
Maryland Department of Transportation Fiscal 2003 Budget Overview

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

February 2002

Analysis in Brief

Issues

Transportation Priorities -- Department Submits Capital Program Evaluation Statement: The Maryland Department of Transportation (MDOT) has submitted a Managing for Results (MFR) statement for its capital program, *Annual Attainment Report on Transportation System Performance*. The department has previously outlined nine goals as part of its operating budget MFR which are similar to the ten goals identified in the capital program MFR. **The department should advise the committees as to the actions it intends to undertake to refocus its priorities on improving the transportation network and ensuring the safety of the users of the system.**

Large Capital Projects Place Greater Demands on TTF -- Woodrow Wilson Bridge and Addison Road Extension: MDOT advises that for fiscal 2002 and 2003, the Transportation Trust Fund (TTF) will finance construction of the bridge and the metrorail extension with general fund support returning in fiscal 2004. MDOT has removed special funding in fiscal 2002 and 2003 totaling \$44 million to provide sufficient special funds to finance the construction of these two projects. **The department should advise the committees as to how they intend to financially support the Woodrow Wilson Bridge and Addison Road/Largo Metrorail Extension projects without sufficiently decreasing capital spending on other projects.**

Transportation Giveaways Diminish Ability of TTF to Fund Important Capital Projects -- The Free Toll and the Free Fare Weekend: In fall 2001, the Maryland Transit Administration offered free fares on the Baltimore transit system and the Washington Metropolitan Area Transit Authority board also offered free Metro subway and bus service. This action followed a free toll weekend at Maryland Transportation Authority-owned (MdTA) bridges and tunnels. The revenue loss from these activities decreases the ability of the department to fund important transportation projects. **The department should discuss how it intends to construct improvements and maintain the transportation network when it purposefully decreases revenue attainment.**

Innovative Financing Has Potential Use in Maryland: Maryland finances its transportation capital construction program through a variety of mechanisms; however, MDOT does not currently have the authority to issue project revenue bonds. **The department should discuss the potential for using innovative financing in the future to fund transportation capital improvements.**

J.00 - MDOT - Fiscal 2003 Budget Overview

Recommended Actions

Funds **Positions**

1. Add language requiring that funds transferred from the Maryland Transportation Authority to the Transportation Trust Fund should be repaid with interest.
2. Add annual language requiring notification of changes to capital budget.
3. Add annual language limiting non-transportation expenditures.
4. Add annual language establishing a position ceiling in the department.

J.00 - MDOT - Fiscal 2003 Budget Overview

J.00
Maryland Department of Transportation
Fiscal 2003 Budget Overview

Budget Overview Analysis

Program Description

The Maryland Department of Transportation (MDOT) is responsible for statewide transportation planning and the development, operation, and maintenance of key elements of the transportation system. It is involved in all modes of transportation within the State, including:

- direct participation in the operation and maintenance of facilities in the Port of Baltimore and the Baltimore-Washington International (BWI) Airport;
- construction and maintenance of State roads;
- regulation and licensing of drivers and vehicles; and
- operation of bus and rail transit services.

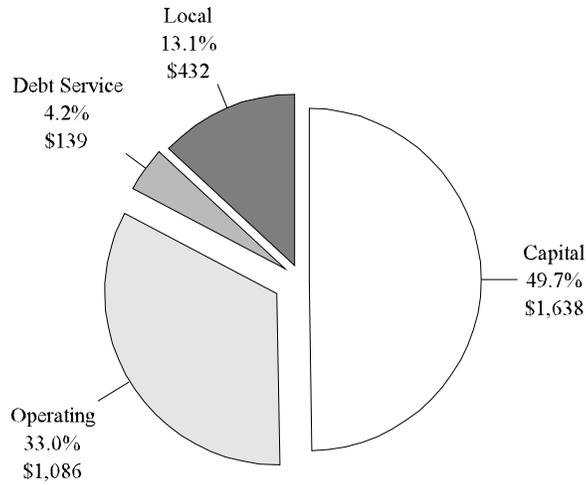
The department is funded through the Transportation Trust Fund (TTF), a non-lapsing special fund revenue account whose revenue sources include motor fuel tax receipts, titling tax revenues, vehicle registration fees, a portion of the corporate income tax, revenues generated by the modes, and proceeds from bond sales.

Governor's Proposed Budget

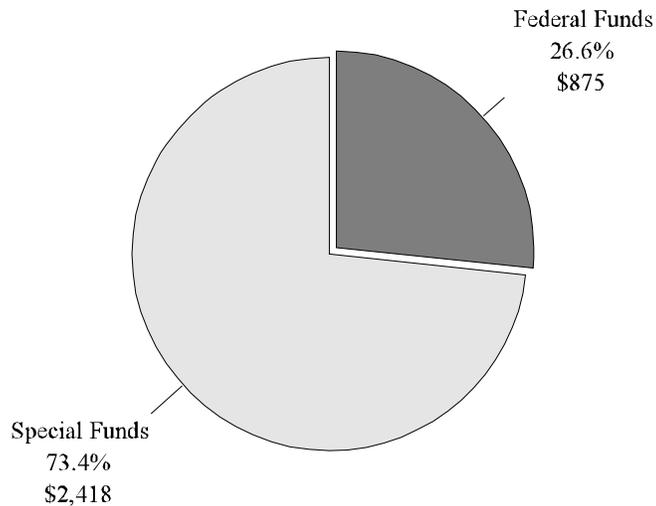
The fiscal 2003 allowance for the entire department is \$3.3 billion from all revenue sources. **Exhibit 1** shows that funds are allocated to the operating budget for modal administrations, the transportation capital program, debt service payments, and local highway user revenue sharing. The fiscal 2003 allowance includes \$2.4 billion in special fund revenues and bond proceeds, \$875 million in federal funds, and \$2.3 million in reimbursable funds. Because MDOT is supported by the TTF, MDOT does not directly receive any general funds.

Exhibit 1

**Maryland Department of Transportation
Fiscal 2003 Allowance
(\$ in Millions)**



Total: \$3.3 billion



Note: The allowance includes \$2,256,196 in reimbursable funds.

Source: Maryland Department of Transportation; Maryland State Budget

J.00 - MDOT - Fiscal 2003 Budget Overview

Exhibit 2 shows that in fiscal 2003, the departmental budget increases by \$255 million, or 8.4% over fiscal 2002. The most substantial change is an additional \$163 million in the capital program. Compared to actual departmental spending in fiscal 2001, the proposed budget includes an additional \$521 million.

Exhibit 2

**Budget Overview
Fiscal 2001 through 2003
(\$ in Thousands)**

<u>Unit</u>	<u>FY 01 Actual</u>	<u>FY 02 Working Approp.</u>	<u>FY 03 Allowance</u>	<u>Change FY 02-03</u>	<u>% Change</u>
Operating Programs					
Secretary	\$56,669	\$60,485	\$65,423	\$4,938	8.2%
WMAT*	113,889	124,461	132,665	8,203	6.6%
Highway	190,175	181,390	187,809	6,419	3.5%
Port	82,965	89,375	91,611	2,236	2.5%
Motor Vehicle	117,921	122,828	127,303	4,475	3.6%
Maryland Transit	333,506	364,231	383,500	19,269	5.3%
Aviation	84,193	87,666	98,018	10,353	11.8%
Subtotal	\$999,188	\$1,030,437	\$1,086,330	\$55,893	5.4%
Debt Service	\$109,998	\$117,241	\$138,608	\$21,367	18.2%
Transfer to MdTA	\$19,870	\$0	\$0	\$0	0.0%
Capital Programs					
Secretary	\$13,647	\$37,916	\$19,478	\$-18,439	-48.6%
WMAT*	77,058	166,481	221,237	54,756	32.9%
Highway	779,283	910,215	957,547	47,332	5.2%
Port	60,564	81,471	92,230	10,759	13.2%
Motor Vehicle	34,946	24,378	23,348	-1,030	-4.2%
Maryland Transit	167,437	160,591	195,189	34,598	21.5%
Aviation	97,819	94,311	129,583	35,272	37.4%
Subtotal	\$1,230,753	\$1,475,363	\$1,638,611	\$163,248	11.1%
Local Highway User Grants	\$434,842	\$418,041	\$432,104	\$14,063	3.4%
Funds					
Special	\$2,151,946	\$2,213,603	\$2,418,305	\$204,702	9.2%
Federal	621,600	825,982	875,092	49,110	5.9%
Reimbursable	1,235	1,497	2,256	759	50.7%
Total	\$2,774,781	\$3,041,081	\$3,295,653	\$254,572	8.4%

*Washington Metropolitan Area Transit (WMAT), includes grants to the Washington Metropolitan Area Transit Authority (WMATA) as well as Montgomery and Prince George's counties local transit in fiscal 2001. County programs are transferred to the Maryland Transit Administration (MTA) in fiscal 2002.

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

J.00 - MDOT - Fiscal 2003 Budget Overview

Operating Program Overview

Operating expenditures increase by \$55.9 million to \$1.1 billion in the fiscal 2003 allowance. **Exhibit 3** lists significant changes to the allowance such as personnel cost increases, program cost increases, and new initiatives.

Debt Service

Funds budgeted for debt service increase by 18.2%, to \$138.6 million. The increase in fiscal 2003 is due to new debt issuances and the amortized repayment of previous issues. Debt outstanding at the end of the current fiscal year is projected to be \$774 million, compared with the fiscal 2002 ceiling of \$799 million. The department intends to sell \$350 million in bonds during fiscal 2003, which would place the debt ceiling at \$1,030 million at the end of fiscal 2002. The level of outstanding debt is statutorily capped at \$1.2 billion.

Local Highway User Revenue Distribution

The fiscal 2003 allowance for highway user revenue aid to local transportation programs shows an increase of \$14.1 million, or 3.4% to an aggregate funding level of \$432.1 million. This is based on a projected increase in State transportation tax and fee revenue, which is deposited in the Gasoline and Motor Vehicle Revenue Account (GMVRA). Funds deposited in the GMVRA are distributed between the TTF, Baltimore City, the counties, and eligible municipalities.

Personnel

Personnel expenses for existing staff, excluding new positions, increase by \$20.1 million. This is primarily attributable to employee increments and annualization of the fiscal 2002 general salary increase, which result in a \$8.8 million increase. The allowance also includes an additional \$4 million for 115 new regular positions. The cost of these positions is not shown in the exhibit; instead the costs are reflected in the initiatives that they support.

Exhibit 4 shows 9,653 regular positions, an increase of 115, at MDOT in fiscal 2003 by agency. The fiscal 2003 increase in positions represents 98 operating budget positions and 17 capital program positions. Contractual positions decrease by 3.05 to 172.35. Significant changes from fiscal 2002 to 2003 include:

- **49 MTA Positions:** The allowance includes funds for three positions in transit administration and 46 positions to enhance transit inspections, self-audit procedures, and additional police support.
- **36 MAA Positions:** This includes 20 operating budget positions to support administrative functions, the new Elm Road Parking Garage opening in November 2003, fire and rescue services, one position at Martin State Airport, and maintenance activities, as well as 16 positions to support the capital program.

Exhibit 3

**Governor's Proposed Budget
Maryland Department of Transportation
(\$ in Thousands)**

How Much It Grows:	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
2002 Working Appropriation	\$2,213,603	\$825,981	\$1,497	\$3,041,081
2003 Governor's Allowance	<u>2,418,305</u>	<u>875,092</u>	<u>2,256</u>	<u>3,295,653</u>
Amount Change	\$204,702	\$49,111	\$759	\$254,572
Percent Change	9.2%	5.9%	50.7%	8.4%

Where It Goes:

Personnel Expenses

Annualization of fiscal 2002 general salary increase	\$6,433
Fiscal 2003 increments delayed six months	2,437
Annualization of fiscal 2002 new positions	3,633
Cost containment actions	(1,812)
Employee and retiree health insurance	3,369
Retirement contribution rate	1,721
Workers' compensation premium assessment	1,399
Other fringe benefit and turnover adjustments	2,924
Personnel Subtotal (excluding new positions)	\$20,103

Operating Program Expenditure Changes

Annualization of 2001 Transit Initiative	9,802
Increase in payments to WMATA	8,204
Increase in department-wide security costs	3,112
Maryland Rail Commuter (MARC) contract inflation and annualization of Frederick Line increase	1,433
Lease and bridge payments to Maryland Economic Development Corporation for new MDOT headquarters building	1,400
36 new positions for Maryland Aviation Administration (MAA)	1,170
Increase in reimbursable funds for regional air service program and minority business enterprise agents	759
Additional personal computer hardware and software expenses department-wide	708

J.00 - MDOT - Fiscal 2003 Budget Overview

Where It Goes:

Fiscal 2003 Operating Budget Initiatives

New Federal Railroad Administration regulations require additional safety inspections and additional police support	2,456
SHA -- reduce average of heavy equipment	821
MAA -- enhance funding for snow removal contracts	738
SHA -- five new positions and equipment for CHART	454
SHA -- NPDES compliance costs for stormwater management system	438
MVA -- ten positions for expanded Loveville branch office	274
MPA -- six new positions for port maintenance and one Minority Business Enterprise agent	214
MTA -- three administrative positions and equipment for safety audits	210
MVA -- establish a training center at the customer service and call center	197
MVA -- two new positions and conversion of four contractual positions	173

Other Changes

Capital budget changes	161,023
Increase in debt service	21,367
Additional revenue to be disbursed as local highway user revenue grants	14,063
Continuation of Downtown Partnership grant to Baltimore City which includes \$2.3 million in capital costs	3,825
Decrease in State Aid in Lieu of Federal Funds payments to local jurisdictions	(9,938)
Other changes	11,566

Total **\$254,572**

- WMATA = Washington Metropolitan Area Transit Authority
- SHA = State Highway Administration
- MAA = Maryland Aviation Administration
- CHART = Chesapeake Highways Action Response Team
- NPDES = National Pollutant Discharge Elimination System
- MTA = Maryland Transit Administration
- MVA = Motor Vehicle Administration
- MPA = Maryland Port Administration

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

Exhibit 4

**Personnel Overview
Fiscal 2001 through 2003**

<u>Unit</u>	<u>FY 01 Actual</u>	<u>FY 02 Working Approp.</u>	<u>FY 03 Allowance</u>	<u>Change FY 02-03</u>	<u>% Change</u>
Regular Positions					
Secretary	338.00	341.00	341.00	0.0	0.0%
Highway	3,486.50	3,500.50	3,505.50	5.0	0.1%
Port	311.00	313.00	320.00	7.0	2.2%
Motor Vehicle	1,705.00	1,699.00	1,717.00	18.0	1.1%
Maryland Transit	2,919.00	3,133.00	3,182.00	49.0	1.6%
Aviation	496.50	551.50	587.50	36.0	6.5%
Subtotal	9,256.00	9,538.00	9,653.00	115.0	1.2%
Contractual FTE					
Secretary	6.20	8.00	10.5	2.50	31.3%
Highway	13.67	24.05	24.00	-0.05	-0.2%
Port	0.70	1.20	3.70	2.50	208.3%
Motor Vehicle	84.01	98.15	94.15	-4.0	-4.1%
Maryland Transit	38.00	38.00	38.0	0.0	0.0%
Aviation	12.00	2.00	2.00	0.0	0.0%
Subtotal	154.58	175.40	172.35	(3.05)	-1.7%
Total	9,410.6	9,713.4	9,825.4	112.0	1.2%

FTE = full-time equivalent

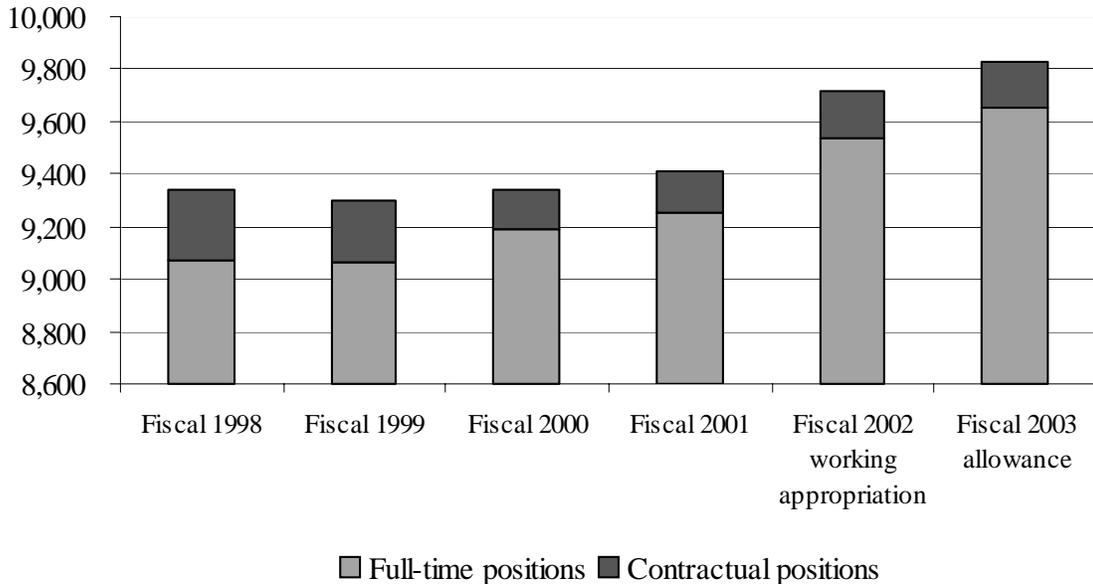
Note: Numbers may not sum to total due to rounding.

- **18 MVA Positions:** The proposed positions support the new Loveville MVA office, administration of the new 0.08 blood alcohol concentration limits, and a training initiative for the customer service and call center.
- **7 MPA Positions:** The allowance includes six operating budget positions to support maintenance activities at the Port of Baltimore and one minority business enterprise agent position in the capital program.
- **5 SHA Positions:** The proposed positions support the CHART highway program. The allowance also includes \$270,000 for the necessary equipment.

Exhibit 5 demonstrates that the growth in positions at MDOT has seen a steady increase since fiscal 1998. The number of full-time regular positions has grown by 6.42%, while the number of contractual positions has decreased 35.8%. This is due to contractual conversions occurring largely in fiscal 1998 and 1999. The MAA and the MTA have been the largest drivers in adding positions to the department's budget.

Exhibit 5

**Growth in MDOT Personnel
Fiscal 1998 through 2003**



Source: Maryland Department of Transportation; Maryland State Budget

Fiscal 2002 Actions -- MDOT Cost Containment

The department instituted a department-wide hiring freeze in November 2001. This action provided savings of approximately \$3 million in fiscal 2002 and \$5 million in fiscal 2003. In addition, MDOT reduced spending in other areas for fiscal 2002 savings of \$10 million. **Exhibit 6** provides additional details on cost containment actions taken by the department for fiscal 2002 and 2003.

General Fund Transfers

The administration is proposing to use for other purposes \$158 million in general and Maryland Transportation Authority (MdTA) funds that were earmarked for MDOT in last year's transportation plan. The largest share, \$140 million, represents general funds that were to be set aside for construction of the Woodrow Wilson Bridge and Addison Road/Largo Metrorail Extension. The General Assembly appropriated \$45 million in fiscal 2001 and \$50 million in fiscal 2002 to the Dedicated Purpose Fund (DPF) for these projects. In addition, the General Assembly approved a 2001 deficiency appropriation of \$10.2 million for construction costs associated with the Greenbelt Metrorail Station. MDOT has withdrawn and spent approximately \$35 million leaving \$69.9 million in the DPF. This balance is proposed for transfer

Exhibit 6

**MDOT Cost Containment Actions
Fiscal 2002 and 2003
(\$ in Thousands)**

<u>Mode</u>		<u>Fiscal 2002 Savings</u>	<u>Fiscal 2003 Savings</u>
Secretary	Defer travel and training	\$0	\$192
WMATA	Administrative budget reductions	1,895	115
SHA	Delay landscape, road, and drainage maintenance	1,905	2,356
MPA	Reduced stevedoring volumes and supply purchases	251	101
MVA	Delay information technology contracts and equipment	522	752
MTA	Defer travel and training, supplies, vehicle and gas purchases due to lower market prices	2,671	4,616
MAA	Defer advertising for cargo services, mailing, printings, and carpet cleaning contract savings	477	237
	Delay start of fare reduction until fiscal 2004 providing MTA additional revenues	2,300	3,700
Total		\$10,021	\$12,069

Source: Maryland Department of Transportation

to the general fund in fiscal 2002 via the Budget Reconciliation Act. Another \$70 million was to be appropriated to the DPF in fiscal 2003 to support the Woodrow Wilson Bridge and Addison Road projects. The fiscal 2003 budget does not include this appropriation. Consequently, MDOT will be required to absorb the loss of \$139.9 million for these two projects with TTF resources.

The remaining \$18 million, will be transferred from the MdTA to the general fund through the Budget Reconciliation Act. During the 2001 legislative session, the General Assembly approved transfers of \$43 million from the MdTA to MDOT each year from fiscal 2003 to 2006 to support the transit initiative. In fiscal 2003, \$25 million will be transferred by the MdTA to the TTF for this purpose and the remaining \$18 million will go directly to the general fund. MDOT advises that it intends to use the \$25 million in funds received from the MdTA for the transit initiative to instead support the highway program. This action will free up those resources to fund capital projects related to the transit initiative.

The Department of Legislative Services (DLS) is concerned about the use of MdTA funds for purposes other than the purpose for which the resources were originally intended. DLS recommends budget bill language requiring that any funds transferred to the TTF to support the 2001 Transit Initiative be used to support transit capital expenses.

Capital Program Overview

Program Description

The State Report on Transportation is prepared annually and distributed to the General Assembly, local elected officials, and interested citizens. It consists of two documents, the Maryland Transportation Plan (MTP) and the Consolidated Transportation Program (CTP). The MTP contains the department's long-range vision for transportation in Maryland. The CTP presents the detailed listings and descriptions of the capital projects that are proposed for construction, or for development and evaluation, during the next six-year program period.

Each annual CTP is developed in draft form and presented to every county and Baltimore City during the fall. Following distribution of the draft document, MDOT representatives visit each county to present and to receive comments on the plan and program. Following the tour, the State report is prepared in final form for submission, along with submission of the budget, to the General Assembly on the third Wednesday of January.

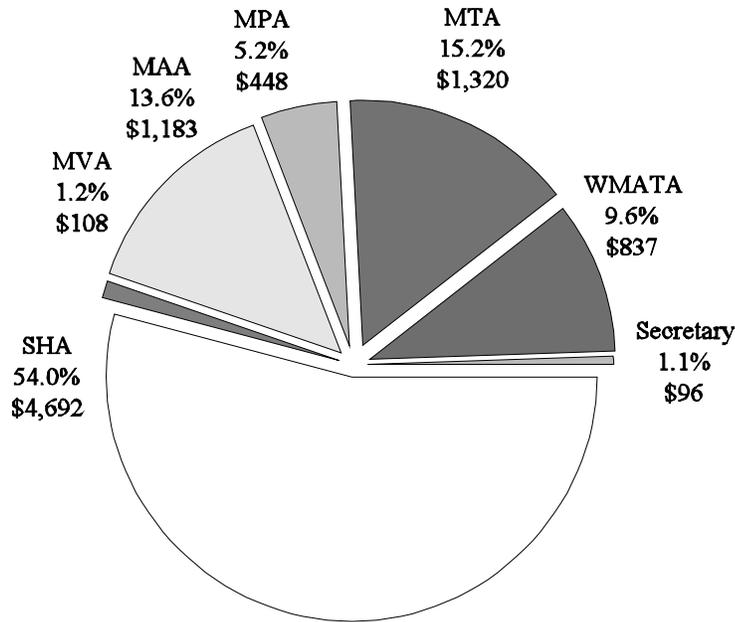
The CTP includes a development and evaluation program (D&E) and a construction program. Generally, projects are first added to the D&E program. In the D&E program, projects are evaluated by planners/engineers and rights-of-way may be purchased. MDOT also prepares final and draft Environmental Impact Statements for projects in the D&E program. These studies examine a number of alternatives including no-build and a number of different alignments. Spending on a project while in the D&E program is usually less than 15% of the total project cost. When MDOT wants to move a project forward and begin construction, it is moved into the construction program.

Fiscal 2002 through 2007 Consolidated Transportation Program

The 2002 CTP supports a \$8.7 billion capital program through fiscal 2007. **Exhibit 7** shows the total funding over the six-year period by mode. **Appendix 1** lists new projects added to the CTP.

Exhibit 7

MDOT Proposed Capital Funding by Mode
2002 Consolidated Transportation Program
Fiscal 2002 through 2007
(\$ in Millions)



Total: \$8.7 Billion

Assumptions:

- SHA and WMATA include general fund transfers from the Dedicated Purpose Fund.
- MTA includes all Statewide transit capital.
- SHA includes federal funds for local jurisdictions
- MTA and WMATA include the administration's transit initiative.
- WMATA excludes federal funds received directly by WMATA.
- MAA includes funds from Maryland Air National Guard, Maryland Economic Development Corporation, Certificates of Participation (COPs), Passenger Facility Charges (PFCs), Customer Facility Charges (CFCs), and MdTA.

Source: Maryland Department of Transportation, 2002 Consolidated Transportation Program

J.00 - MDOT - Fiscal 2003 Budget Overview

The fiscal 2003 budget includes an appropriation of \$1.39 billion for capital projects funded from traditional transportation revenue sources and \$244 million in capital projects support by non-transportation trust funds. **Exhibit 8** lists the projects supported by nontraditional revenues in fiscal 2003. The current CTP continues MDOT's efforts to finance transportation projects outside traditional transportation funding sources.

Exhibit 8

**Maryland Department of Transportation
Capital Projects Funded with Non-TTF Revenues
(\$ in Thousands)**

<u>Project</u>	<u>Other Source</u>	<u>FY 2003 Total Funds</u>	<u>FY 2003 Other Funds</u>	<u>Total Project Cost</u>
MTA Maglev System Study	Local	2,833	1,167	14,333
Elderly Handicap Services	Local	800	157	15,950
BWI Concourse B Extension	COPs	1,369	1,369	48,575
BWI Concourse A Expansions	MEDCO	45,621	45,621	175,464
BWI Parallel Taxiway and Parking Ramp	AIP PFCs	17,210	3,389	61,253
BWI Terminal Entrance and Roadway -- Phase I	PFCs MdTA	24,049	24,049	55,300
BWI Terminal Entrance and Roadway -- Phase II	PFCs MdTA	17,099	17,099	172,021
BWI Elm Road Parking Structure/Airport Surface Lot	PFCs MdTA	77,609	63,609	175,481
BWI Consolidated Rental Car Facility	AIP CFCs	67,664	63,995	132,057
BWI Central Utility Plant	MdTA	19,936	13,936	28,087
BWI Remote Aircraft Parking	PFCs	43	43	3,074
BWI Moving Sidewalks	MEDCO PFCs	5,475	5,475	12,637
BWI International Terminal Common Use Terminal Equipment	PFCs	2,449	2,449	2,500
BWI Surface Movement Guidance and Control System	PFCs	1,457	1,457	3,778
Total		\$283,614	\$243,815	\$900,510

Fund Sources:

COPs = Certificates of Participation

CFCs = Customer Facility Charges

PFCs = Passenger Facility Charges

MEDCO = Maryland Economic Development Corporation

MdTA = Maryland Transportation Authority Revenue Bonds

AIP = Airport Improvement Program

Local = Local government contribution

Source: Maryland Department of Transportation, 2002 Consolidated Transportation Program

Change in Funding for Woodrow Wilson Bridge and Addison Road/Largo Metrorail Extension

The 2001 CTP assumed that general funds totaling \$370 million would be appropriated in the DPF to support the Woodrow Wilson Bridge replacement and Addison Road to Largo Metrorail extension. The 2002 CTP, however, assumes that special funds will support the construction of these two projects in fiscal 2002 and 2003 and reflects general fund support of only \$230 million. MDOT advises that to support these two large projects in fiscal 2003, it has deferred capital spending over the six-year period totaling \$99 million. These projects will be funded in future years and are not removed from the capital program permanently. **Exhibit 9** lists the projects that will be deferred.

Exhibit 9

**Maryland Department of Transportation
Capital Projects Deferred
(\$ in Thousands)**

<u>Description</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 04-07</u>
Secretary			
Transit Station Smart Growth Initiative	\$0.0	\$0.0	\$1.5
Program Management	0.0	0.0	0.4
Pathways to School	0.5	0.0	0.0
Motor Vehicle Administration			
Baltimore City Mondawmin Office	0.0	2.0	0.0
Electronic Lien Title and Registration System (TARIS 2)	0.0	2.0	0.0
Maryland Aviation Administration			
Truck Parking	0.0	4.6	0.0
Reductions to operating expenses funded in the capital program	0.0	1.2	0.0
Maryland Port Administration			
Harbor Development and Maintenance	0.0	0.0	11.0
Miscellaneous Dredging	0.0	0.0	3.9
Cox Creek Excavation	0.0	0.0	4.1
Cox Creek Construction	1.1	0.0	0.0
Land Acquisition	3.3	0.0	0.0
Maryland Transit Administration			
Transit Police Headquarters	0.1	0.3	0.2
Over-the-Road Coaches	0.0	2.6	0.0
Light Rail Station at Texas	0.3	0.1	0.0
Maryland Ridesharing	0.0	0.0	3.9
Bus Contract Renewal Year Four	0.0	0.0	1.6
Rural Small Urban System Vehicles	0.2	0.3	1.4

J.00 - MDOT - Fiscal 2003 Budget Overview

Description	FY 2002	FY 2003	FY 04-07
Various Facility System Preservation	0.0	0.0	7.1
Metro Rail Car Overhaul	0.0	0.0	3.9
MARC Penn Camden Connection	0.0	0.0	9.7
MARC Maintenance Facility	0.0	0.0	6.0
EPA Engine Upgrades	1.9	0.0	0.0
BUS AVL Phase V	0.0	0.0	1.4
State Highway Administration			
Areawide Access Controls	0.1	1.0	0.0
Areawide Location Studies	0.0	0.1	0.0
I-695 between I-83 and I-95 (Baltimore)	0.0	2.1	0.0
MD 2/4 between MD 765 to Stoakley Road (Calvert)	0.5	0.2	0.0
MD 30 Hampstead Bypass (Carroll)	0.0	0.4	0.0
US 301 South Corridor Transportation Study -- Project Planning (Charles/Prince George's)	0.0	0.5	0.0
US 301 South Corridor Transportation Study -- Right-of-Way (Charles/Prince George's)	5.6	4.1	0.0
MD 475 East St/Walser Drive to South Street (Frederick)	0.0	2.1	0.0
US 219 Relocated to Oakland (Garrett)	0.1	0.3	0.0
MD 32 between MD 108 and I-70 (Howard)	0.0	1.0	0.0
US 50 between US 301 and MD 404 (Queen Anne's)	3.2	1.1	0.0
Total	\$16.9	\$26.9	\$56.1

Source: Maryland Department of Transportation, *2002 Consolidated Transportation Program*

Major Changes to the Capital Program

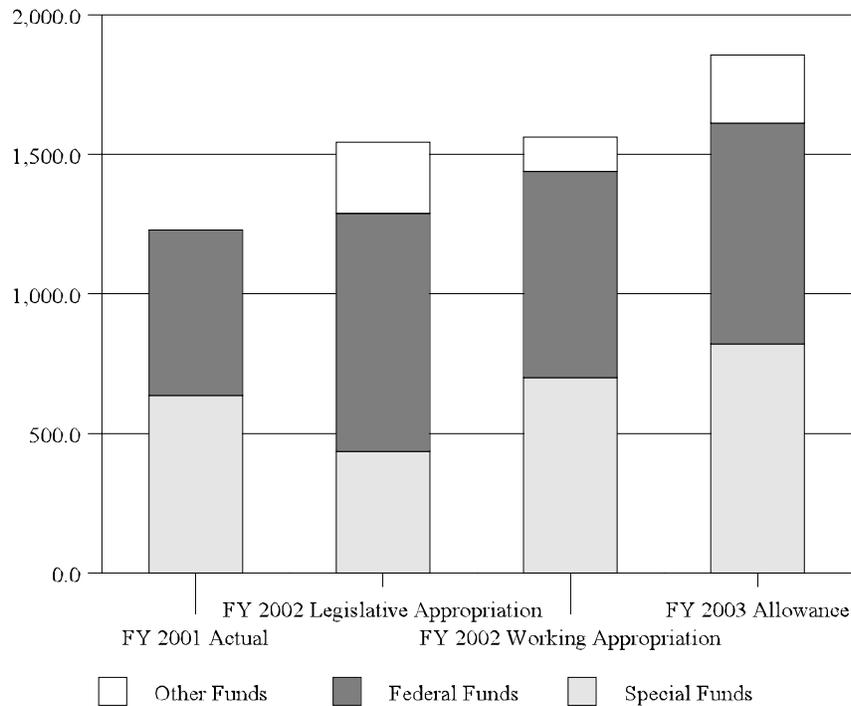
The 2002 CTP includes \$82 million in new projects over the six-year period covered by the CTP. The majority of the new projects support the construction program. In fiscal 2003 these additional projects represent \$23 million in new spending. However, as Exhibit 9 shows, MDOT has deferred special funding totaling \$44 million in fiscal 2002 and 2003 to provide sufficient special funds for the construction of the Woodrow Wilson Bridge and the Addison Road to Largo Metrorail Extension. The addition of projects totaling \$82 million over the course of the six-year program, and most significantly, the addition of \$23 million in fiscal 2003, is incongruent with the removal of funds.

Fiscal 2002 and 2003 Cash Flow Analysis

Exhibit 10 shows that expenditures are projected to increase from \$1.5 billion in fiscal 2002 to \$1.8 billion in fiscal 2003, an 18.8% increase. Much of this increase is attributable to the use of nontraditional financing sources.

Exhibit 10

**Maryland Department of Transportation
Capital Program Cash Flow
(\$ in Millions)**



Assumptions:

- SHA includes federal funds for local jurisdictions.
- WMATA excludes federal funds received directly by WMATA.
- Other funds includes funds from Maryland Air National Guard, Maryland Economic Development Corporation, COPs, PFCs, CFCs, and the MdTA for projects in the MAA and MTA.

Sources: Maryland Department of Transportation, *2002 Consolidated Transportation Program* and Governor’s Budget Books, fiscal 2003

J.00 - MDOT - Fiscal 2003 Budget Overview

Exhibit 11 provides a breakdown of the cash-flow changes from the fiscal 2002 allowance (the amount in last year's CTP) to the fiscal 2003 allowance (in the 2002 CTP). In the current year, MDOT has expanded the SHA capital program primarily by increasing costs for projects currently under construction. MDOT also reduced expenditures in the current year in MAA (due to transferring funds previously programmed for the MDOT headquarters building to the Secretary's Office (TSO) and the MAA operating program), MPA (due to dredging delays), MTA (due to delays in MARC projects and completion of construction of a parking garage at BWI) and TSO (due to decreased minor project spending).

Exhibit 11

Fiscal 2002 and 2003 Capital Program Cash-flow Changes (\$ in Millions)

	<u>Fiscal</u> <u>2002 Leg.</u> <u>Approp.</u>	<u>Change</u> <u>Leg. App.</u> <u>to Work.</u>	<u>Change</u> <u>Work. to</u> <u>Allow.</u>	<u>Fiscal</u> <u>2003</u> <u>Allow.</u>
State Highway Administration	\$885	(\$8)	\$57	\$935
Maryland Transit Administration	217	(35)	15	197
Washington Metropolitan Area Transit Authority	176	(9)	55	221
Maryland Aviation Administration	156	(62)	35	130
Maryland Port Administration	115	(34)	11	92
Motor Vehicle Administration	28	(4)	(1)	23
The Secretary's Office	24	12	(18)	19
Total	\$1,601	(\$140)	\$154	\$1,617

Assumptions:

- MTA includes all Statewide transit capital.
- WMATA excludes federal funds received directly by WMATA.
- MAA and MTA do not include other funding sources.

Note: Numbers may not sum due to rounding.

Source: Maryland Department of Transportation, *2002 Consolidated Transportation Program*

Transportation Trust Fund Overview

Fiscal 2001 Transportation Trust Fund Revenue Closeout

The TTF continued to show strong performance in fiscal 2001. **Exhibit 12** shows that revenue growth resulted in a \$128 million fund balance at the end of fiscal 2001. This is \$20 million greater than projected. Gross receipts (excluding fund transfers) were \$87 million greater than anticipated, attributable to an additional \$34 million in motor fuel tax receipts and \$43 million in other receipts, which includes \$17 million in third party reimbursements collected by SHA and \$15 million in changes in other revenue sources.

Though TTF revenues exceeded expectations in fiscal 2001, the recession did affect the TTF, as revenue receipts slowed in the second half of the fiscal year. Most affected were titling tax receipts, which traditionally are a leading indicator of a recession. Through the first six months, July to December 2000, titling tax receipts exceeded expectations by \$8 million. Due to the slowing vehicle sales in the second half of the year, titling tax receipts ended the fiscal year \$9 million less than projected.

Fund transfers in fiscal 2001 were less than anticipated due to a slowdown in the Woodrow Wilson Bridge renovation project. Consequently, fund transfers from the dedicated purpose fund to the TTF for the Woodrow Wilson Bridge and Addison Road projects were \$25 million, instead of \$50 million. As anticipated, almost \$20 million was transferred to the MdTA for repayment of funds that supported the construction of a garage at BWI airport.

Outlays also exceeded projections as the strong revenue growth resulted in an additional \$13 million in local highway user revenue grants. MDOT's special fund operating and capital expenditures were \$19 million and \$22 million greater than estimated, respectively. Capital special fund expenditures exceeded projections in spite of the slowdown to the Woodrow Wilson Bridge project.

Exhibit 12

Fiscal 2001 Special Fund Projected Vs. Actual Revenues and Expenditures
 (\$ in Millions)

Fund Balance	Projected	Actual	Variance
Starting Fund Balance	\$198	\$198	\$0
Ending Fund Balance	108	128	20
Change in Fund Balance	(\$90)	(\$70)	\$20
Gross Receipts/Adjustments			
Gross Revenues			
Motor Fuel Taxes	\$653	\$687	\$34
Titling Taxes	622	613	(9)
Corporate Income Taxes	110	118	8
Other Taxes and Fees	307	314	7
Operating Revenues and Misc. Revenues	317	364	47
Subtotal	2,009	2,096	87
Other Receipts/Adjustments			
MdTA Transfers	(20)	(20)	0
GF Transfers	50	35	(15)
Subtotal	30	15	(15)
Total Gross Receipts/Adjustments	\$2,039	\$2,111	\$72
Gross Expenditures and Deductions			
MDOT Expenditures			
Operating Expenditures and Debt Service	\$1,040	\$1,059	\$19
Capital Expenditures	617	639	22
Subtotal	1,657	1,697	40
Local Grants and Deductions			
Local Highway User Revenue Grants	422	435	13
Deductions	49	50	1
Subtotal	473	485	14
Total Gross Expenditures and Deductions	\$2,130	\$2,182	\$54

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

Source: Maryland Department of Transportation, November 2001

J.00 - MDOT - Fiscal 2003 Budget Overview

Fiscal 2002 Year-to-date Revenue Receipts

To date, MDOT is exceeding the Bureau of Revenue Estimates (BRE) revenue estimates in fiscal 2002. For the largest three revenue sources, the TTF is exceeding revenue projections by \$52 million through the first five months of fiscal 2002. **Exhibit 13** shows that more than three-quarters of the overattainment is attributable to titling tax receipts. However, most economists project that national vehicle sales will be 5% to 15% lower in calendar 2002 than 2001. Also, manufacturers are reducing their workforces and closing plants in response to lower projected sales. This suggests that receipts may underattain again in the second half of fiscal 2002, thus reducing attainments for the year closer to the level originally projected. Further complicating the fiscal 2002 forecast are the rebates offered the by automakers at the end of calendar 2001. Anecdotal evidence suggests that these sales may have induced people to replace their vehicles sooner. However, there is no data suggesting how much this could affect sales through the rest of the fiscal year.

Exhibit 13

Transportation Trust Fund Fiscal 2002 Actual Revenues Compared to Projected Revenues (\$ in Millions)

<u>Revenue Source</u>	<u>Total Projected Fiscal 2002</u>	<u>Projected through November 2001</u>	<u>Actual through November 2001</u>	<u>Difference</u>
Motor Fuel Taxes	\$687	\$235	\$246	\$11
Titling Taxes	594	220	261	41
Registration Fees	185	70	72	1

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

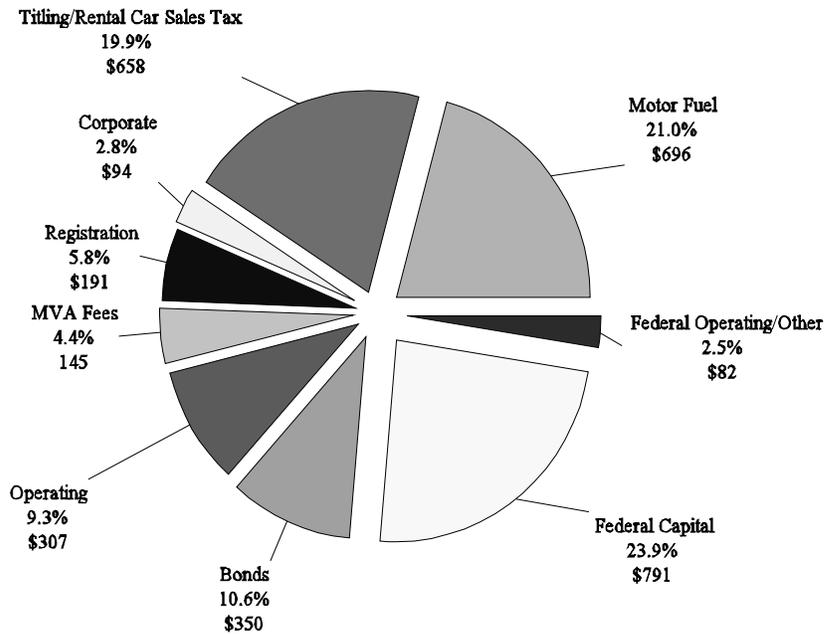
Sources: Bureau of Revenue Estimates (BRE), Maryland Department of Transportation, December 2001

Fiscal 2002 to 2007 Revenue Projections

The fiscal 2003 allowance is supported by \$3.3 billion in TTF revenues. **Exhibit 14** shows that the fund's largest sources are federal funds, motor fuel taxes, titling and rental car sales taxes, and registration fees. MDOT is projecting that \$350 million in bonds will be sold to supplement the transportation capital program.

Exhibit 14

Transportation Trust Fund Sources
Fiscal 2003
(\$ in Millions)



Total: \$3.31 billion

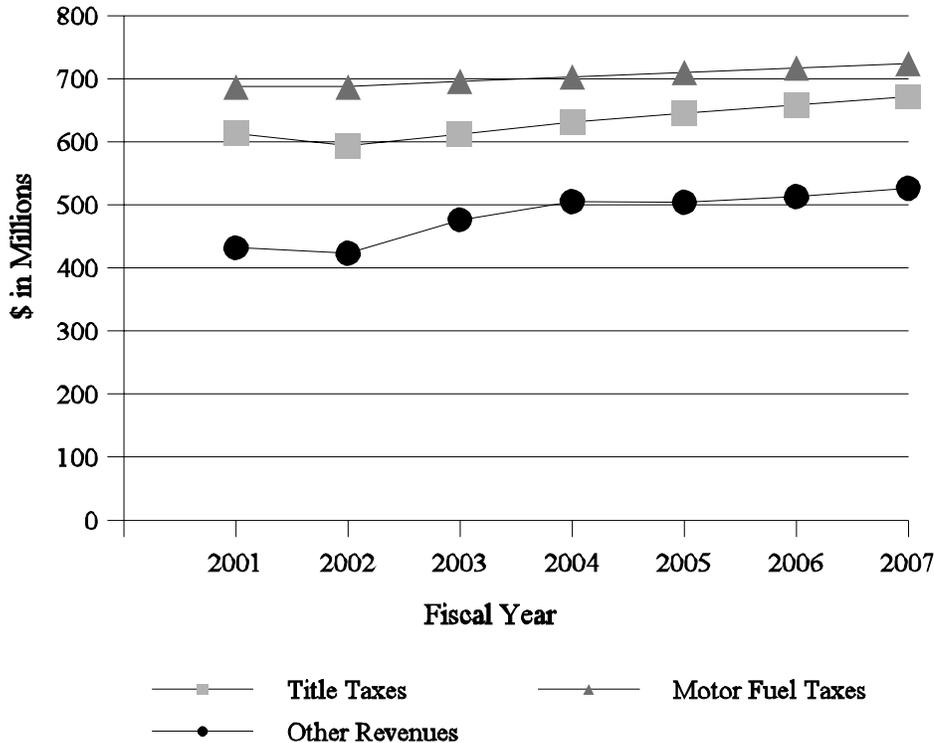
Source: Maryland Department of Transportation, Transportation Trust Fund Forecast, January 2002

Exhibit 15 shows MDOT's projected titling tax, motor fuel tax, and other tax and fee receipts from fiscal 2001 to 2007. Other taxes and fees include corporate income taxes, vehicle registrations, and miscellaneous motor vehicle fees.

The estimates assume funding based on current laws and do not assume any new revenue sources or increases in current rates. MDOT projects that gross revenues are projected to decline in fiscal 2002 and increase from fiscal 2003 to 2007. The drop in fiscal 2002 is attributable to the current recession. MDOT projects that from fiscal 2003 to 2007, titling tax revenue will increase almost 2.5% annually and motor fuel taxes will increase about 1% annually. Other revenues will increase 4.5% annually, primarily due to substantial corporate income tax growth as the State's economy comes out of the current recession.

Exhibit 15

**Transportation Trust Fund
Projected Gross Tax and Fee Revenues
Fiscal 2001 through 2007
(\$ in Millions)**



Source: Maryland Department of Transportation, 2002 Transportation Trust Fund Forecast

Projected TTF receipts have also increased in the 2002 forecast, when compared to the 2001 forecast. Net revenues exceed \$6.9 billion from fiscal 2003 to 2006. This is \$226 million greater than was forecast a year ago. Total receipts (net revenues, bond sale revenues, fund transfers, and federal aid) is \$163 million greater than projected a year ago, in spite of the reduction in proposed general fund transfers. The continued strength of the TTF, even during this recession, has allowed the department to continue to expand its programs even as proposed general fund transfers are reduced.

As in previous years, the MDOT forecast exhibits the department’s conservative forecasting bias. The fiscal 2003 to 2007 growth rates are about 50% below the historical averages, even though the historical averages assume periodic recessions while the period MDOT is forecasting does not assume a recession. If MDOT is correct that the recession will be over by fiscal 2003, it is likely that (based on historical growth

J.00 - MDOT - Fiscal 2003 Budget Overview

rates) revenue projections in the out-years will exceed MDOT projections and additional funds will be available for transportation spending. Conversely, if the recession is longer and deeper than currently projected, fiscal 2003 could result in declining revenues and possibly reduced transportation expenditures.

Fund Transfers

Exhibit 16 shows the forecasted fund transfers between the TTF, MdTA, and the general fund. The general fund transfers support two capital projects: Woodrow Wilson Bridge replacement and Addison Road to Largo Town Center Metrorail extension. The MdTA fund transfers support the transit initiative's capital enhancements. General fund support for the Wilson bridge and Metrorail extension has been reduced from \$370 million to \$230 million over the six-year period. The remaining \$140 million will be supported by special funds. Transit initiative funding was reduced by \$18 million in fiscal 2003. The \$18 million will be transferred to the general fund instead of the TTF.

Exhibit 16

Proposed Fund Transfers
Fiscal 2002 through 2007
(\$ in Millions)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
From General Fund for Capital Projects	\$0	\$0	\$70	\$125	\$10	\$0
From MdTA Toll Revenues to TTF for Transit	10	25	43	43	43	43
Total	\$12	\$25	\$113	\$168	\$53	\$43

Source: Maryland Department of Transportation; Transportation Trust Fund forecast, January 2001

The Transportation Trust Fund Allows the Transportation Capital Program to Grow During a Period of Recession and Reduced General Fund Support

The strong financial condition of the TTF reduces the effect of the recession on the transportation capital program. In the short term, the TTF is able to grow the capital program in spite of a decline in fiscal 2002 revenues attributable to the recession, the loss of \$140 million in general funds for capital projects, and \$18 million in MdTA funds for transit capital projects. This is attributable to:

- **Low Debt:** Since fiscal 1990, the State has reduced its debt outstanding from \$1,047 million at the end of fiscal 1995 to \$648 million at the end of fiscal 2001. This allows MDOT to issue \$560 million in debt in fiscal 2002 and 2003 to grow the program through the recession; and

J.00 - MDOT - Fiscal 2003 Budget Overview

- ***Noncyclical Revenues:*** Two of the three largest revenue sources for the TTF are motor fuel tax receipts and registration fees. These revenues are usually not affected much by the business cycle and are not expected to decline during this recession, thus reducing the effect of the recession on the TTF.

In spite of the TTF's good condition going into the recession, the State still has transportation issues to address. Insofar as the TTF can maintain the program and the general fund faces an out-year deficit exceeding \$1 billion, it is prudent that the General Assembly focus on addressing general fund needs during the 2002 legislative session. However, it is likely that the following issues will be raised over the next few years:

- ***Declining Transportation Funding for Capital Programs:*** While the program can grow through the recession, revenues do not keep up with the demands of the operating program and debt service over the entire six-year period. Increased debt service and operating expenditures combined with peak project capital cash flows result in a shrinking capital program beginning in fiscal 2004. The capital program declines from a projected peak of over \$1.6 billion in fiscal 2003 to \$983 million in fiscal 2007.
- ***Call for Higher Taxes to Support a Larger Program:*** In recent years, various groups have proposed increased funding for transportation. In December 1999, the Commission on Transportation Investment (CTI) identified \$27 billion in unmet needs. The commission estimated that this requires an additional \$650 million annually. The CTI also identified possible revenues sources to support this need including increasing sales tax rates, imposing transit taxes, implementing congestion pricing, and increasing the gas tax.
- ***Debt Ceiling Limits Capital Program Growth:*** Section 3-202 of the Transportation Article limits total transportation bonds outstanding to \$1.2 billion. MDOT's trust fund forecast projects that this limit will be reached at the end of fiscal 2004. MDOT debt limit ratios (as discussed in the Debt Service Requirements budget analysis) exceed the requirements for both the pledged taxes and net revenues tests. Increasing the debt limit would allow MDOT to issue more debt and increase the capital program. The result would be increased debt service and debt outstanding. For purposes of illustration, raising the limit to \$1.7 billion could result in MDOT issuing an additional \$490 million in debt between fiscal 2005 and 2007. This would allow an additional \$446 million in capital expenditures. Debt service payments would increase by \$23 million in those three years. At the end of fiscal 2007, debt outstanding would be \$1.68 billion.
- ***General Fund Support May be Overstated:*** In response to the recession, the administration has withdrawn \$140 million in general fund support for the Woodrow Wilson Bridge and Addison Road Metrorail capital projects. The forecast assumes that the next administration will resume general fund support of these projects in fiscal 2004, 2005, and 2006. Insofar as the TTF is in much better shape than the general fund (the TTF is able to forgo general fund support and still grow its capital program in fiscal 2002 and 2003), this assumption may be overly optimistic. Interestingly, the \$125 million general fund support proposed in fiscal 2005, is 150% (\$75 million) greater than the highest level that the TTF received when the economy was strongest.

Issues

1. Transportation Priorities -- Department Submits Capital Program Evaluation Statement

The administration's Managing for Results (MFR) initiative requires that all executive branch agencies submit a MFR plan with each annual budget submission. MDOT has submitted a MFR statement for its capital program, *Annual Attainment Report on Transportation System Performance*, and advises that it will continue to submit the document with its final CTP in January of each year.

The department prepared the report in conjunction with its review of the Maryland Transportation Plan, the precursor to the six-year Consolidated Transportation Program. The department has previously outlined nine goals as part of its operating budget MFR which are similar to the ten goals identified in the capital program MFR. The capital MFR goals are:

- to lead the development of transportation investments and facilities that support smart growth;
- to protect the current investment in the State's transportation system before investing in system expansion;
- to optimize the value of the State's transportation system by seeking the highest possible performance from existing and future transportation facilities and services;
- to provide safe and secure transportation across all modes and for every type of trip;
- to provide responsible stewardship of natural, community, and cultural resources;
- to provide people with transportation choices for convenient, accessible, and effective mobility to key destinations;
- to provide a transportation system that expands economic opportunities and increases the economic vitality of the State;
- to provide for the efficient and reliable movement of goods;
- to secure adequate resources to build, operate, and maintain a high quality transportation system; and
- to ensure involvement and quality service in the development and delivery of transportation plans, programs, products, and services.

The capital program MFR was obviously prepared with these goals in mind as some of the goals outlined are similar in scope; however, the report does not cover all of the operating budget goals and adds new goals to the list. It is not clear how the separate goals of the operating and capital budget can all be aligned under one department. Furthermore, all 19 goals compete for trust fund resources. The capital MFR was meant

J.00 - MDOT - Fiscal 2003 Budget Overview

to extend the process to include the capital program, not create an entirely different way to look at transportation priorities.

Given the conflicting nature of the two different program evaluation statements, the department should consider recentering and refocusing its energies and should prioritize its capital spending in the following manner:

- ***System Preservation*** -- Maintaining the infrastructure of the State including the highway network, transit systems, airports, and the port and providing a safe transportation environment are arguably the most critical components of the State's capital development. Adequate infrastructure maintenance helps protect against financing significant capital investments sooner than anticipated, aids economic development through efficient commerce, and can save lives.
- ***Capacity Building Projects*** -- As the population of the State and the surrounding region continues to grow, additional transportation infrastructure capacity will be necessary so as to allow citizens and commerce to continue.
- ***Major One-time Projects*** -- Projects such as replacing the Woodrow Wilson Bridge are typically large and expensive. If the department focuses its efforts on system preservation, projects such as replacing this bridge, will not be necessary as often, thereby saving transportation dollars and resources. No amount of preservation, however, can stave off the necessity of replacing major transportation facilities. Prudent financial management is important to ensure that MDOT can fund these types of projects when the need arises.
- ***All Other Capital Spending*** -- To the extent that these three primary priorities can be met within existing resources, other transportation-related programs and grants can further enhance the ability of the State to meet the demands of other interests. However, these extraneous programs have increasingly taken resources away from potentially funding other important projects.

In short, MDOT cannot be all things to all people. With limited financial resources, MDOT must prioritize its various needs and the demands that are placed on it. MDOT should focus on maintaining and constructing transportation infrastructure and the department's capital MFR should reflect this real set of priorities.

The department should advise the committees as to the actions it intends to undertake to refocus its priorities on improving the transportation network and ensuring the safety of the users of the system.

2. Large Capital Projects Place Greater Demands on TTF -- Woodrow Wilson Bridge and Addison Road Extension

During the 2000 legislative session, the General Assembly agreed to partially fund two extraordinarily large transportation improvement projects, the Woodrow Wilson Bridge and the Addison Road to Largo Town Center Metrorail Extension, with general fund resources. Typically transportation projects are funded

J.00 - MDOT - Fiscal 2003 Budget Overview

with TTF proceeds, federal funds, or other non-TTF resources. General fund appropriations to DPF totaling \$370 million over six years were earmarked to support construction of these two projects. In recent months, however, decreasing revenues and increasing expenditures have placed pressure on the resources of the general fund. MDOT advises that for fiscal 2002 and 2003, the TTF will finance construction of the bridge and the metrorail extension, with general fund support returning in fiscal 2004. **Exhibit 17** indicates the current general fund forecast for financial support for these two large projects.

Exhibit 17

**General Fund Support for Construction of Woodrow Wilson Bridge and
Addison Road/Metrorail Extension
Fiscal 2001 through 2007
(\$ in Millions)**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
Previous Forecast	50	45	70	70	125	10	0	370
Current Forecast	35 *	0	0	70	125	10	0	240

*In fiscal 2001, the General Assembly approved an additional \$10 million in DPF appropriations for the Greenbelt Metrorail Station. Expenditures for the Wilson Bridge and Addison Road extension total \$25 million in fiscal 2001.

Source: Maryland Department of Transportation

To finance the construction of these two projects with TTF resources rather than the previously programmed general funds, MDOT has removed special funding in the 2002 CTP for fiscal 2002 and 2003 totaling \$44 million to provide sufficient special funds for the construction of the Woodrow Wilson Bridge and the Addison Road to Largo Metrorail Extension. However, the department also added \$23 million in new fiscal 2003 spending. In addition, TTF revenues for fiscal 2003 to 2006 are forecasted to be \$163 million higher than last year's forecast for the same period.

The department should advise the committees as to the long-term impact of the reduction in general fund for the Woodrow Wilson Bridge and Addison Road/Largo Metrorail Extension projects and how the additional revenues in this year's forecast minimize the impact on other capital projects. MDOT should also indicate what adjustments it will make if general fund support is not forthcoming in fiscal 2004 and 2005, as forecasted.

3. Transportation Giveaways Diminish Ability of TTF to Fund Important Capital Projects -- The Free Toll and the Free Fare Weekend

MTA offered free fares on all Baltimore buses, light rail trains, and subways for the weekend of October 12, 2001, through October 14, 2001. In addition, the WMATA board also offered free Metro subway and bus service that weekend. This action followed a free toll weekend at Maryland Transportation Authority-

J.00 - MDOT - Fiscal 2003 Budget Overview

owned (MdTA) bridges and tunnels during the Columbus Day weekend, October 5, 2001, through October 8, 2001.

The total cost of free bus and train fares in Baltimore totaled approximately \$155,000. The Baltimore Ravens football team did not have a home game that weekend, thereby minimizing the potential for large revenue losses. WMATA estimates that Maryland's share of Washington Metro revenue totaled approximately \$190,000. Lost revenue from Columbus Day weekend's free tolls totaled \$1.4 million. MDOT reimbursed the MdTA for its lost revenue as required by the MdTA Trust Agreement.

DLS is concerned about the fiscal impact on the TTF of these free fares and the lack of legislative oversight of the decision to offer free fares.

- The impact of free tolls and fares on the economy is also unknown. While eliminating some revenue collections may indeed stimulate economic activity and State revenue attainment, with free fare weekends the TTF is losing revenue without the possibility of these funds being recovered.
- Furthermore, the economic benefit of free fares remains to be seen and, quite possibly, is outweighed by the significant costs of these ventures to the TTF.
- Finally, it is not clear that the committees were given the opportunity to analyze or deliberate on MDOT's proposal. To the extent that the committees did have prior notice of the free fare plan, they had limited opportunity to review and comment.

In order to continue to fund important projects, MDOT will need to get its priorities in order. Building large, regionally significant projects, or preserving the existing transportation system, cannot occur if MDOT continues to purposefully decrease revenue attainment.

The department should discuss how it intends to construct improvements to the State's highway and transit system and maintain the transportation network when it purposefully decreases revenue attainment through actions such as free fare weekends.

4. Innovative Financing Has Potential Use in Maryland

Maryland finances its transportation capital construction program through a variety of mechanisms. The sources of funds for MDOT's capital program are cash from the TTF, Consolidated Transportation Bonds, and on a limited basis, COPs. The TTF consists of revenues earned from MAA, MPA, and MTA operations as well as a variety of dedicated taxes and federal fund receipts. In addition, MDOT has the authority to issue 15-year Consolidated Transportation Bonds, which are backed by pledged taxes. MDOT has a policy of "dedicating" proceeds of the sale of transportation bonds to fund the State's highway construction program. MDOT has also used COPs which are secured by revenues from a facilities lease. In addition, MDOT has financed transportation projects such as the international terminal at Baltimore-Washington International Airport, using marketable-revenue bonds sold by MdTA. MDOT does not currently have the authority to issue project revenue bonds.

J.00 - MDOT - Fiscal 2003 Budget Overview

Most state transportation agencies use a similar mix of operating revenue receipts, tax collections, federal funds, and bond proceeds to fund transportation capital needs. However, as transportation demands have grown and revenues to finance this infrastructure have decreased relative to the expense of new construction or maintenance of existing facilities, new financial instruments have been developed. Two instruments enacted by the federal government have the possibility for application in Maryland. Currently MDOT does not have authority to use these instruments, as changes to the statute are necessary.

Grant Anticipation Revenue Vehicle Bonds

Grant Anticipation Revenue Vehicle Bonds, or GARVEEs as they are commonly known, were created by the federal National Highway System (NHS) Designation Act of 1995. Prior to 1995, federal-aid funds could repay only the principal on bonds or the project-related component of debt service on bonds issued for projects. The NHS Designation Act expanded the eligibility for debt financing costs for federal-aid reimbursement. The U.S. Department of Transportation (USDOT) permits the use of GARVEEs not only for bond sales but also for a note, certificate, mortgage, lease, or other debt financing instrument issued by a state. GARVEEs are considered riskier than GO bonds, which are backed by the full faith and credit of the state. However, the federal Transportation Equity Act for the 21st Century (TEA-21) authorized a minimum guarantee of federal transportation funding for each state, thereby reducing the risk that federal appropriations would be significantly lower than expected within the six-year authorization period of the act.

Other States' Usage of GARVEEs

Several states have marketed GARVEEs including Ohio, Massachusetts, New Mexico, and Arkansas, while at least six others have the legislative authority to use GARVEE financing.

- The state of Ohio, the first state to issue GARVEEs, has gone to the market with three separate GARVEE issuances for several different highway projects. Moody's rating service rated the bonds as AA3 and the bonds are backed by the state's gas tax and general fund appropriations in the event of a federal fund shortfall.
- In Massachusetts, a portion of the \$10.8 billion "Big Dig," or the Central Artery Tunnel in Boston, was funded by the use of GARVEEs. The state pledged a portion of its state fuel tax toward repayment if federal funds aren't realized. Moody's rating service gave these bonds a rating of AA3.
- New Mexico has twice issued bonds, \$100.2 million and \$18.5 million for construction of New Mexico State Route 44. Moody's rating service gave these bonds a rating of A3 and A2, respectively. The state purchased municipal bond insurance as a financial backstop.
- The Arkansas State Highway Commission issued \$185 million in direct GARVEE bonds on July 10, 2001, to finance improvements to 380 miles of interstate highways in the state. This is in addition to the \$175 million in GARVEE bonds issued last year. The last piece of Arkansas' currently authorized \$575 million GARVEE program will be sold in 2002. Both bond issuances were backed by the full faith and credit of the state and motor fuel tax receipts and were rated Aa2 by Moody's.

Transportation Infrastructure Finance and Innovation Act

The Transportation Infrastructure Finance and Innovation Act (TIFIA) of 1998, established under TEA-21, permits the USDOT to provide three forms of credit assistance -- direct loans, loan guarantees, and lines of credit for surface transportation projects of national or regional significance. The program is intended to leverage federal funds for up to 33% of the total cost of eligible projects, which must cost at least \$100 million, by attracting additional investment from non-federal government sources. By leveraging future user charges associated with the projects to be constructed, loan repayment coincides with receipt of project revenues.

Currently several projects have been approved for TIFIA including a loan for the San Francisco-Oakland Bay Bridge Seismic Retrofit project; the Cooper River Bridges Replacement project near Charleston, South Carolina; rehabilitated facilities for Staten Island Ferries in New York City; and the WMATA Infrastructure Renewal Program. TIFIA will provide:

- a loan guarantee up to \$600 million for WMATA's \$2.3 billion infrastructure rehabilitation program including preventative maintenance programs. Completion is scheduled for 2010.
- a loan up to \$450 million for the \$3.3 billion seismic retrofitting of both Oakland Bay Bridge spans. The loan will be repaid with a \$1.00 vehicle toll surcharge on all seven existing San Francisco Bay crossings. Project completion is scheduled for 2006.
- a loan up to \$215 million for the \$650 million replacement of the Cooper River Bridges. The loan will be repaid with state appropriations and county tourism fees. Project completion is scheduled for 2006.
- a loan up to \$159 million for the \$463 million rebuild of two ferry boat terminals and to replace three aging ferryboats. The loan is to be secured by Tobacco Settlement Revenues. Completion is scheduled for 2004.

Maryland Transportation Plan Is a Candidate for Innovative Finance

Currently, MDOT can not issue GARVEE bonds or apply to USDOT for TIFIA financing. Legislation was introduced during the fiscal 2001 legislative session to provide MDOT with the authority to use GARVEEs or TIFIA loans. Having this authority would allow the department the possibility of greater flexibility in its use of federal funding for transportation projects. While innovative finance may not assist MDOT with funding currently programmed projects such as the Wilson Woodrow Bridge or the Addison Road extension, it may be a useful option for future large projects.

Obviously there are several positives and negatives associated with such a legislative change. For instance, with the greater flexibility of using future federal funds comes the lack of a guarantee by the federal government that it will provide federal funds in the future for payment of principal or interest on GARVEEs. In addition, the costs of issuing bonds (interest payments, bond counsel, etc.) might outweigh any potential savings in funding construction at today's interest rates. However, for projects where the risks outweigh the benefits from using innovative finance, the State still has other more traditional avenues to explore. It would be in the State's interest to enhance its capabilities to finance transportation projects.

The department should discuss the potential for using innovative financing in the future to fund transportation capital improvements.

Recommended Actions

1. Add the following language:

It is the intent of the General Assembly that any funds transferred to the Maryland Department of Transportation (MDOT) from unencumbered reserves of the Maryland Transportation Authority (MdTA) shall not be used to support ongoing transportation spending and shall constitute one-time only spending. The MdTA may transfer unencumbered reserves solely to support the MDOT capital program. MDOT must reimburse the MdTA with interest, for any MdTA funds appropriated in this budget. The MdTA may continue the practice of lending reserves to MDOT, provided that the funds are reimbursed to the MdTA with interest. In addition, any MdTA toll revenues transferred to support the 2001 transit initiative shall be used only to support transit capital expenses. The General Assembly does not support the use of MdTA toll revenues to support the department's operating budget.

Explanation: The administration's transit initiative assumes the transfer of \$25 million in Maryland Transportation Authority (MdTA) revenues in its fiscal 2003 appropriation. The General Assembly does not support the use of MdTA toll revenues for ongoing operating budget spending. This language precludes MDOT from spending any MdTA revenues on ongoing transit expenditures. The MdTA may continue the practice of lending reserves to MDOT, provided that the funds are reimbursed to the MdTA with interest.

2. Add the following language:

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 (CTP), shall be expended in accordance with the plan approved during the legislative session. In the event the department modifies the program to:

- (1) Add a new project to the construction program or development and evaluation program meeting the definition of "major project" under Section 2-103.1 of the Transportation Article, which was never 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 "major project" under Section 2-103.1 of the Transportation Article, which will result in an increase of more than 10 percent or \$1,000,000, whichever is greater, in the total project cost as reviewed by the General Assembly during a prior session, the department shall prepare a report to notify the budget committees of the proposed changes. For each change, the report shall identify the project title, justification for adding the new project or modifying the scope of the existing project,

J.00 - MDOT - Fiscal 2003 Budget Overview

current year funding levels, and the total project cost estimate 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.

Notification of changes in scope shall be made to the General Assembly concurrent with the submission of the draft and final CTP. Notification of new construction project additions, as outlined in paragraph (1) above, shall be made to the General Assembly prior to the expenditure of funds or the submission of any contract for approval to the Board of Public Works.

Explanation: The department will continue to be required to notify the budget committees of proposed changes to the capital program which will add a new project which was not in the 2002 CTP or will increase a total project's cost by more than 10%, or \$1.0 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 2002 CTP as the basis for comparison.

Information Request	Authors	Due Date
Capital budget changes	MDOT	With draft CTP
Capital budget changes	MDOT	With final CTP

3. Add the following language:

It is the intent of the General Assembly that funds dedicated to the Transportation Trust Fund shall be applied to purposes bearing direct relation to the State transportation program, unless directed otherwise by legislation. To implement this intent for the Maryland Department of Transportation in fiscal 2003, no commitment of funds in excess of \$250,000 may be made nor may such an amount be transferred, by budget amendment or otherwise, for any project or purpose not normally arising in connection with the ordinary ongoing operation of the department and not contemplated in the budget approved or the last published Consolidated Transportation Program without review and comment by the budget committees.

Explanation: The annual language prohibits the use of transportation funds for uses other than transportation-related purposes without review and comment by the budget committees.

Information Request	Author	Due Date
Non-transportation expenditures exceeding \$250,000	MDOT	As needed

J.00 - MDOT - Fiscal 2003 Budget Overview

4. Add the following language:

The Maryland Department of Transportation (MDOT) shall not expend funds on any job or position of employment approved in this budget in excess of _____ positions and _____ contractual full-time equivalents 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 2003. The level of _____ contractual full-time equivalents 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 Port of Baltimore and Baltimore/Washington International Airport which demands additional personnel; or
- (2) emergency needs which 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 permanent position ceiling approved by the Board of Public Works shall count against the Rule of 50 imposed by the General Assembly. The establishment of new jobs or positions of employment not authorized in the fiscal 2003 budget shall be subject to Section 7-236 of the State Finance and Procurement Article, and the Rule of 50.

Explanation: The General Assembly has established a position ceiling for the Maryland Department of Transportation each year to limit full-time position and contractual full-time equivalent growth.

Information Request	Author	Due Date
Additional contractual and regular positions	MDOT	As needed

**Major and Minor Project
Additions to the Maryland Transportation Capital Program
Fiscal 2002 through 2007
(\$ in Thousands)**

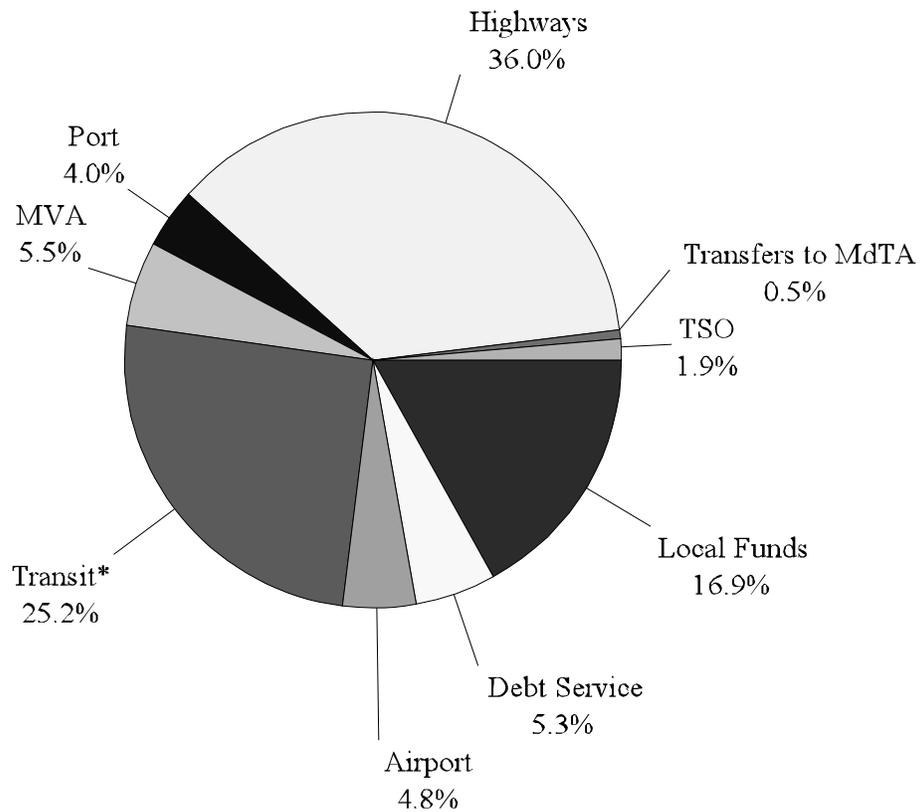
<u>Description</u>	<u>Total Funds Added</u>	<u>Fiscal 2003 Special Funds</u>
Calvert		
MD 509, Governor Run Road; Replace Bridge #4020 over Governor Run	\$594	\$63
Carroll		
MD 32, Sykesville Road; MD 32 Bridge over River Road, Patapsco River and CSX Railroad	4,578	328
Frederick		
MD 17, Wolfsville Road; Replace Bridges #10068, 10069, and 10071 over Middle Creek	3,737	14
Queen Anne's		
MD 304, Ruthsburg Road and MD 481; Damsontown Road and MD 304; and MD 481 over Blackston Branch and German Branch	1,609	312
Statewide		
BWI -- Buildout of Parking Guidance System in Existing Parking Garage	3,219	3,026
BWI -- Comprehensive Roadway Sign System	4,500	4,290
Port of Baltimore -- Fill in South Locust Point Fruit Pier	9,600	7,170
Transit -- Maryland-Delaware Railroad Rehabilitation and Improvements	7,220	1,992
Transit -- Light Rail Safety Upgrades	5,600	145
Transit -- Metro Facilities Maintenance Building	13,018	946
Transit -- Procure Lift-Equipped Over-the-Road Coaches	13,000	948
Transit -- Largo Garage	4,000	3,000
Transit -- Purple Line Study	10,700	700
Transit -- Parole Town Center	1,000	0
Total	\$82,375	\$22,934

Historical Perspective on Transportation Spending

Transportation spending has increased 63.6% in total since fiscal 1992. **Exhibit 18** indicates the share of total transportation spending by category between 1992 and 2001. The highway program has grown modestly at approximately an average of 4.7% annually since fiscal 1992. Transit spending has increased annually by 3.9%. Annually transportation spending increased approximately 5%.

Exhibit 18

**Percent of Total Transportation Spending
Fiscal 1992 through 2001**



Source: Department of Legislative Services

J.00 - MDOT - Fiscal 2002 Budget Overview

Appendix 2 (Cont.)

Historical Transportation Spending

<u>Operating</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>
TSO	\$56,669	\$55,830	\$58,804	\$50,858	\$22,143	\$20,271	\$26,383	\$24,384	\$24,848	\$16,213
Transfers to MdTA	19,870	20,000	0	0	25,000	25,000	25,000	0	0	0
SHA	190,175	190,916	182,275	159,378	163,212	189,709	149,132	167,397	146,380	136,179
MPA	82,965	75,282	70,948	68,182	51,188	47,205	48,937	44,118	39,552	40,021
MVA	117,921	115,073	110,761	103,951	124,473	119,716	110,872	98,655	92,622	92,289
MTA *	333,506	284,481	267,336	259,459	251,688	252,393	233,901	221,943	201,352	191,705
WMATA	113,889	122,164	115,948	109,933	107,162	103,900	95,447	87,345	82,683	54,408
MAA	84,193	69,314	62,367	56,677	50,112	50,995	73,391 **	43,693	38,750	34,796
Operating Subtotal	\$999,188	\$933,059	\$868,439	\$808,438	\$794,977	\$809,189	\$763,062	\$687,535	\$626,187	\$565,611
Debt Service	109,998	135,556	133,178	127,277	122,258	121,598	106,893	109,800	114,289	101,735
Capital										
TSO	13,647	6,897	12,484	2,846	15,130	3,953	10,195	2,492	115	16
SHA	779,283	613,268	648,923	575,991	591,290	538,710	570,666	474,664	475,768	476,118
MPA	60,564	32,729	52,169	38,065	39,203	26,897	31,956	17,992	19,685	7,629
MVA	34,946	18,635	8,627	8,689	8,590	7,179	45,086	18,614	1,317	858
MTA *	167,437	144,238	130,078	145,136	122,463	154,287	130,018	101,569	124,634	210,318
WMATA	77,058	63,411	62,206	65,305	77,987	66,725	68,926	36,362	30,635	14,148
MAA	97,819	73,265	56,152	43,858	51,477	55,579	45,792	35,443	21,675	19,729
Capital Subtotal	\$1,230,753	\$952,444	\$970,639	\$879,889	\$906,140	\$853,330	\$902,638	\$687,136	\$673,830	\$728,816
Cnty/Muni Funds	434,842	414,373	400,814	369,824	403,818	380,791	377,090	319,669	296,679	299,746
MDOT Total	\$2,082,891	\$1,821,138	\$1,797,501	\$1,605,595	\$1,667,893	\$1,587,603	\$1,621,391	\$1,356,921	\$1,271,681	\$1,225,330
Funds										
Special	2,151,946	1,962,690	1,947,145	1,743,966	1,709,928	1,686,635	1,675,963	1,432,905	1,351,743	1,356,331
Federal	621,600	472,515	419,543	441,242	516,787	470,762	467,170	365,982	354,955	339,339
Reimbursable	1,235	227	6,381	221	478	7,511	6,551	5,252	4,287	237
Total Funds	\$2,774,781	\$2,435,432	\$2,373,069	\$2,185,428	\$2,227,192	\$2,164,908	\$2,149,683	\$1,804,139	\$1,710,984	\$1,695,907

*State Railroad Administration is included in Transit totals for 1990 and 1991.
 **MAA includes \$24.8 million in passenger facility charge revenues that were later transferred to the MdTA for airport projects.

J.00 - MDOT - Fiscal 2001 Budget Overview

Source: Department of Legislative Services

Long-term Forecast of the Transportation Trust Fund - Fiscal 2001 through 2011
 (\$ in Millions)

	Actual FY 2001	Estimate FY 2002	Estimate FY 2003	Estimate FY 2004	Estimate FY 2005	Estimate FY 2006	Estimate FY 2007	Total FY 02-07	Estimate FY 2008	Estimate FY 2009	Estimate FY 2010	Estimate FY 2011	Total FY 02-11
Fund Balance													
Starting Balance	198	128	100	101	104	101	97	128	93	100	100	100	128
Closing Balance	128	100	101	104	101	97	93	93	100	100	100	100	100
Net Revenues													
Taxes and Fees	1,247	1,235	1,305	1,344	1,359	1,379	1,404	8,026	1,410	1,430	1,449	1,469	13,784
Operating/Misc.	395	380	389	366	379	391	410	2,315	417	424	431	438	4,025
GF Payments/Repayments	35	0	0	70	125	10	0	205	0	0	0	0	205
MdTA Transfer	(20)	10	25	43	43	43	43	207	0	0	0	0	207
Net Revenues Subtotal	1,658	1,625	1,719	1,823	1,906	1,823	1,857	10,753	1,827	1,853	1,880	1,907	18,221
Bonds	0	210	350	270	115	85	80	1,110	70	80	80	80	1,420
Subtotal	1,658	1,835	2,069	2,093	2,021	1,908	1,937	11,863	1,897	1,933	1,960	1,987	19,641
Expenditures													
Debt Service	110	113	139	157	176	152	130	866	134	139	146	146	1,431
Operating	979	1,048	1,103	1,167	1,216	1,263	1,311	7,108	1,360	1,411	1,464	1,518	12,861
GF/MEDEVAC	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Capital	638	702	826	766	632	498	500	3,924	396	384	350	323	5,377
Subtotal	1,727	1,863	2,068	2,090	2,024	1,913	1,941	11,898	1,890	1,934	1,960	1,987	19,668
Debt													
Debt Coverage Ratio -													
Net Income	5.0	4.5	3.4	3.2	2.9	3.2	3.4		3.5	3.6	3.7	3.9	
Debt Outstanding	648	774	1,030	1,198	1,198	1,191	1,201		1,197	1,198	1,199	1,200	
Local Funds								Total FY 02-07	FY 2008	FY 2009	FY 2010	FY 2011	Total FY 02-11
Highway User	435	418	432	446	451	457	464	2,668	477	484	491	497	4,617
Capital Summary													
State Capital	638	702	826	766	632	498	500	3,924	396	384	350	323	5,377
Federal Capital	572	739	791	765	724	542	485	4,046	333	333	333	333	5,378
TOTAL	1,210	1,441	1,617	1,531	1,356	1,040	985	7,970	729	717	683	656	10,755
System Preservation	526	558	502	448	474	502	539	3,023	510	510	510	510	5,063
Major construction program	684	883	1,115	1,083	882	538	446	4,947	219	207	173	146	5,692

Forecast Assumptions:

Total debt outstanding limited to \$1.2 billion.

Chapter 568, Acts of 2001 provides that the TTF receives additional rental car sales tax receipts from fiscal 2002 to 2007.

Prepared by: Department of Legislative Services

Source: Board of Revenue Estimates, Maryland Department of Transportation, January 2002

Long-term Forecast of the Transportation Trust Fund - Fiscal 2001 through 2011
 (\$ in Millions)

Gross Taxed and Fees	Actual	Estimate	Total	Estimate	Total								
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2011	FY 02-11
Motor Fuel	687	687	696	703	710	717	724	754	761	769	777	777	7,298
Rental Car Sales Tax	19	31	46	46	47	47	48	25	25	25	25	25	365
Titling	613	594	612	631	645	658	671	684	698	712	726	726	6,633
Corporate*	118	75	94	119	113	115	120	122	124	127	129	129	1,138
Registrations	183	185	191	193	196	198	201	203	205	207	209	209	1,989
Lic/Misc Fees	112	132	145	147	148	153	157	155	156	157	159	159	1,509
Subtotal Taxes & Fees	1,732	1,705	1,785	1,839	1,860	1,887	1,921	1,943	1,970	1,997	2,025	2,025	18,931
Operating/Misc.	395	380	389	366	379	391	410	417	424	431	438	438	4,025
MdTA Transfers	(20)	10	25	43	43	43	43	0	0	0	0	0	207
GF Transfers	35	0	0	70	125	10	0	0	0	0	0	0	205
Gross Revenues	2,142	2,095	2,199	2,318	2,407	2,331	2,374	2,360	2,394	2,428	2,463	2,463	23,368

Deductions from the Trust Fund

Highway User Revenues	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Total
	(435)	(418)	(432)	(446)	(451)	(457)	(464)	(477)	(484)	(491)	(497)	(4,617)
Other Agencies/GF	(50)	(52)	(48)	(49)	(50)	(51)	(53)	(55)	(56)	(58)	(59)	(530)
Net Revenues⁽¹⁾	1,658	1,625	1,719	1,823	1,906	1,823	1,857	1,827	1,853	1,880	1,907	18,221

*Corporate income tax estimate is BRE estimate.

⁽¹⁾Net Revenue equal taxes and fees plus operating revenues including general fund transfers.

Prepared by: Department of Legislative Services