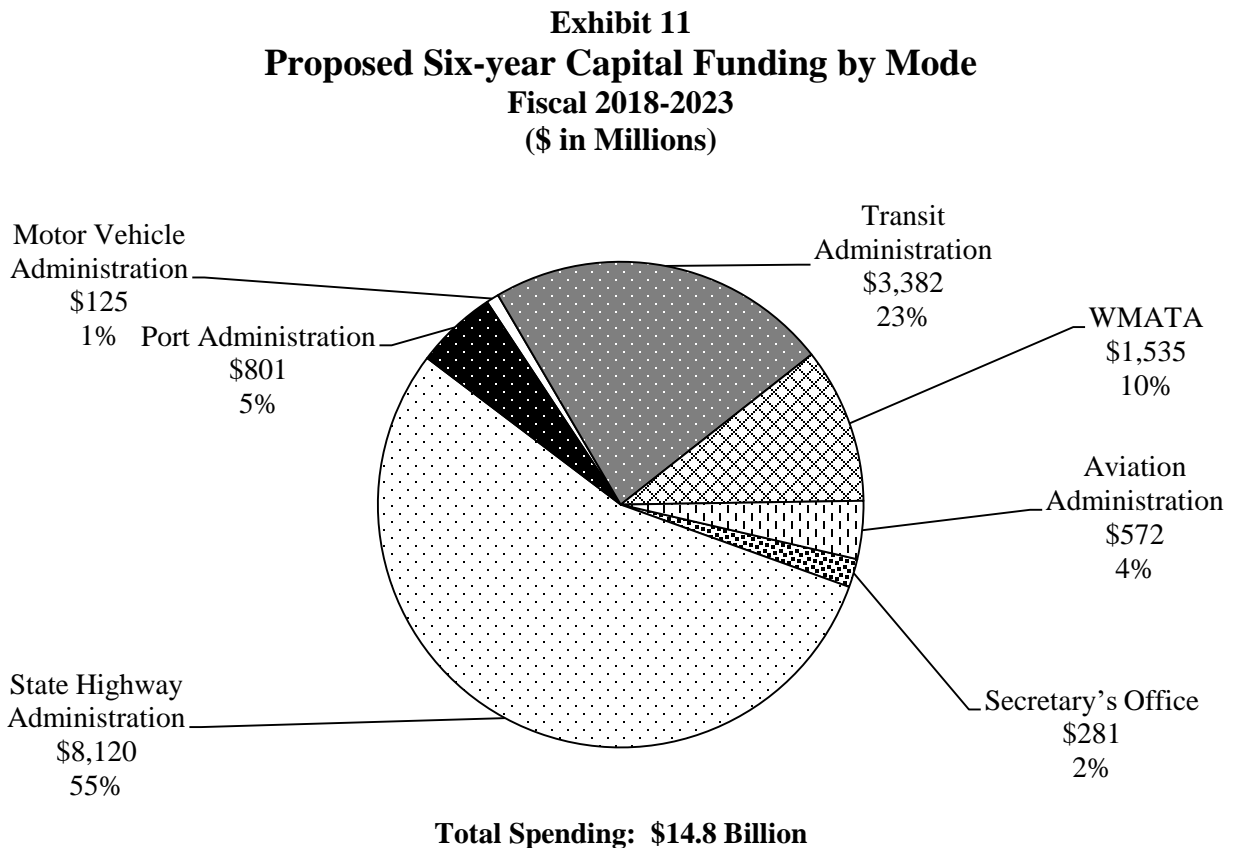
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The *Consolidated Transportation Program* (CTP) is issued annually and is posted on the MDOT website. The CTP provides a description of major projects proposed by MDOT for development and evaluation or construction over the next six-year period.

### **Fiscal 2018-2023 CTP**

The fiscal 2018-2023 CTP totals \$14.8 billion for projects supported by State, federal, and other funds. This is a decrease of approximately \$676 million from the fiscal 2017-2022 CTP (adjusted to include funds reserved for local capital grants but not included in the CTP beyond the budget year). **Exhibit 11** shows the funding level for each mode for the current six-year period. SHA accounts for over half of the capital program at 55%. Transit, including WMATA, accounts for 33% of capital spending.

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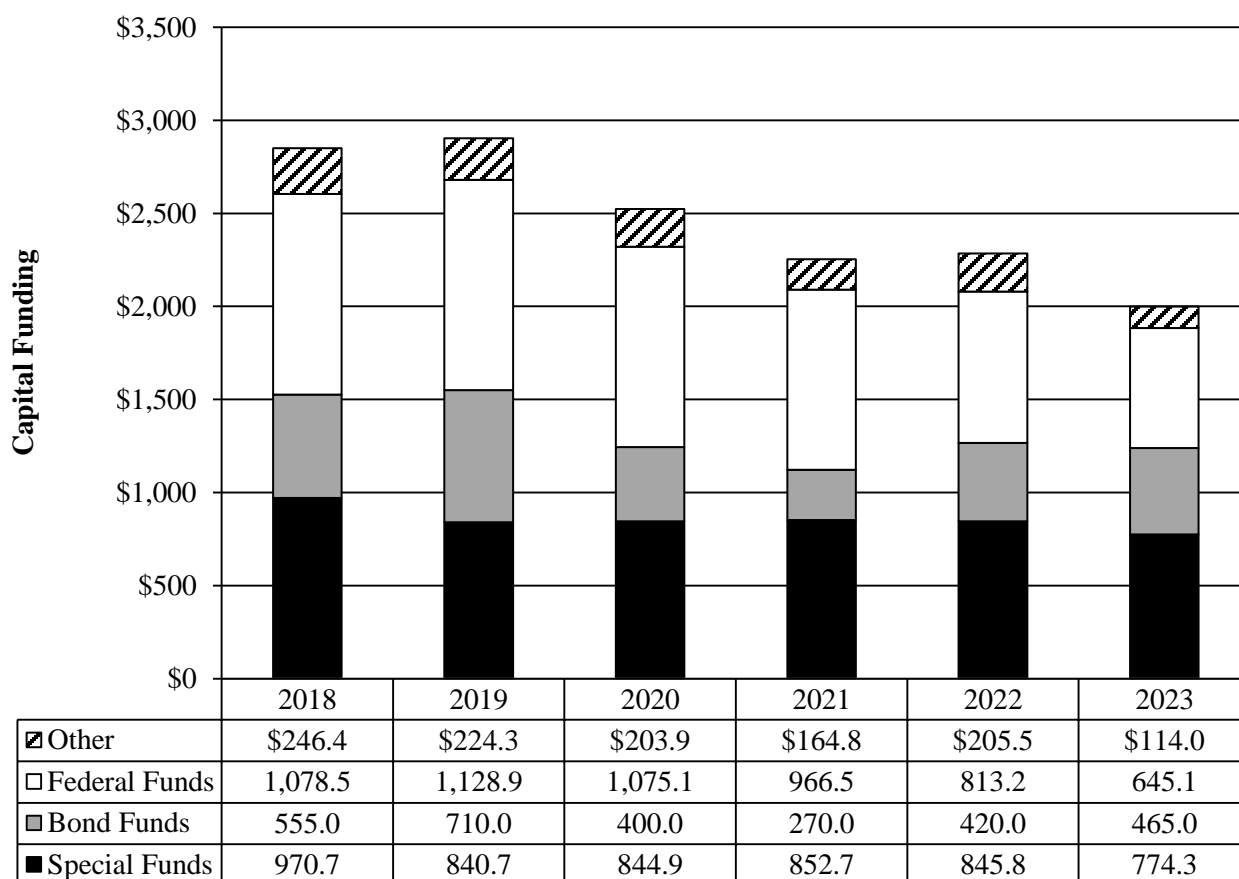
WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation, *2018-2023 Consolidated Transportation Program*

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**Exhibit 12** shows the level of special, federal, and other funds for each year of the capital program. Special funds, including bond funds, make up the largest share of the capital program at 53.7%. Federal funds comprise 38.5% of the six-year total.

**Exhibit 12**  
**Proposed Capital Funding by Year and Source**  
**Fiscal 2018-2023**  
**(\$ in Millions)**



Source: Maryland Department of Transportation, 2018-2023 Consolidated Transportation Program

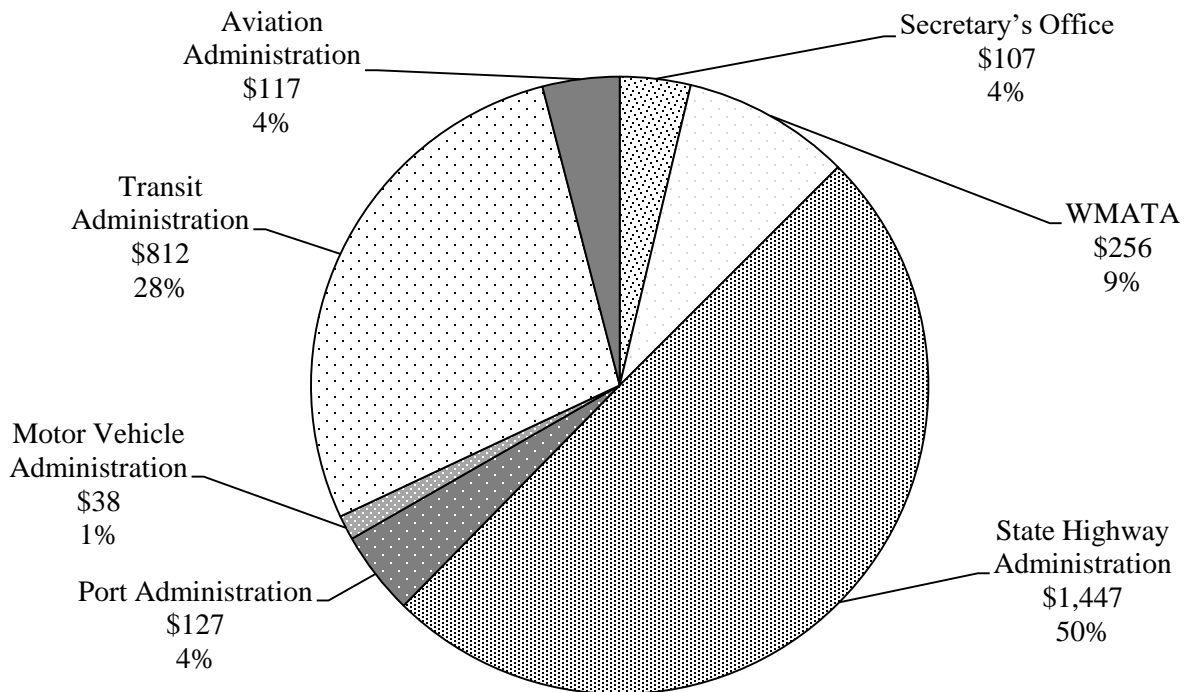
## Fiscal 2019 Capital Budget

**Exhibit 13** shows the MDOT fiscal 2019 capital budget by mode. Including other funds that do not flow through the MDOT budget, fiscal 2019 capital spending is projected at \$2.9 billion, an increase of \$53.2 million (1.9%) from the planned capital spending for the current year. Special funds

and federal funds increase by \$25.0 million (1.6%) and \$50.4 million (4.7%), respectively, while other funds decrease by \$22.1 million (9.0%).

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**Exhibit 13**  
**Fiscal 2019 Capital Funding by Mode**  
(\$ in Millions)



**Total Spending: \$2.9 Billion**

WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation, 2018-2023 Consolidated Transportation Program

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## **Other Funds**

The fiscal 2018-2023 CTP includes \$224.3 million in other funds for fiscal 2019 as shown in **Exhibit 14**. This funding comprises passenger and customer facility charges for projects at the Baltimore-Washington International Thurgood Marshall Airport, county participation, private funds, and federal funds received directly by WMATA.

**Exhibit 14**  
**Fiscal 2019 Other Funds**  
(\$ in Thousands)

<b><u>Project</u></b>	<b><u>Other Source</u></b>	<b><u>2019 Funding</u></b>
Shuttle Bus Service Fleet Replacement	Customer Facility Charges	\$16,000
Midfield Cargo Area Improvements	Passenger Facility Charges	10,000
BWI Airfield Lighting Vault Relocation	Passenger Facility Charges	5,348
Restroom Improvement Program	Passenger Facility Charges	4,438
Concourse D HVAC Replacement	Passenger Facility Charges	4,251
BWI Federal Inspection Service Hall Reconfiguration	Passenger Facility Charges	2,673
Terminal Electronic Wayfinding Signage	Passenger Facility Charges	2,500
Terminal AB 737-800 Modifications	Passenger Facility Charges	1,873
Dispatch System Upgrade	Passenger Facility Charges	1,750
Mobile Lounge Refurbishment	Passenger Facility Charges	1,580
Concourse A/B Anti-Backflow Improvements	Passenger Facility Charges	1,349
Glycol Recovery Vehicles	Passenger Facility Charges	1,230
BWI Radio System Software Upgrade	Passenger Facility Charges	1,200
Permanent Noise Monitoring System Replacement	Passenger Facility Charges	590
Residential Sound Insulation Program	Passenger Facility Charges	560
Outbound Baggage upgrade for Concourse C/D	Passenger Facility Charges	500
International Concourse Extension	Passenger Facility Charges	467
<b><i>Subtotal – Maryland Aviation Administration Other Funds</i></b>		<b><i>\$56,309</i></b>
Purple Line	Montgomery/Prince George's	\$20,000
Purple Line Capital Crescent Trail	Montgomery	16,781
Associated Purple Line Projects	Montgomery	20,926
North Avenue Rising	Baltimore City/Local federal funding	500
TMDL Compliance	Local federal funding	3,799
LOTS Ocean City Facility Replacement	Ocean City	1,425
LOTS Elderly and Disabled Non-profit Services	Local governments	1,129
LOTS Baltimore City Harbor Connector	Baltimore Ferry	325
LOTS Transit Development Plan	Local governments	41
<b><i>Subtotal – Maryland Transit Administration Other Funds</i></b>		<b><i>\$64,926</i></b>
Maglev	Private company	\$3,200
<b><i>Subtotal – The Secretary's Office Other Funds</i></b>		<b><i>\$3,200</i></b>
WMATA Federal Funding	Federal Government	\$99,870
<b><i>Subtotal – WMATA Other Funds</i></b>		<b><i>\$99,870</i></b>
<b>Total – Other Funds</b>		<b>\$224,305</b>

BWI: Baltimore-Washington International Thurgood Marshall Airport  
HVAC: heating, ventilation, and air conditioning  
LOTS: locally operated transit systems

TMDL: Total Maximum Daily Load  
WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation

## ***Issues***

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### **1. Proposed Traffic Relief Plan to Be Implemented as a Public-private Partnership**

#### **Background**

On September 21, 2017, the Administration announced plans to add four new express toll lanes (ETL) to I-270, the Maryland portion of the Capital Beltway (I-495), and to the Baltimore-Washington Parkway (MD-295) at an estimated cost of \$9 billion. The I-270/I-495 lane additions would be constructed under a public-private partnership (P3) agreement at an estimated cost of \$7.6 billion while the MD-295 lanes would be constructed by the Maryland Transportation Authority at an estimated cost of \$1.4 billion. The U.S. Department of the Interior currently owns the Baltimore-Washington Parkway and would need to transfer its ownership to Maryland for the MD-295 portion of the plan to proceed. The ETLs would utilize variable tolls that increase as congestion increases. Existing lanes would remain untolled.

On the same day these projects were announced, MDOT posted a Request for Information (RFI) on the SHA website “...seeking input from individuals, firms, teams, or organizations that have experience in developing and/or financing large transportation infrastructure projects and that may be interested in designing, building, financing, operating and/or maintaining improvements for congestion relief along I-495/I-95 or I-270.” The RFI indicated MDOT’s desire that “...any private agreement not require a financial contribution directly from the Maryland Transportation Trust Fund and that the agreement would provide a concession payment to MDOT upon financial close.” MDOT has indicated that the I-270/I-495 ETLs would yield toll revenue sufficient to entice the private sector to provide an upfront cash payment for the right to build and operate the toll lanes. MDOT would use this upfront payment to subsidize the MD-295 project which, in its estimation, would not yield toll revenue sufficient to attract private-sector interest under a P3 arrangement. In order to construct these improvements without direct contributions from the TTF, the P3 would be structured to allow the concessionaire to set toll rates and keep the toll revenue.

#### **Limited Legislative Role**

In remarks to the media during the announcement ceremony for these projects, the Governor emphasized the Administration’s ability to proceed without input from the General Assembly. With respect to influencing the content of a P3 agreement, this is largely true. The 2013 legislation that codified the P3 process requires the submission of a presolicitation report to the Comptroller, the State Treasurer, the budget committees, and DLS for a 45-day review and comment period. Once the review period is over, the Administration is free to seek Board of Public Works (BPW) approval to begin the P3 procurement despite any concerns that the reviewing agencies might raise. Because MDOT intends to structure the P3 in a way that does not rely on funding from the TTF for the construction and operation of the ETLs, the role of the General Assembly is greatly minimized. It is not completely eliminated, however. As shown in **Exhibit 15**, the fiscal 2018-2023 CTP includes planning funding totaling \$71.4 million, which is subject to appropriation by the General Assembly.

**Exhibit 15**  
**Traffic Relief Plan Funding**  
**Fiscal 2017-2023**  
**(\$ in Thousands)**

<b><u>Actual</u></b> <b><u>2017</u></b>	<b><u>Working</u></b> <b><u>2018</u></b>	<b><u>Allowance</u></b> <b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>	<b><u>2023</u></b>	<b><u>Total</u></b>
\$2,170	\$10,000	\$22,000	\$32,000	\$5,190	\$0	\$0	<b>\$71,360</b>

Source: Maryland Department of Transportation, *2018-2023 Consolidated Transportation Program*

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**Schedule**

On December 13, 2017, MDOT held an industry forum to provide an overview of the proposed projects to industry representatives and as a first step in soliciting ideas from potential participants on how to structure the procurement to obtain the best value for the State. **Exhibit 16** shows the major milestones related to the I-270/I-495 P3 process that MDOT provided to forum attendees.

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**Exhibit 16**  
**I-270/I-495 Traffic Relief Public-private Partnership Milestones**  
**Calendar 2018-2020**

**2018**

- Issue Request for Qualifications
- Issue Draft Request for Proposal (RFP)

**2019**

- Issue Final RFP
- Draft Environmental Impact Statement (EIS)
- Technical and Financial Proposals

**2020**

- Selection/Commercial Close
- Final EIS/Record of Decision
- Financial Close

Source: Maryland Department of Transportation, Industry Forum Presentation, December 13, 2017

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## **Issues**

This proposal raises a host of questions, many of which cannot be answered because the necessary studies and planning have not yet been done. Just a few of the questions raised include:

- Will building more lanes, even those utilizing congestion pricing, improve congestion or simply lead to more traffic (induced demand)?
- How many homes and businesses will be displaced to enable construction?
- How much will it cost to use the lanes? Is congestion relief going to be provided only to those who can afford to pay the tolls?
- Is the proposed procurement structure feasible? How long will the concession have to be to attract private-sector interest? Under State law, P3 agreements may not exceed 50 years including all renewals and extensions; however, BPW may waive that prohibition if it determines the procuring agency has demonstrated sufficient reason for the agreement to have a longer term. Will Maryland be giving up control of these lanes for more than half a century?
- What input will local governments have in decisions that will directly impact their jurisdictions?
- What role could transit play in reducing congestion along these corridors? Might not a transit component (*e.g.*, bus rapid transit) increase the effectiveness of the congestion relief being sought through these projects?
- For the Baltimore-Washington Parkway, what requirements might the federal government impose on the State as a condition of the transfer of ownership?

## **Conclusion and Recommendations**

The proposed scope and duration of these congestion relief projects make it imperative that they have broad support at all levels of government. Under the proposed procurement, once the P3 agreement is executed, the State will have given up control of major transportation facilities for decades. **If the General Assembly wishes to have meaningful input on how these projects proceed, it should restrict or withhold planning funds until the Administration commits to a process that recognizes the co-equal role of the General Assembly in establishing transportation policies that serve the best interests of the citizens of Maryland.**

## **2. Bid to Attract Amazon Includes \$2 Billion in Transportation Funding**

In January 2018, Amazon announced the selection of Montgomery County as one of 20 potential sites to serve as the location for its second headquarters. The Administration has

announced an incentive package of over \$5 billion to help convince Amazon to choose Maryland. The Administration has indicated that the incentives comprise over \$3 billion in tax credits and \$2 billion in road and transit improvements. MDOT has not identified the components that make up the \$2 billion transportation package nor whether these components are already planned or would represent new spending. **MDOT should brief the committees on the transportation components of the incentive package and indicate how much of the proposed spending represents improvements already programmed in the CTP and how any new spending would be accommodated.**

## ***Recommended Actions***

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1. Add the following language:

Provided that it is the intent of the General Assembly that projects and funding levels appropriated for capital projects, as well as total estimated project costs within the Consolidated Transportation Program, shall be expended in accordance with the plan approved during the legislative session. The department shall prepare a report to notify the budget committees of the proposed changes in the event that the department modifies the program to:

- (1) add a new project to the construction program or development and evaluation program meeting the definition of a “major project” under Section 2-103.1 of the Transportation Article that was not previously contained within a plan reviewed in a prior year by the General Assembly and will result in the need to expend funds in the current budget year; or
- (2) change the scope of a project in the construction program or development and evaluation program meeting the definition of a “major project” under Section 2-103.1 of the Transportation Article that will result in an increase of more than 10% or \$1,000,000, whichever is greater, in the total project costs as reviewed by the General Assembly during a prior session.

For each change, the report shall identify the project title, justification for adding the new project or modifying the scope of the existing project, current year funding levels, and the total project cost as approved by the General Assembly during the prior session compared with the proposed current year funding and total project cost estimate resulting from the project addition or change in scope.

Further provided that notification of project additions, as outlined in paragraph (1) above; changes in the scope of a project, as outlined in paragraph (2) above; or moving projects from the development and evaluation program to the construction program, shall be made to the General Assembly 45 days prior to the expenditure of funds or the submission of any contract for approval to the Board of Public Works.

**Explanation:** This annual budget bill language requires the department to notify the budget committees of proposed changes to the transportation capital program that will add a new project that was not in the fiscal 2018-2023 *Consolidated Transportation Program* (CTP) or will increase a total project’s cost by more than 10%, or \$1 million, due to a change in scope. Reports are to be submitted with the draft and final versions of the CTP, with each using the 2018 session CTP as the basis for comparison. In addition, notification is required as needed throughout the budget year, if certain changes to projects are made.

*J00 – MDOT – Fiscal 2019 Budget Overview*

Information Request	Author	Due Date
Capital budget changes from one CTP version to the next	Maryland Department of Transportation (MDOT)	With draft CTP With final CTP
Capital budget changes throughout the year	MDOT	45 days prior to the expenditure of funds or seeking Board of Public Works approval

2. Add the following language:

The Maryland Department of Transportation (MDOT) may not expend funds on any job or position of employment approved in this budget in excess of X,XXX.X positions and XXX.X contractual full-time equivalent (FTE) positions paid through special payments payroll (defined as the quotient of the sum of the hours worked by all such employees in the fiscal year divided by 2,080 hours) of the total authorized amount established in the budget for MDOT at any one time during fiscal 2019. The level of contractual FTE positions may be exceeded only if MDOT notifies the budget committees of the need and justification for additional contractual personnel due to:

- (1) business growth at the Helen Delich Bentley Port of Baltimore or Baltimore/Washington International Thurgood Marshall Airport, which demands additional personnel; or
- (2) emergency needs that must be met, such as transit security or highway maintenance.

The Secretary shall use the authority under Sections 2-101 and 2-102 of the Transportation Article to implement this provision. However, any authorized job or position to be filled above the regular position ceiling approved by the Board of Public Works shall count against the Rule of ??? imposed by the General Assembly. The establishment of new jobs or positions of employment not authorized in the fiscal 2019 budget shall be subject to Section 7-236 of the State Finance and Procurement Article and the Rule of ???.

**Explanation:** This annual budget bill language establishes a position ceiling for MDOT each year to limit growth in regular positions and contractual FTEs.

Information Request	Author	Due Date
Need for additional regular or contractual positions	MDOT	As needed