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Maryland Transportation Authority

Operating Budget Data

(\$ in Thousands)

	<u>FY 07 Actual</u>	<u>FY 08 Amended</u>	<u>FY 09 Budget</u>	<u>FY 08-09 Change</u>	<u>% Change Prior Year</u>
Non-budgeted Fund	\$233,904	\$230,960	\$251,231	\$20,271	8.8%
Total Funds	\$233,904	\$230,960	\$251,231	\$20,271	8.8%

- The Maryland Transportation Authority's (MdTA) fiscal 2009 budget increases by \$20.3 million, or 8.8%, over the fiscal 2008 amended budget. The underlying fiscal 2009 budget change for this agency, excluding health insurance and Other Post Employment Benefits (OPEB) funding which distorts year-over-year spending, is \$11.4 million, or 5.3%.
- Several large increases are included in the fiscal 2009 budget, including an increase of \$13.0 million for personnel and \$12.4 million for debt service. These changes are offset by a decrease of \$10.7 million for the purchase of new and additional equipment and vehicles.

PAYGO Capital Budget Data

(\$ in Thousands)

	<u>Fiscal 2007 Actual</u>	<u>Fiscal 2008</u>		<u>Fiscal 2009 Budget</u>
		<u>Approved</u>	<u>Amended</u>	
Non-budgeted	\$316,376	\$832,799	\$918,311	\$1,141,413
Total	\$316,376	\$832,799	\$918,311	\$1,141,413

- The fiscal 2009 budget for capital spending is \$1.1 billion, an increase of \$223.1 million over fiscal 2008. This increase is largely the result of the construction schedule for the InterCounty Connector (ICC) and Express Toll Lanes (ETLs) on I-95.

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

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Operating and PAYGO Personnel Data

	<u>FY 07</u> <u>Actual</u>	<u>FY 08</u> <u>Amended</u>	<u>FY 09</u> <u>Budget</u>	<u>FY 08-09</u> <u>Change</u>
Regular Operating Budget Positions	1,604.50	1,641.50	1,639.00	-2.50
Regular PAYGO Budget Positions	<u>111.00</u>	<u>116.00</u>	<u>115.00</u>	<u>-1.00</u>
Total Regular Positions	1,715.50	1,757.50	1,754.00	-3.50
Operating Budget Contractual FTEs	28.00	17.50	20.00	2.50
PAYGO Budget Contractual FTEs	<u>2.00</u>	<u>2.00</u>	<u>2.00</u>	<u>0.00</u>
Total Contractual FTEs	30.00	19.50	22.00	2.50
Total Personnel	1,745.50	1,777.00	1,776.00	-1.00
Vacancy Data: Regular Positions				
Turnover, Excluding New Positions		56.13	3.20%	
Positions Vacant as of 12/31/07		169.50	9.66%	

- MdTA's fiscal 2009 budget for regular positions is 1,754.0. This is a net decrease of 3.5 positions, which is the result of the abolition of 9.5 positions that is offset by 6.0 new positions.

Analysis in Brief

Major Trends

The Use of Electronic Tolling Continues to Increase: Since the implementation of E-ZPass in 2001, the percentage of tolls collected through electronic tolling has grown steadily from only 15% in 2001 to nearly 55% in 2007. Electronic tolling has many advantages, including reducing congestion at toll booths and reducing operating costs. Two projects currently under construction, the ICC and ETLs on I-95, will utilize only electronic tolling and will not have any toll booths.

MdTA Moves Forward on Construction of the ICC and Express Toll Lanes on I-95: MdTA continues to move forward with two large capital projects which total \$3.6 billion. Funding for the projects relies heavily on debt, and MdTA anticipates bond issuances of \$2.8 billion over the next five years. Both projects are expected to be completed by 2012.

Issues

Debt to Take a Huge Toll on MdTA: Simultaneous construction of two large capital projects and an overwhelming reliance on debt to fund the capital program will place a significant financial strain on MdTA over the next 10 years. Debt outstanding is projected to increase from \$245.1 million in fiscal 2007 to \$2.9 billion in fiscal 2013. As a result, debt service will increase from \$24.4 million in fiscal 2008 to a peak of \$201.2 million in fiscal 2015. The large increase in debt service, coupled with operating and maintenance cost increases resulting from two new facilities under MdTA's ownership, will mean less money available for the capital program in the future. In several years, MdTA's forecast anticipates MdTA reaching the minimum, or near minimum, for its financial coverage ratios. **The Department of Legislative Services (DLS) recommends that MdTA establish an administrative policy level of 1.25 for its rate covenant compliance ratio and that MdTA's statutory debt limit be increased no higher than \$2.8 billion. Furthermore, DLS recommends that MdTA consider adjusting its toll rate policies; eliminating less critical capital projects; ceasing the issuance of capitalized interest bonds; and constraining growth in its operating budget. Finally, DLS recommends that the Secretary comment on how the proposed financial plan will impact MdTA's capital program and its financial condition now and in the future.**

Current E-ZPass Appeals Process Begins and Ends at MdTA: An integral part of the toll collection process is the handling of toll violations. Toll violations are caused by individuals failing to pay a toll and may take place for many reasons. Violations may be appealed by individuals and follow an appeals process outlined in statute and regulation. However, the appeals process both begins and ends at MdTA. This is a concern, as the toll violations can lead to serious consequences, such as suspension of vehicles' registrations or referral of the debt to the State's Central Collection Unit, which may impact individuals' credit. **DLS recommends a statutory change, either through the budget reconciliation bill or separate legislation, that would require MdTA to institute an appeals process through the Office of Administrative Hearings to give individuals the opportunity to have their cases heard by an independent third party.**

Operating Budget Recommended Actions

1. Nonbudgeted.

PAYGO Budget Recommended Actions

1. Nonbudgeted.

Updates

MdTA Issues \$300 Million in Revenue Bonds and \$325 Million in Grant Anticipation Revenue Vehicle Bonds: In May 2007, MdTA issued \$325 million in Grant Anticipation Revenue Vehicle (GARVEE) bonds. The issuance received ratings of AAA from Standard & Poor's, AA from Fitch Ratings, and Aa2 from Moody's Investors Services. In addition, in September 2007, MdTA issued \$300 million in revenue bonds to fund its capital program and to pay a portion of interest through fiscal 2011. The underlying ratings of the issuance were AA- from Standard & Poor's, AA- from Fitch Ratings, and Aa3 from Moody's Investors Services. The rating of AA- from Standard & Poor's represented an upgrade from the previous ranking of A+.

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Maryland Transportation Authority

Budget Analysis

Program Description

The Maryland Transportation Authority (MdTA), established under Title 4 of the Transportation Article, has exclusive authority relating to the financing, construction, operation, maintenance, and repair of Maryland's toll facilities and any other revenue-generating projects authorized under that title. MdTA divides its facilities into three regions and has jurisdiction over the following facilities:

- **Northern Region** – includes the John F. Kennedy (JFK) Memorial Highway (I-95) and the Thomas J. Hatem Memorial (Hatem) Bridge;
- **Central Region** – includes the Baltimore Harbor (I-895) and Fort McHenry (I-95) tunnels and thruways, the Francis Scott Key (Key) Bridge (I-695), and I-395 leading to Baltimore City; and
- **Southern Region** – includes the Harry W. Nice Memorial (Nice) Bridge and the William Preston Lane, Jr. Memorial Bridge (Bay Bridge).

In addition to these toll facilities, MdTA also owns the Seagirt Marine Terminal, which is leased to the Maryland Port Administration (MPA), and the Intermodal Container Transfer Facility, which is leased to CSX Railroad.

Most recently, MdTA has been working in partnership with the State Highway Administration (SHA) to construct the \$2.4 billion InterCounty Connector (ICC), a new east-west highway that will link I-270 and I-95.

Membership of MdTA's Board is comprised of eight members (increased from six per Chapter 1 of the 2006 special session) appointed by the Governor with the advice and consent of the State Senate. The Secretary of the Maryland Department of Transportation (MDOT) serves as the chairman of MdTA. MdTA's revenues are held separately from the Transportation Trust Fund (TTF), and the agency operates off-budget.

MdTA's police force is responsible for security and law enforcement services at all of MdTA's toll facilities, except JFK Memorial Highway, which is patrolled by the State Police. MdTA is also under contract with the Maryland Aviation Administration (MAA) and MPA to provide law enforcement services at the Baltimore/Washington International Thurgood Marshall Airport (BWI Marshall Airport) and MPA-operated facilities at the Helen Delich Bentley Port of Baltimore (Port).

To achieve its vision of "creating EZ passage throughout Maryland," MdTA has identified the following key goals:

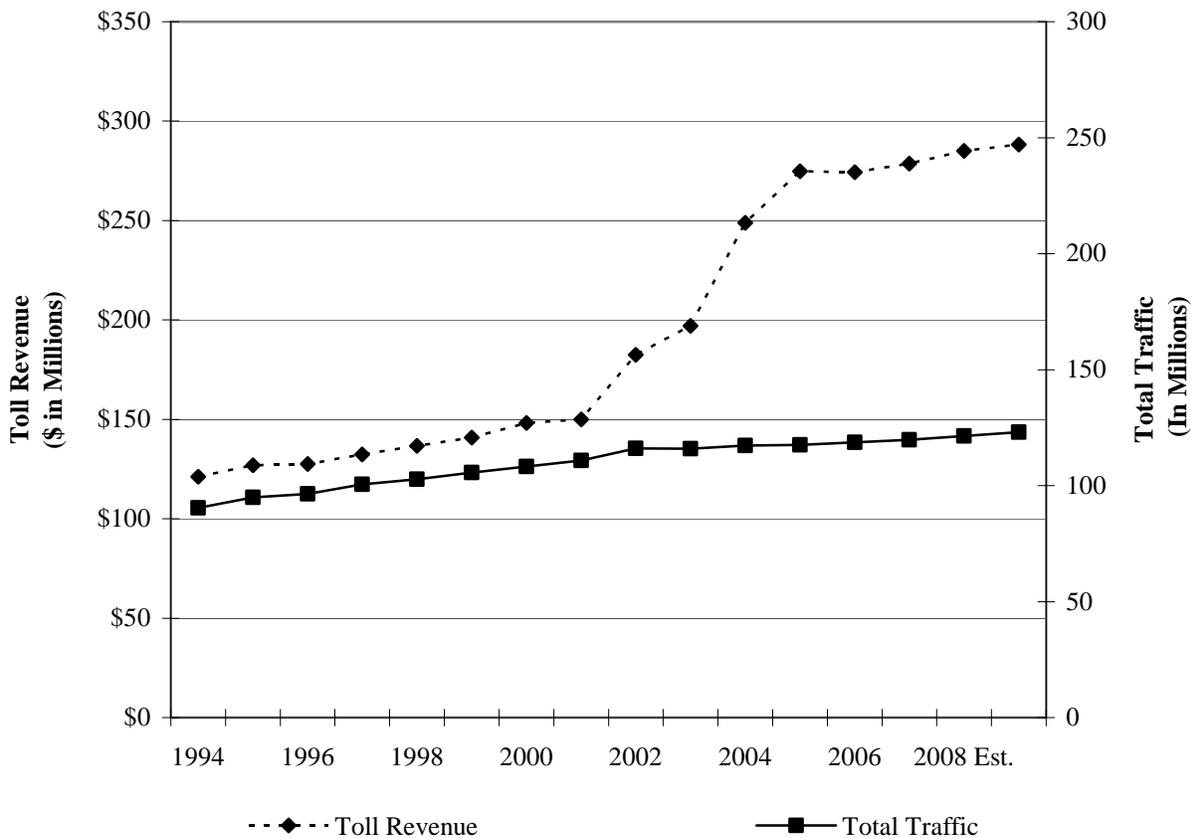
- move people and goods efficiently and effectively;

- safety and security;
- strategic financing and financial stewardship; and
- improve external and internal customer service and performance.

Performance Analysis: Managing for Results

In order to achieve its vision of “creating EZ passage throughout Maryland,” MdTA’s first goal is to efficiently and effectively move people and goods across the State. To exemplify the movement of people and goods, **Exhibit 1** shows the annual tolled traffic and toll revenue at all MdTA facilities from fiscal 1994 through 2009. Total tolled traffic in fiscal 2007 was 119.8 million vehicles, an increase of 1.1 million, or 0.9%, over fiscal 2006. Toll revenue in fiscal 2007 was \$278.6 million, an increase of \$4.3 million, or 1.6%, from fiscal 2006.

Exhibit 1
Annual Tolled Traffic and Toll Revenue
Actual Fiscal 1994-2007 and Estimated Fiscal 2008-2009



Source: Maryland Transportation Authority

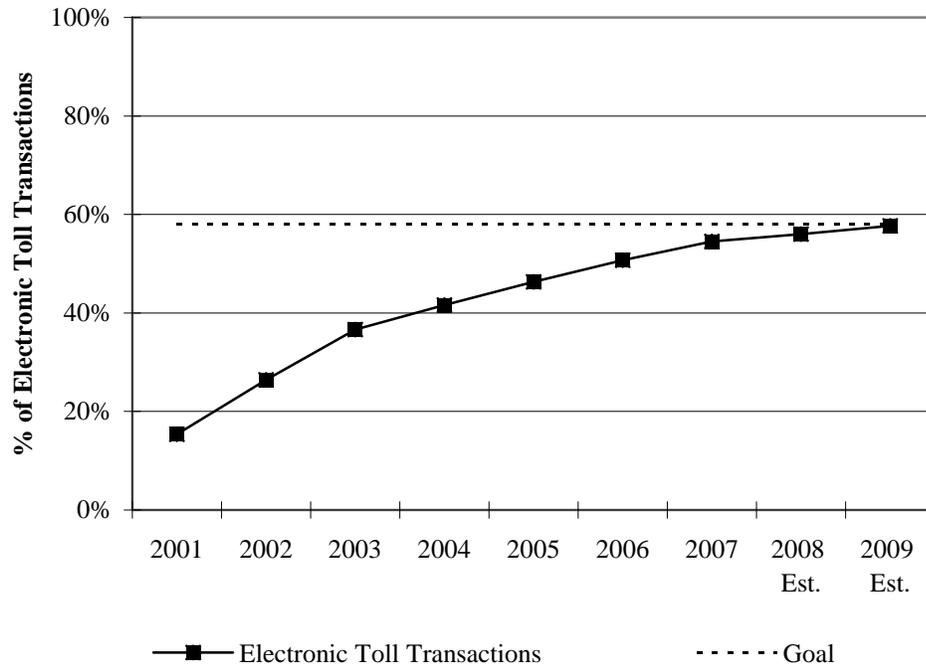
Electronic Tolling

Electronic toll transactions expedite the toll collection process, reduce delays at toll plazas, and allow for the efficient movement of goods and people. MdTA continues to aggressively market its E-ZPass program to increase customer awareness and usage. Other initiatives meant to increase usage of E-ZPass include dedicated E-ZPass lanes, the implementation of higher speed E-ZPass lanes (speeds of 30 miles per hour at the Key Bridge, also under construction at the Fort McHenry Tunnel), and the availability of “E-ZPass on the Go.” The E-ZPass on the Go program aims to create greater access to E-ZPass transponders by allowing the purchase of transponders at select retail locations, such as certain supermarkets and Motor Vehicle Administration branches. The strategy appears to be working, as the total number of E-ZPass active accounts increased by 21.3% from fiscal 2006 to 2007.

E-ZPass electronic toll collection is available at all seven toll facilities, as well as throughout the northeastern part of the United States. E-ZPass was implemented at the Baltimore and Fort McHenry tunnels and the Key Bridge in 2001 (its predecessor, M-TAG was implemented in 1999). E-ZPass installation took place at the other four toll facilities in 2001 and early 2002. Electronic toll collection will be the only method of toll collection available on the ICC and the Express Toll Lanes (ETLs) currently being constructed on I-95 north of Baltimore. These facilities will utilize open road tolling, whereby an overhead gantry system collects tolls at highway speeds. These projects will also be the first to utilize congestion toll pricing, which allows for varying toll rates based on traffic, time of day, and other factors to aid in congestion-free travel.

The use of electronic tolling continues to increase. **Exhibit 2** shows the percentage of E-ZPass toll transactions at all toll facilities. This exhibit does not include the use of automatic vehicle identification (AVI) decals at the Hatem Bridge, which could also be considered as an electronic tolling method.

Exhibit 2
Percentage of Tolls Collected via E-ZPass
Actual Fiscal 2001-2007, Estimated Fiscal 2008-2009



Note: MdTA's goal is to reach 58% by 2009.

Source: Maryland Transportation Authority

Commuter Plans

As a means of lessening the impact of tolls on commuters, MdTA has established commuter plans. Commuter plans are available for the Baltimore Region, the Bay Bridge, and the Nice Bridge. The plans provide for a set number of trips at a discounted price, to be used within 60 days. **Exhibit 3** shows the facilities that each plan may be used for, the cost, and the number of trips for each type of plan.

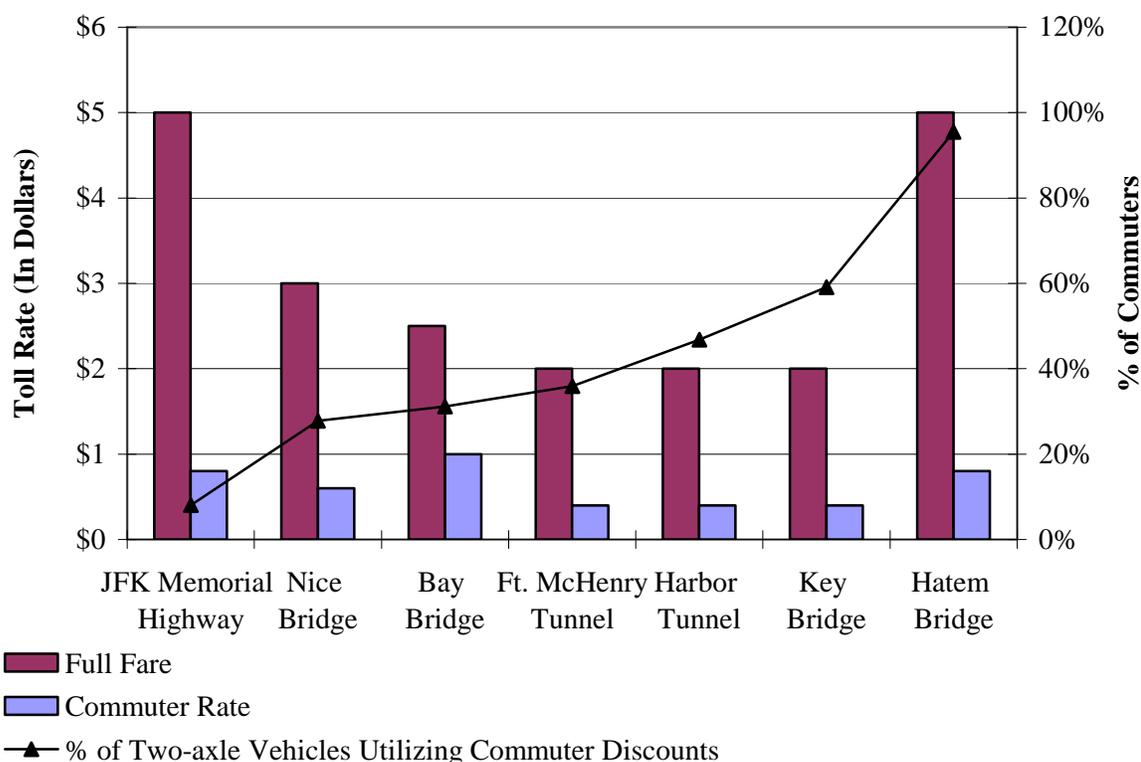
Exhibit 3
E-ZPass Commuter Plans

<u>Plan Name</u>	<u>Facilities Plan May Be Used At</u>	<u>Cost</u>	<u>Trips</u>
Baltimore Region	Fort McHenry Tunnel, Harbor Tunnel, Key Bridge, JFK Memorial Highway, and Hatem Bridge	\$20	50
Bay Bridge	Bay Bridge	25	25
Nice Bridge	Nice Bridge	15	25

Source: Maryland Transportation Authority

Commuter plans provide a significant cost savings for frequent travelers. Savings at the JFK Memorial Highway and Hatem Bridge amount to \$4.20 per trip, a savings of 84.0%. **Exhibit 4** shows the total cost per trip by facility for commuters and for those paying the full two-axle rate. It also includes the percentage of two-axle vehicles that utilize commuter discounts by facility. The largest percentage of commuter discount usage is seen at the Hatem Bridge, where the use of E-ZPass commuter discounts and AVI decals combine for a 95.5% commuter usage. The next largest percentage of commuter usage is at the Key Bridge, where nearly 60% of two-axle vehicles utilize commuter plans.

**Exhibit 4
Commuter Savings Per Trip and Commuter Usage by Facility
Fiscal 2007**



Note: Tolls collected on the JFK Memorial Highway, Hatem Bridge, Nice Bridge, and Bay Bridge are collected one-way only.

Source: Reznick Group Auditor’s Report and Financial Statements of MdTA, Fiscal 2007

Fiscal 2008 Actions

Impact of Cost Containment

In an effort to reduce operating expenditures, MdTA has taken a number of cost containment actions in fiscal 2008. In total, these actions reduce fiscal 2008 spending by \$12.9 million. These cost containment actions are not reflected in the fiscal 2008 budget as shown throughout this document since the amended budget has not yet been approved by MdTA's board members. Cost containment actions of \$100,000 or more are listed below:

- \$4.6 million to delete all new vehicles in recognition of the Governor's directive to reduce the size of fleets statewide;
- \$3.3 million to delete funding for all replacement patrol cars;
- \$1.8 million to increase the turnover rate to reflect actual spending;
- \$1.3 million for publicity and advertising costs based on fiscal 2007 actual spending;
- \$304,000 for snow removal costs based on fiscal 2007 actual spending;
- \$250,000 to delete funding for the annual Bay Bridge Walk, which has been cancelled for the next two years due to construction on the bridge;
- \$236,812 for training to reflect a 25% reduction in discretionary training;
- \$163,500 for police operations supplies to reflect fiscal 2006 actual spending;
- \$135,000 for telephone expenses to reflect fiscal 2006 actual spending;
- \$123,231 to delete funding for employee awards ceremonies; and
- \$101,000 for maintenance materials to reflect fiscal 2006 actual spending.

Governor's Proposed Budget

MdTA's fiscal 2009 budget increases by \$20.3 million, or 8.8%, over the fiscal 2008 amended budget. The underlying fiscal 2009 budget change for this agency, excluding health insurance and Other Post Employment Benefits (OPEB) funding which distorts year-over-year spending, is \$11.4 million, or 5.3%. **Exhibit 5** provides a summary of the changes taking place from the fiscal 2008 amended budget to the fiscal 2009 budget.

Exhibit 5
Proposed Budget
Maryland Transportation Authority
(\$ in Thousands)

How Much It Grows:	Nonbudgeted Fund	Total
2008 Amended Budget	\$230,960	\$230,960
2009 Budget	<u>251,231</u>	<u>251,231</u>
Amount Change	\$20,271	\$20,271
Percent Change	8.8%	8.8%

Where It Goes:

Personnel Expenses

Health insurance – pay-as-you-go costs	\$5,719
Health insurance – reduce long-term Other Post Employment Benefits liability	3,121
Salaries	2,292
Retirement.....	1,695
Social Security	143
Deferred Compensation Match	82

Other Changes

Debt service	12,340
Trust Agreement Expenses	2,936
Gas and electric.....	1,957
Vehicle expenses.....	591
Reciprocity fees	397
Uniforms	337
Insurance	243
Maryland State Police non-payroll costs	188
Office equipment rental and service	110
Maintenance service and equipment rental.....	96
Authority-wide training	69
E-ZPass Transponders	65
Snow removal	50
Recruit training	-50
Travel.....	-51
Employee recognition	-62
Telephone expenses	-83

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Where It Goes:

Professional service contracts	-90
E-ZPass Service Center costs.....	-157
Police operations supplies.....	-182
Publicity and advertising	-800
Purchase of new and replacement equipment.....	-1,137
Purchase of new and replacement information technology equipment	-1,271
Purchase of replacement vehicles	-4,034
Purchase of new vehicles.....	-4,235
Other changes	-8
Total	\$20,271

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

Personnel costs increase by \$13.1 million. The largest increase, \$8.8 million, took place in health insurance, including both costs for current employees and retirees, as well as the long term OPEB liability. The large increase at MdTA mirrors large increases for this purpose across all State agencies. Another large increase took place in salaries, which increased by \$2.3 million, or 2.9%. This increase is due to a one step increase for all personnel and a one grade increase for maintenance staff (approximately \$1.0 million). SHA performed a study which found that the salaries of MdTA and SHA maintenance personnel were lower than their local government counterparts. Therefore, a one grade increase is included, but it is contingent upon legislative approval of a similar increase for SHA personnel. The increase in personnel costs also includes a \$1.7 million increase for retirement, which is the result of an increase in the employer's contribution rate for both regular employees and police personnel.

Outside of personnel, the largest increase took place in debt service. Debt service increased from \$24.4 million in fiscal 2008 to \$36.8 million in fiscal 2009. This increase is largely the result of the interest-only payments that begin in fiscal 2009 for the Series 2007 revenue bond issuance of \$300 million.

In addition, other large increases took place for trust agreement expenses (\$2.9 million) and electricity (\$2.0 million). The increase in trust agreement expenses took place as a result of an increase in the engineer's estimate for the annual facility inspections contract. The new contract will require the contractor to supply maintenance of traffic and equipment to perform the inspections. Previously, MdTA supplied these. The increase in electricity is based on the Department of Budget and Management's instructions to all State agencies to include funding in fiscal 2009 of 50% over actual fiscal 2007 costs.

These increases were offset by a \$10.7 million decrease for additional and replacement vehicles and equipment. This is primarily due to a reduction in the personal patrol vehicle program and capitalizing some equipment.

Revenue Bonds

MdTA has the statutory authority to issue revenue bonds backed by toll revenues. Statute allows for maturities of up to 40 years, although MdTA typically issues its bonds with a 30-year maturity. In fiscal 2008 through 2011, MdTA also plans to issue capitalized interest bonds, which will have a 33-year maturity.

The basic premise of capitalized interest bonds is that the amount of bonds issued is slightly higher than what is needed, and the additional money is used to pay interest payments for the first three years. This additional principal is capitalized over the life of the bonds, so that MdTA will be paying interest over 30 years on the interest it chose not to pay in the first three years. MdTA's Series 2007 revenue bonds, issued in September 2007, included \$10.2 million in capitalized interest that will be used to pay a portion of interest payments through fiscal 2011. In March 2008, MdTA projects a debt issuance of \$711.8 million, which includes \$86.6 million of capitalized interest bonds.

Generally, capitalized interest bonds are utilized as a way to defer debt service payments on a project under construction until such time that the facility is operating and collecting revenue. However, MdTA has established toll facilities that generate adequate revenue to pay debt service. Waiting for the ICC revenue to begin cannot be a primary concern since ICC revenue is expected to represent no more than 10% of total revenues by fiscal 2015, and the existing toll facilities are expected to cross-subsidize ICC's debt service needs for an extended period. Therefore, utilizing capitalized interest bonds may increase borrowing costs unnecessarily. **The Department of Legislative Services (DLS) recommends that the Secretary discuss the decision to utilize capitalized interest bonds.**

At the end of fiscal 2007, MdTA had three bond issues outstanding:

- 1992 Series bonds were issued in August 1992 for \$162.1 million and advance refunded a portion of the outstanding 1985 Series bonds, funded a deposit to the 1992 Series Reserve Subaccount, and paid bond issuance costs;
- 2004 Series bonds were issued in June 2004 for \$160.0 million to fund MdTA's capital program; and
- 2007 Series bonds were issued in September 2007 for \$300.0 million to fund MdTA's capital program.

Exhibit 6 provides the schedule of debt service payments and total debt outstanding for MdTA debt (debt backed by MdTA facilities). This includes projected debt issuances of \$711.8 million in March 2008 and \$666.1 million in fiscal 2009. Total MdTA debt outstanding is expected to increase from \$245.1 million in fiscal 2007 to \$1.9 billion in fiscal 2009. Debt outstanding at the end of fiscal 2009 will be \$1.89 billion, which is just under the statutory cap of \$1.9 billion. SB 182, as introduced in the 2008 legislative session, would raise this statutory debt outstanding limit to \$3.0 billion.

Exhibit 6
Debt Service Payments and Debt Outstanding (MdTA Debt)
Fiscal 2007-2009
(\$ in Thousands)

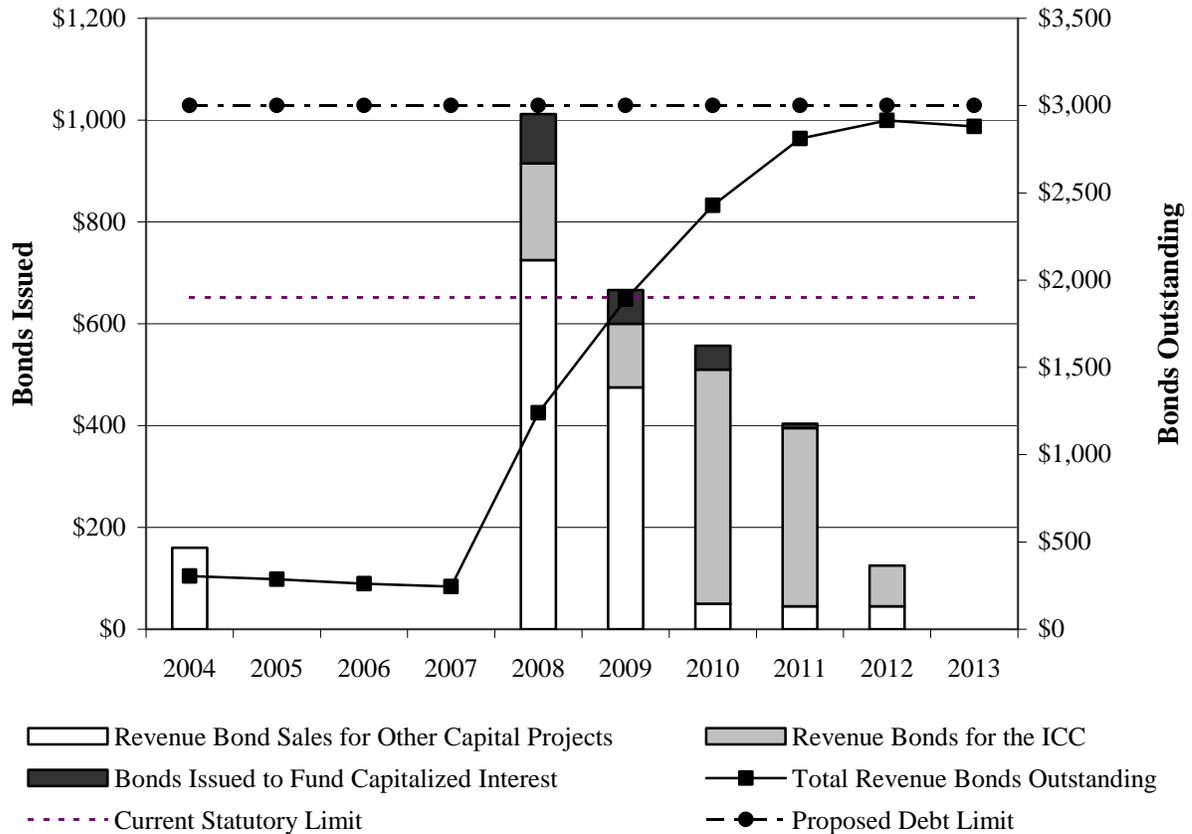
<u>Debt Service Payments</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Capital Appreciation Bonds – 1992 Series	\$15,420	\$15,415	\$15,415
2004 Series Bonds	9,032	9,027	9,030
2007 Series Bonds	0	0	12,337
2008 Series Bonds (Projected)	0	0	0*
2009 Series Bonds (Projected)	0	0	0*
Total Debt Service Payments	\$24,452	\$24,442	\$36,782
<u>Debt Outstanding</u>			
1992 Series Bonds	\$86,075	\$70,660	\$55,245
2004 Series Bonds	159,000	157,955	156,855
2007 Series Bonds	0	300,000	300,000
2008 Series Bonds (Projected)	0	711,800	711,800
2009 Series Bonds (Projected)	0	0	666,100
Total Debt Outstanding	\$245,075	\$1,240,415	\$1,890,000

* Assumes use of capitalized interest bonds.

Source: Maryland Transportation Authority

Exhibit 7 shows the amount of bonds projected to be issued for the ICC and other capital projects as well as total bonds outstanding in each year from fiscal 2004 through 2013. After not issuing any revenue bonds since fiscal 2004, MdTA plans revenue bond issuances of \$1.0 billion in fiscal 2008 and \$666 million in fiscal 2009. During the period from fiscal 2008 to 2012, MdTA plans to issue \$2.8 billion worth of debt. Approximately \$1.2 billion of these bonds are to fund construction of the ICC. The remaining \$1.6 billion is to support MdTA's capital program.

**Exhibit 7
Bond Sales and Debt Outstanding
Fiscal 2004-2013
(\$ in Millions)**



ICC: InterCounty Connector

Source: Maryland Transportation Authority Financial Forecast, December 2007

Statute limits MdTA revenue bonds outstanding to \$1.9 billion. As also shown in Exhibit 7, MdTA is expected to exceed this amount beginning in fiscal 2010. By fiscal 2012, bonds outstanding will be well above this statutory cap, totaling \$2.9 billion. To reflect the additional bonding capacity needed for its current capital program, SB 182 would increase MdTA’s debt outstanding limit to \$3.0 billion. MdTA’s current forecast assumes that debt outstanding will peak in fiscal 2012 at \$2.9 billion; however, this forecast is based on the assumption that after fiscal 2012 no additional bonds will be issued over the entire forecast period. As will be noted in the first issue, this is likely a faulty assumption given the fact that debt service payments will begin to crowd out cash available for capital projects beginning in fiscal 2014.

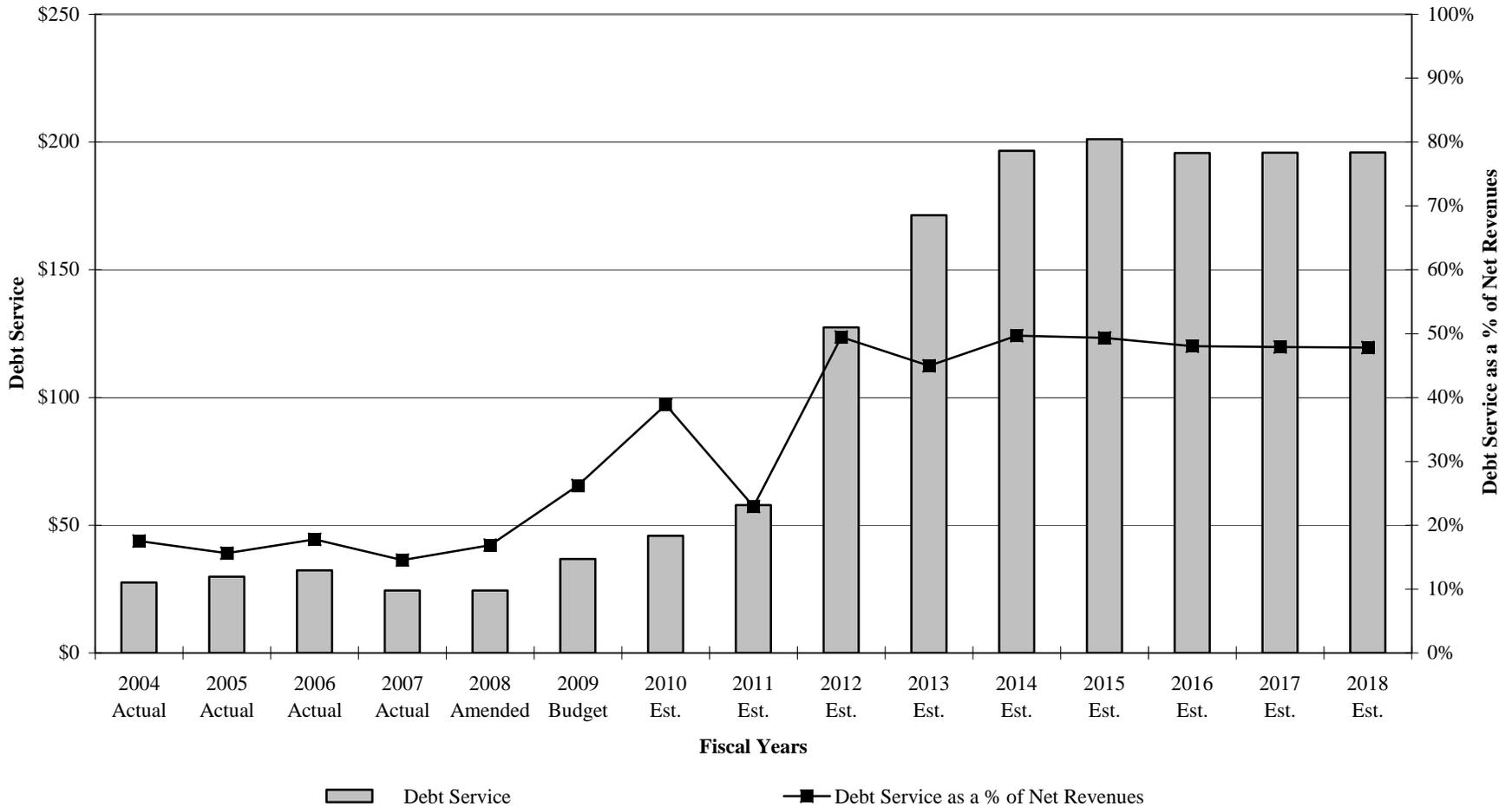
Debt Affordability

Statute provides that MdTA may issue bonds without obtaining the consent of any unit or agency in the State, as long as total bonds outstanding do not exceed \$1.9 billion at the end of any fiscal year. MdTA debt backed by toll revenues is not considered State debt and, therefore, is not limited by the State's debt affordability measures. The Capital Debt Affordability Committee uses benchmarks to determine whether State tax-supported debt is affordable. The first measure is that total State tax-supported debt outstanding should not exceed 3.2% of Maryland personal income. The second is that total debt service on State tax-supported debt should not exceed 8.0% of revenues. Since MdTA debt does not count toward State debt, MdTA is not bound by these debt affordability measures; however, it has its own measures to ensure that debt outstanding remains affordable. Coverage ratios include:

- The rate covenant compliance ratio, as stipulated in the trust agreement, requires that net revenues must be at least 1.00 times the amount deposited into the Maintenance and Operations Reserve Account plus 1.20 times greater than debt service. The fiscal 2009 rate covenant compliance ratio is projected to be 1.28 and drops to 1.05 in fiscal 2010.
- A second ratio is the debt service coverage ratio, which is a ratio of net revenues (total revenues minus operating expenses) to debt service. Although the trust agreement stipulates that net revenues must be 1.20 times greater than debt service, MdTA maintains an administrative policy that requires it to be above 2.00. In fiscal 2009, the debt service coverage ratio is 3.82. In fiscal 2012, the debt service coverage ratio drops to 2.02, just barely above the administrative policy level.
- The ratio of total cash to toll revenues must be greater than 1.00. This is an administrative policy only and is not contained in the trust agreement. The fiscal 2009 ratio is projected at 2.85, but then drops to 1.00 in fiscal 2011.

MdTA projects bond issuances from fiscal 2008 to 2012 will total \$2.8 billion. As a result, MdTA's debt service payments will increase significantly over the next 10 years. As shown in **Exhibit 8**, debt service payments will increase from \$27.6 million in fiscal 2004 to a peak of \$201.2 million in fiscal 2015, representing a 629.0% increase in debt service over that 11-year period. The exhibit also shows debt service as a percentage of net revenues over the same time period. Net revenues are calculated by subtracting operating expenses from total toll, concessions, and investment income revenue. Debt service as a percentage of net revenues is an indicator of how much money will be available for the capital program after operating expenses are paid. The percentage reaches a low point of 14.5% in fiscal 2007 and climbs to its peak of 49.7% in fiscal 2014. Dedicating nearly half of revenues to operating expenses and debt service means that less money is available for the capital program in future years. This causes some concern since MdTA's system is aging, which requires more costly capital repairs and maintenance. Both the Nice and Hatem Bridges are already nearly 70 years old, and much of the rest of the system is 50 years old.

**Exhibit 8
Debt Service Payments
Fiscal 2004-2018
(\$ in Millions)**



Analysis of the FY 2009 Maryland Executive Budget, 2008

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Source: Maryland Transportation Authority Financial Forecast, December 2007

Conduit Financing

Besides MdTA revenue bonds, MdTA also issues debt on behalf of other entities, called conduit financing. The following projects were financed by MdTA using conduit financing:

- a total of \$451.1 million of projects associated with the \$1.4 billion expansion project at BWI Marshall Airport, including the Elm Road parking facility, pedestrian bridges, roadway improvements, a central utility plant, and a new consolidated rental car facility, which is backed by fees at BWI Marshall Airport;
- \$40.0 million for three parking facilities at Largo, New Carrollton, and College Park for the Washington Metropolitan Area Transit Authority (WMATA), which is backed by lease payments from WMATA;
- \$23.8 million to finance the Calvert Street parking garage in Annapolis for State employees, which is backed by lease payments made by the Department of General Services; and
- \$325.0 million in Grant Anticipation Revenue Vehicle (GARVEE) bonds to fund construction of the ICC, which are backed by future federal aid with a secondary pledge from the Transportation Trust Fund.

Exhibit 9 shows debt outstanding for MdTA's conduit financed bonds. The debt service for these projects is paid by the revenues from the projects and does not affect MdTA's debt outstanding or its budget.

Exhibit 9
Debt Service Payments and Debt Outstanding on Stand-alone Projects
Fiscal 2007-2009
(\$ in Thousands)

	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>Debt Service Payments</u>			
2002 A&B Series – BWI Marshall Airport Elm Road garage	\$20,345	\$20,719	\$20,739
2002 Series – BWI Marshall Airport rental car facility	9,031	9,023	9,021
2003 A&B Series – various BWI Marshall Airport projects ¹	2,351	5,499	11,286
2004 Series – WMATA parking garages	2,905	2,903	2,900
2005 Series – Calvert Street Parking Garage	985	1,561	1,557
2007 Series – Grant Anticipation Revenue Vehicle Bonds	0	36,091	36,091
Total Debt Service Payments	\$35,617	\$75,796	\$81,594
<u>Debt Outstanding</u>			
2002 A&B Series – BWI Marshall Airport Elm Road garage	\$246,365	\$238,180	\$229,590
2002 Series – BWI Marshall Airport rental car facility	111,665	109,825	107,890
2003 A&B Series – various BWI Marshall Airport projects ¹	64,100	60,900	51,800
2004 Series – WMATA parking garages	38,960	37,890	36,785
2005 Series – Calvert Street Parking Garage	23,760	23,175	21,960
2007 Series – Grant Anticipation Revenue Vehicle Bonds	325,000	300,655	279,365
Total Debt Outstanding	\$809,850	\$770,625	\$727,390

BWI Marshall Airport: Baltimore/Washington International Thurgood Marshall Airport
 WMATA: Washington Metropolitan Area Transit Authority

¹ The fiscal 2008 and 2009 debt service payments are estimates only, as they are variable rate passenger facility charge revenue bonds.

Source: Maryland Transportation Authority

PAYGO Capital Program

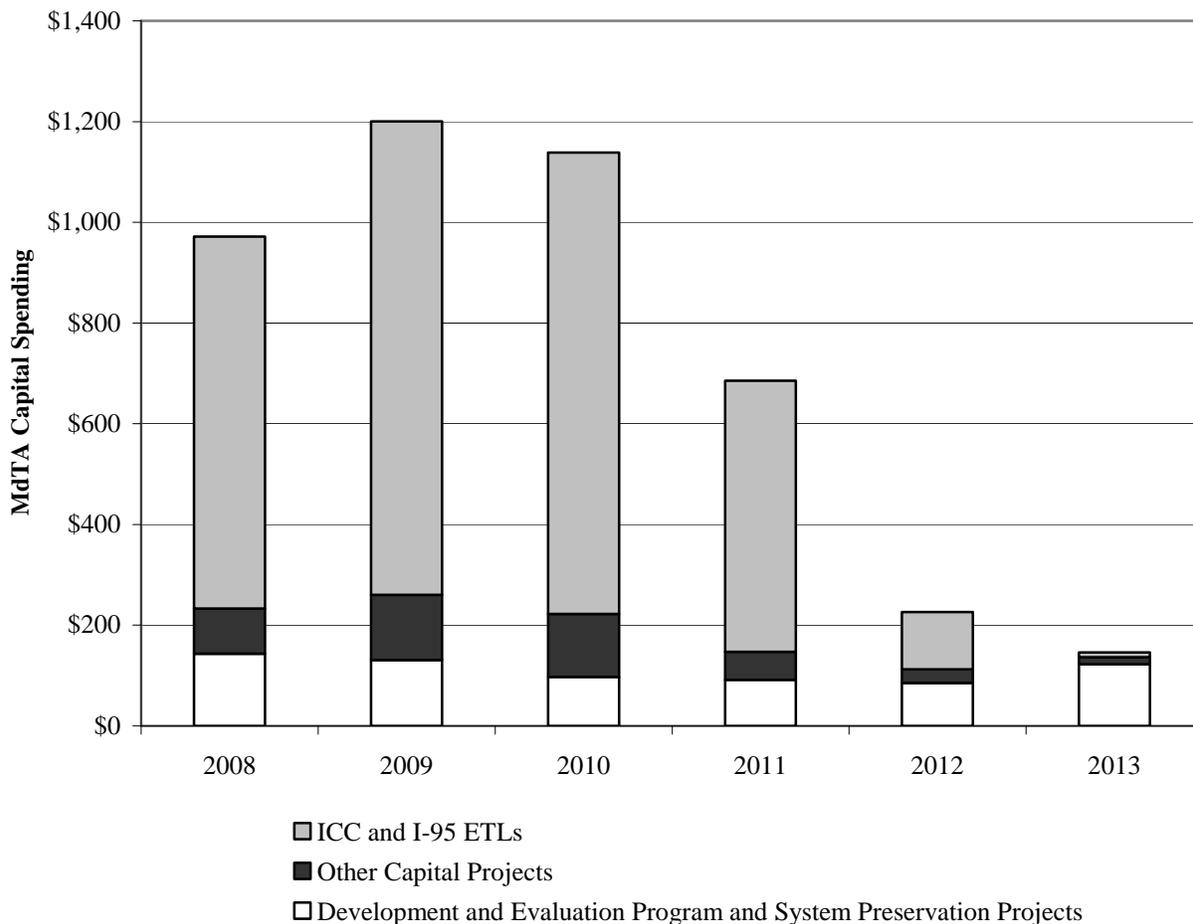
Program Description

MdTA's capital program involves the construction and maintenance of revenue-generating transportation facilities throughout the State. Currently, MdTA is undertaking two large capital projects. The first involves construction of the ICC, an east-west road connecting I-270 and I-95. The second is construction of ETLs on a 10-mile stretch of I-95 from the I-895 split to north of MD 43.

Fiscal 2008 to 2013 Consolidated Transportation Program

The final 2008-2013 *Consolidated Transportation Program* (CTP) shows an increase in total capital projects of \$225.9 million from fiscal 2008 to 2009. This large increase is primarily the result of construction schedules for the ICC (\$169.5 million) and the ETLs on I-95 north of Baltimore (\$32.7 million). **Exhibit 10** shows the expected capital expenditures in each year.

Exhibit 10
Capital Expenditures by Year
Fiscal 2008-2013
(\$ in Millions)

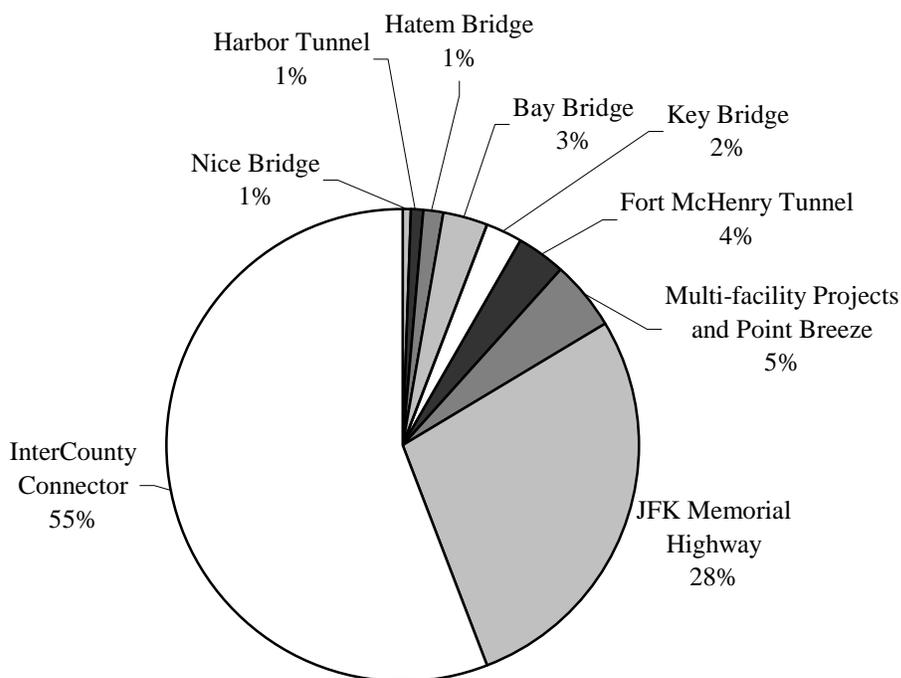


ETL: Express Toll Lanes
ICC: InterCounty Connector

Source: Maryland Transportation Authority, January 2008 *Consolidated Transportation Program*

Exhibit 11 shows capital spending by facility in fiscal 2009. As stated previously, the largest portion of the capital program in fiscal 2009 is directed toward the ICC and construction of the I-95 ETLs.

Exhibit 11
Capital Expenditures by Facility
Fiscal 2009



Source: Governor's Fiscal 2009 Budget Book, Volume I, page 706

Exhibit 12 provides a list of major construction projects funded in fiscal 2009. These projects account for 97.6% of all funding for major projects in the construction program in fiscal 2009.

Exhibit 12
Major Construction Projects Funded in Fiscal 2009
 (\$ in Thousands)

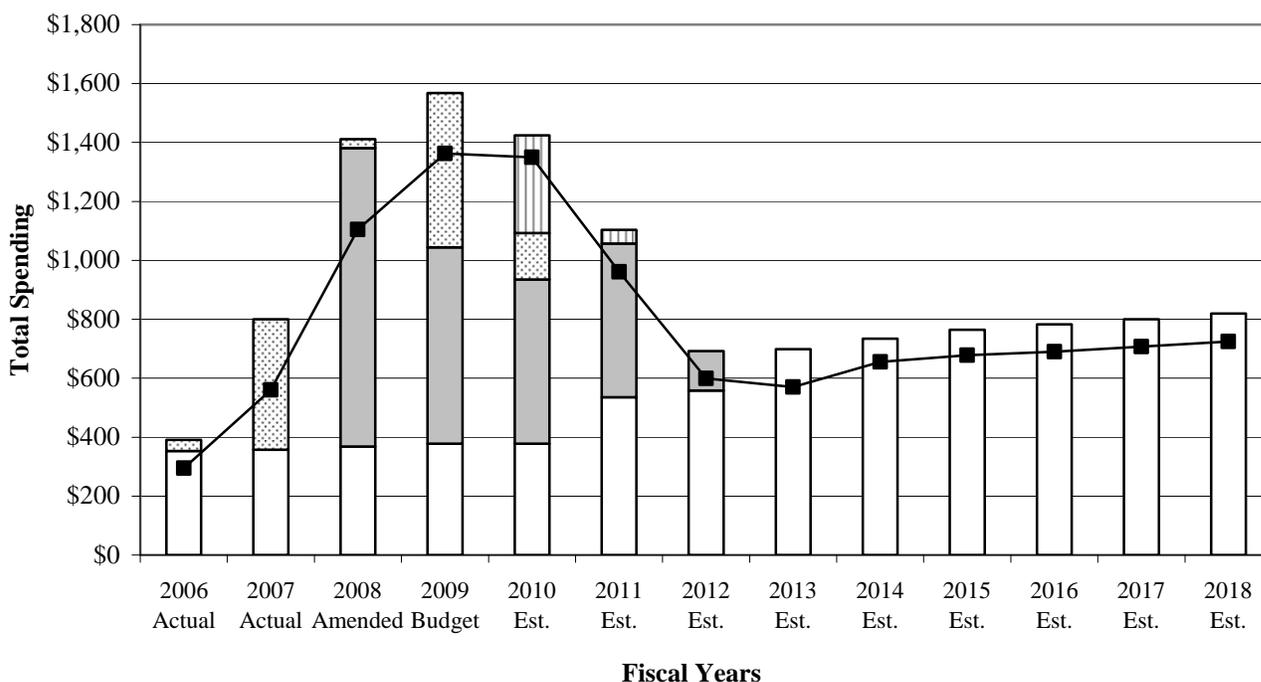
<u>Project</u>	<u>FY 2009</u>	<u>Total \$</u>	<u>Completion of Fiscal Cashflow</u>
Bay Bridge Deck Rehabilitation – rehabilitate the westbound bridge deck. Phase I involves truss, beam, and girder spans. Phase II involves suspensions and thru-truss spans.	\$12,643	\$117,566	2009
I-95 JFK Memorial Highway MD 24 Interchange Improvements – involves improvements to the I-95/MD 24 interchange, upgrades to MD 24, and reconstruction of the MD 24/MD 924 interchange.	23,925	59,844	2010
Police Training Facility – construction of a new Maryland Transportation Authority Police training facility at Hawkins Point.	9,450	17,775	2010
Interchange improvements at MD 695 and Quarantine Road – involves interchange improvements on MD 695 at Quarantine Road and a new commercial vehicle inspection facility.	12,365	52,620	2010
Deck Replacement for the Hatem Bridge – involves replacement of the 1.5 mile deck on the Hatem Bridge.	15,800	56,000	2011
Bay Bridge – includes the cleaning and painting of the structural steel on the westbound bridge.	12,500	84,000	2012
I-95 JFK Memorial Highway Express Toll Lanes Construction – involves the construction of two managed lanes in each direction from I-895 north to north of MD 43.	303,369	1,181,599	2012
InterCounty Connector Construction – construction of a new east-west, multimodal highway in Montgomery and Prince George’s counties between I-270 and I-95/US 1.	637,195	2,445,825	2013
Bridge, Roadway, and Signage Rehabilitation on I-95 South of the Fort McHenry Tunnel – includes resurfacing of 61 bridge decks and related structural repairs; resurfacing of roadways; replacement and upgrades of existing signs; miscellaneous safety improvements; and inspection and repair of highmast light poles and sign structures.	16,990	122,109	ongoing
Total	\$1,044,237	\$4,137,338	

Source: Maryland Transportation Authority, January 2008 *Consolidated Transportation Program*

Sources of Funding

In prior years, MdTA’s capital program has been funded almost entirely from pay-as-you-go (PAYGO) funds from toll revenues. In some years, PAYGO funds were supplemented by revenue bonds issued by MdTA. Chapters 471 and 472 of 2005 established a financing plan for the ICC and included a number of different funding sources, including federal funds, the TTF, the State’s general fund, GARVEE bonds, and a possible Transportation Infrastructure Finance and Innovation Act (TIFIA) loan. **Exhibit 13** shows the funding sources by year of MdTA’s total spending. Although total spending reflects operating, capital, and debt service, the largest portion of spending is for capital.

Exhibit 13
Total Spending by Source
Fiscal 2006-2018
(\$ in Millions)



Operating Revenues
 Revenue Bonds
 Other ICC Funding
 Cash Reserves
 Total Spending

Note: Other InterCounty Connector (ICC) funding includes Grant Anticipation Revenue Vehicle bonds, the Transportation Trust Fund, the State’s general fund, and federal funds. Chapters 471 and 472 of 2005 give MdTA the option of using a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan. Possible draws on a TIFIA loan are included as part of revenue bonds in this exhibit.

Source: Maryland Transportation Authority Financial Forecast, December 2007

Projects Added to the Construction Program

As shown in **Exhibit 14**, three projects were added to the 2008-2013 CTP. All three of these projects were added directly to the Construction Program and were not in the Development and Evaluation Program in the 2007-2012 CTP. **Given MdTA’s current financial condition, which includes a capital construction program that heavily relies on debt, DLS recommends the Secretary discuss the rationale for adding over \$100 million to the capital program, especially non-critical projects such as the I-95 park and ride facilities.**

Exhibit 14 CTP Projects Added to the Construction Program (\$ in Thousands)

<u>Project</u>	<u>FY 2009</u>	<u>Total \$</u>	<u>Completion of Fiscal Cashflow</u>
I-95 JFK Memorial Highway New Park and Ride Facilities – involves the construction of a new 310-space park and ride lot at MD 152 and a new 200-space park and ride lot at MD 24.	\$5,952	\$15,000	2010
I-95 Fort McHenry Tunnel – Improvements from Moravia Road to the Tunnel – involves two phases. Phase I includes grinding and overlaying from Moravia Road to Eastern Avenue. Phase II involves restriping from Eastern Avenue to the Fort McHenry Tunnel.	750	8,822	2010
Bay Bridge – includes the cleaning and painting of the structural steel on the westbound bridge.	12,500	84,000	2012
Total	\$19,202	\$107,822	

Source: Maryland Transportation Authority, 2008-2013 *Consolidated Transportation Program*

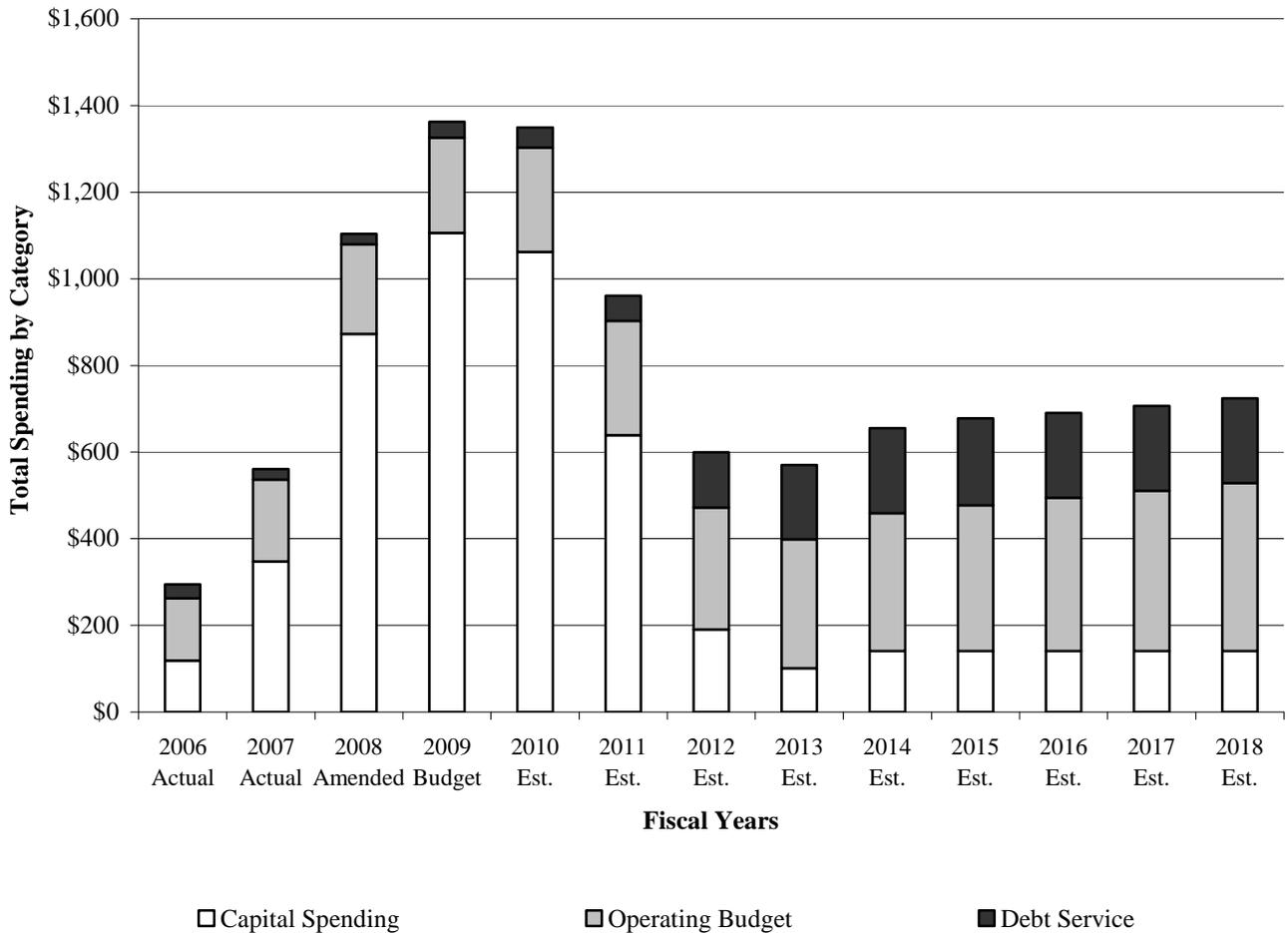
Among the new projects included in the 2008-2013 CTP is construction of two new transit-accessible park and ride lots on I-95. These lots will be located just off I-95 at MD 24 and MD 152. The lot at MD 24 will supplement an existing park and ride lot which is not transit-accessible. The MD 152 lot will replace an existing lot that is not transit-accessible and will have to be moved when MdTA moves forward with improvements for I-95 Section 200. Transit will be provided by Maryland Transit Administration (MTA) express bus service that will utilize the ETLs being constructed on I-95, as well as Harford County transit busses. Upon completion of the park and ride lots, MdTA intends to transfer ownership of the lots to MTA. It is unclear whether MdTA is statutorily permitted to transfer ownership of the lots to MTA since the lots are part of the I-95 jurisdiction statutorily defined as MdTA’s. **DLS recommends the Secretary discuss why MdTA, authorized only to construct revenue-producing facilities, is constructing the park and ride lots and whether MTA will repay MdTA for construction of these facilities once ownership is transferred.**

Issues

1. Debt to Take a Huge Toll on MdTA

Over the next four years, MdTA will issue \$2.8 billion worth of debt to support its capital program. This level of debt issuances in such a short period of time will have a lasting effect on MdTA due to the significant increase in debt service payments. Debt service will increase from \$24.4 million in fiscal 2007 to a peak of \$201.2 million in fiscal 2015. As shown in **Exhibit 15**, these large debt service payments will crowd out money available for the capital program in future years.

Exhibit 15
Total Spending
Fiscal 2006-2018
(\$ in Millions)



Source: Maryland Transportation Authority Financial Forecast, December 2007

J00J00 – Maryland Transportation Authority

Assuming MdTA receives an increase in its debt outstanding through SB 182, by fiscal 2012 debt outstanding will be just under the new statutory limit and without a further increase in debt outstanding or significant toll increases, the money available to MdTA's capital program will be limited. This is a serious concern, as MdTA has an aging system which will continue to require an increasing amount of system preservation dollars. In addition, several large capital projects are looming in MdTA's future, but little funding will be available. Large capital projects which may be necessary in the medium-term (next 20 years) include:

- possible construction of additional Chesapeake Bay crossing capacity;
- significant rehabilitation or replacement of the Nice and Hatem Bridges, which are both nearly 70 years old;
- possible redevelopment of the I-95 travel plazas if a public-private partnership proves not to be feasible;
- additional capacity for all of the Harbor crossings (includes the Fort McHenry and Harbor Tunnels as well as the Key Bridge);
- further improvements to I-95, since current construction is limited to only 10 miles and studies are underway to address capacity on MdTA's remaining 40 miles of I-95; and
- improvements to the I-270 corridor, which if current studies of a possible public-private partnership development of the corridor prove not to be feasible, could be considered for development of a toll facility by MdTA.

How Did We Get Here?

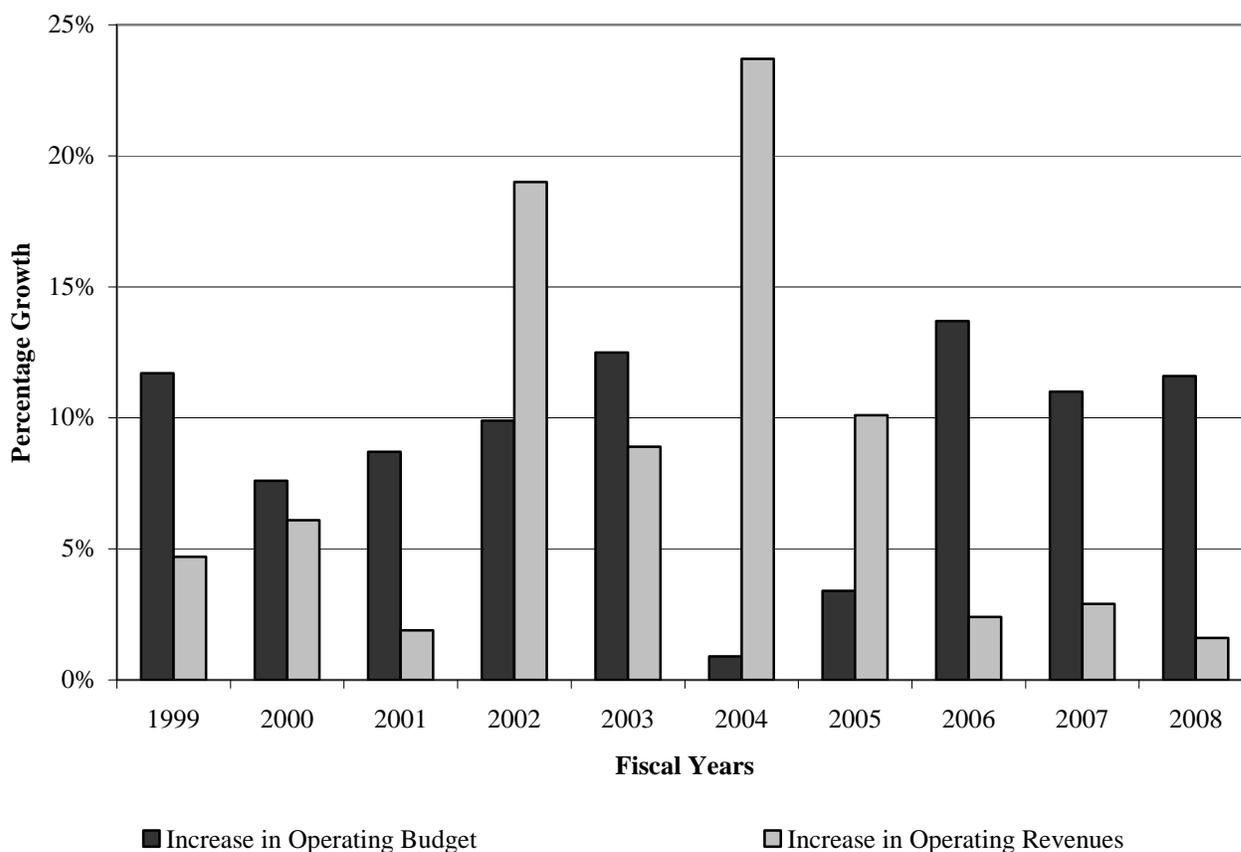
The financial strain that MdTA is currently experiencing has been in the making for many years. Historically, MdTA has often had large cash reserves, which enabled it to finance many projects for MDOT using cash instead of conduit financing. For example, in 1990, MdTA constructed Seagirt Marine Terminal with \$208 million in cash, and now leases it to MPA for an annual operating lease payment.

With so much cash on hand, MdTA has raised tolls infrequently. In fact, it is cheaper to cross the Bay Bridge today than it was when the bridge opened in 1952. In the last 20 years, toll rates have been increased only four times. Toll rate increases prior to 2001 often took place at only one facility. In 2001, toll rates at three facilities (Hattem, Tydings, and Nice Bridges) were doubled, and in 2003, toll rates at two facilities (Hattem and Tydings Bridges) were increased by 50%, and toll rates at the Harbor crossings (Key Bridge and Fort McHenry and Harbor Tunnels) were doubled.

In addition to the effect of few toll increases, MdTA also forgoes revenues due to the substantial commuter discounts it offers. As part of the 2001 and 2003 toll increases, MdTA did not raise commuter rates, so that commuter discounts today are substantial – up to 84%. Exhibit 4 shows the discounts provided to commuters as well as the percentage of commuters who use each facility.

Over time, as toll rates remained stable, inflation drove up the cost of everything else. As shown in **Exhibit 16**, over the past 10 years, the percentage increase in the operating budget has often surpassed the percentage increase in operating revenues. In several years, MdTA experienced double digit growth in its operating budget. In its ratings report for MdTA’s Series 2007 revenue bonds, Fitch Ratings identified both the commuter discount program and greater than inflationary operating expense growth as posing a risk of constraining financial margins in the future. To address this, as noted earlier, MdTA took a number of cost containment actions in fiscal 2008, reducing spending by \$12.9 million. In order to maintain its financial coverage ratios, MdTA will have to continue to constrain growth in its operating program and reevaluate the substantial commuter discounts it offers.

Exhibit 16
Historical Operating Revenue and Operating Budget Growth
Fiscal 1999-2008



Note: Large increases in revenues in fiscal 2002 and 2004 reflect toll rate increases in 2001 and 2003.

Source: Maryland Transportation Authority

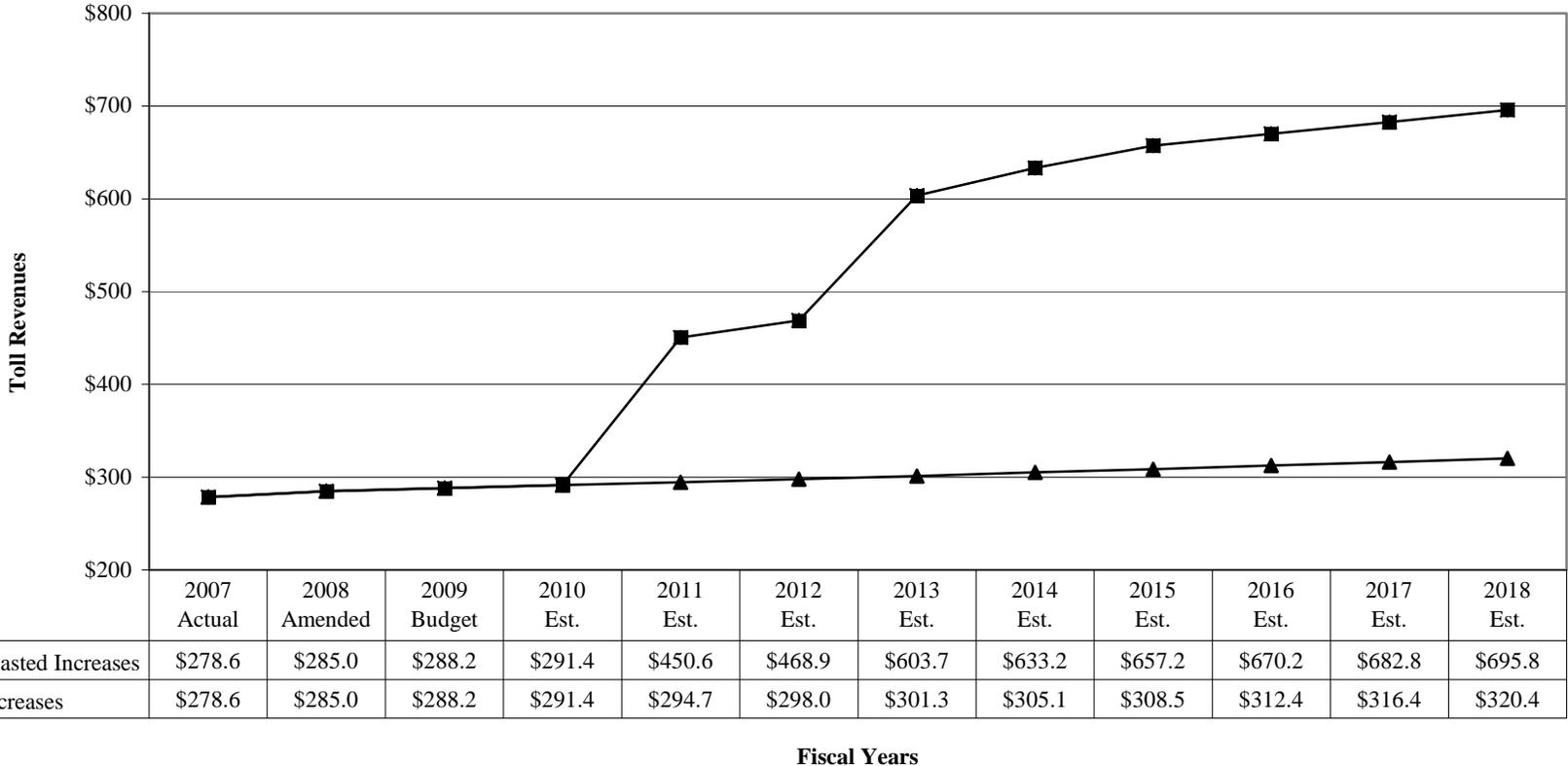
Where Do We Go from Here?

By fiscal 2013, construction of both the ICC and the I-95 ETLs should be complete, which will significantly ease pressure on the capital program. However, debt service will be 600% higher than it is today, and operating and maintenance costs will be much higher due to the addition of maintenance and law enforcement needs at two new facilities. Add to this the increasing cost of system preservation for MdTA's aging system and other large capital projects which are on the horizon, and it will take many years for MdTA to ease its financial strain.

Since it is doubtful that MdTA will have available bonding capacity in the future to fund its capital program, this would leave PAYGO toll revenues as the funding source. However, PAYGO funding of capital projects will be limited in the future due to increasing operating and debt service costs. The ability to increase tolls higher than the currently forecasted toll increases is somewhat limited, since MdTA is already planning substantial toll increases to maintain its financial coverage ratios. **Exhibit 17** shows the projected increase in toll revenues over the next 10 years. In its financial forecast, MdTA assumes toll increases in fiscal 2011, 2013, and 2015. By fiscal 2013, systemwide toll rates will be nearly double current rates.

Following these large toll rate increases in fiscal 2011, 2013, and 2015, MdTA will have limited options available for funding capital projects or other funding needs. By fiscal 2015, MdTA will be a highly leveraged agency, with debt outstanding of \$2.8 billion, annual debt service payments of \$201.2 million, and financial coverage ratios near minimum levels. In addition, its ability to raise revenues will be severely hampered by the fact that over the last four years, toll rates would have doubled from previous levels. To address the situation, it is possible that MdTA could turn to a public-private partnership to lease one of its facilities to a private entity in return for a large up-front payment. Many states with comparable financial situations, with little to no debt capacity, large debt service payments, and an inability or unwillingness to raise tolls, are actively considering long-term leases of toll facilities.

Exhibit 17
Projected Toll Revenue Growth
Fiscal 2007-2018
(\$ in Millions)



■ With Forecasted Increases
▲ Without Increases

Note: Average systemwide toll increases of 48% are projected in fiscal 2011, 23% in fiscal 2013, and 1% in fiscal 2015.

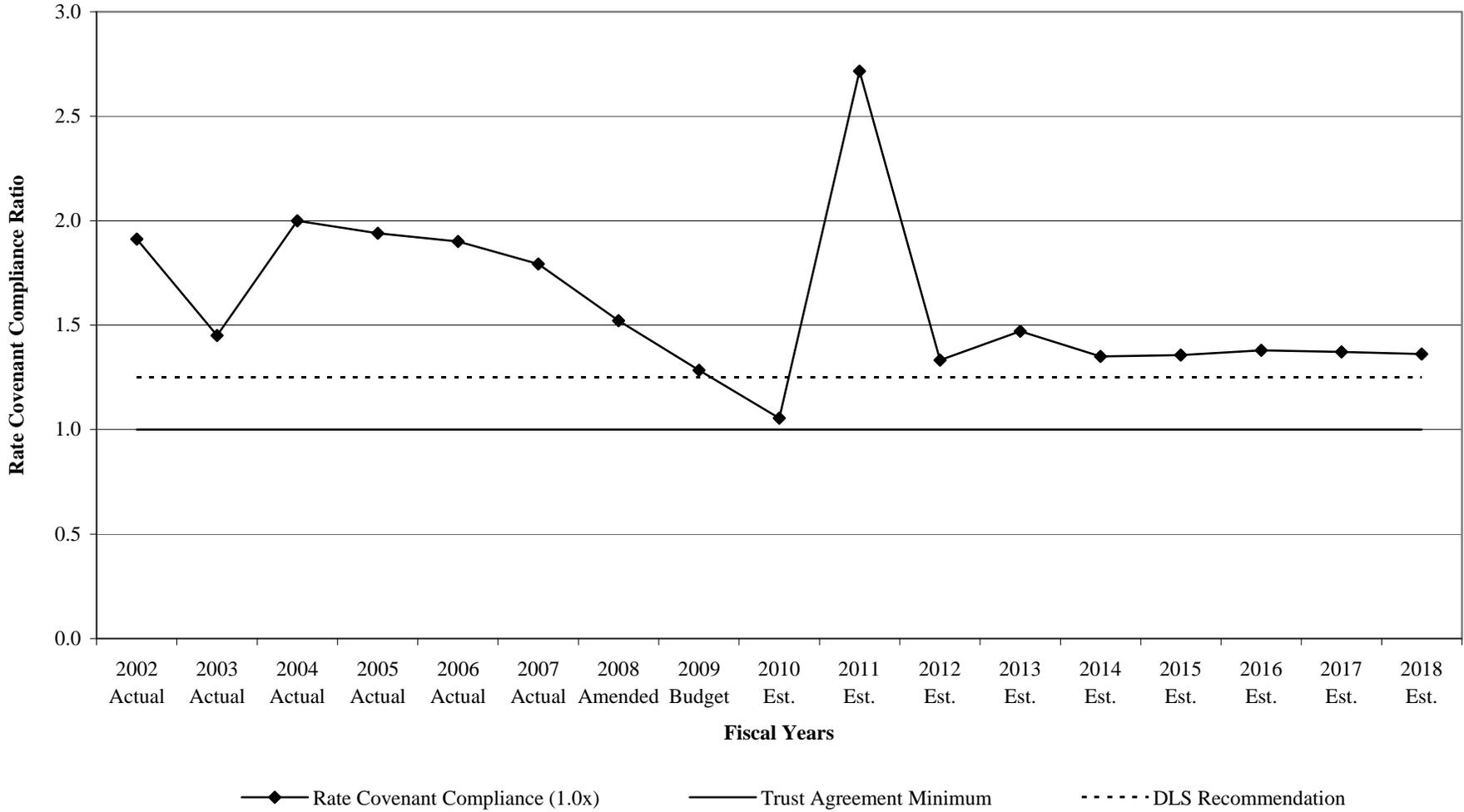
Source: Maryland Transportation Authority

What Can Be Done?

MdTA has already taken several steps to address the financial strain that it faces over the next few years. Cost containment actions in fiscal 2008 were an important first step, but MdTA should continue to constrain growth in its operating budget. Additionally, MdTA includes in its forecast toll rate increases in fiscal 2011, 2013, and 2015; however, if toll rates were increased earlier, it may allow for smaller increases and may keep MdTA on more solid financial ground. Finally, MdTA began utilizing capitalized interest bonds to defer debt service payments until closer to the time that revenues will be generated from the ICC and the I-95 ETLs; however, this increases borrowing costs over the long-term.

Although it will be taking on large amounts of debt over the next five years, MdTA adequately maintains its financial coverage ratios. **Exhibit 18** shows the rate covenant compliance ratio in fiscal 2002 through 2018, as well as the DLS recommended administrative policy.

**Exhibit 18
Rate Covenant Compliance Ratio
Fiscal 2002-2018**



In many years over the forecast period, the coverage ratios dip to minimum or near minimum levels. Having a forecast built on maintaining only the minimum financial coverage ratios can be a risky decision, because any unexpected changes, such as greater than expected inflation, cost over-runs on capital projects, or a drop in revenue, could have a profound impact on the forecast and would require immediate action, either by pulling projects from the capital program or further increasing toll rates. **To ensure that MdTA remains on solid financial ground, DLS recommends that MdTA set an administrative policy level of 1.25 for the rate covenant compliance ratio. This is a level recommended by all three rating agencies in reports on the methodology for rating toll agencies and will provide a greater financial cushion for MdTA in the future.**

Furthermore, DLS recommends that MdTA consider:

- **changes to its toll rate structure, including increasing tolls for vehicles with three axles or more, reducing commuter discounts, and utilizing congestion pricing;**
- **eliminating less critical capital projects, such as the park and ride lots for I-95, from the capital program;**
- **ceasing the practice of capitalizing multiple years of interest payments; and**
- **constraining growth in its operating budget.**

DLS also recommends the statutory debt limit be increased to \$2.8 billion, instead of the \$3.0 billion contained in SB 182, based on the impact that larger debt issuances will have in the future.

Finally, DLS recommends that the Secretary comment on how the proposed financial plan will impact:

- **MdTA's capital program in the future, when operating expenses and debt service consume a larger portion of revenues; and**
- **the status of MdTA's financial condition now and in the future.**

2. Current E-ZPass Appeals Process Begins and Ends at MdTA

An integral part of the toll collection process is the handling of toll violations. Toll violations, caused by an individual failing to pay a toll, could be due to going through a cash lane and not having money or an E-ZPass transponder; going through an E-ZPass lane and not having E-ZPass; going through an E-ZPass lane with an E-ZPass transponder, but payment is not made. Failure to make payment when an E-ZPass transponder is used may be caused by a negative balance in the account or an expired credit card attached to the account.

Toll Violations Process

The current process for addressing toll violations is outlined in Section 21-1414 of the Transportation Article and supplemented by 11.07.07 of the Code of Maryland Regulations (COMAR). The following description provides a summary of MdTA current practices in regard to toll violations and also notes where current practice differs from what MdTA has the authority to do under COMAR and statute.

For the first toll violation, MdTA mails a “Notice of Toll Due” statement for the amount of the toll. If payment is not received within 30 days (COMAR 11.07.07.05 allows only 15 days), a “Failure to Pay Notice” is sent for the toll plus an administrative fee of \$15. Failure to pay beyond that can result in referral to the Maryland Vehicle Administration (MVA) for the flagging or suspension of vehicle registration and/or referral to the State’s Central Collection Unit (CCU).

If a toll violation takes place and the vehicle owner had a prior unpaid violation within the past 12 months, the violator will be sent a “Repeat Violator Notice,” which demands payment of the toll plus a \$15 administrative penalty for each violation. Failure to pay this notice will result in the flagging or suspension of the vehicle’s registration and/or referral to CCU. (COMAR stipulates that if a third or subsequent violation is issued within 60 days of the first violation, subsequent violations may be assessed a \$15 administrative fee plus a civil penalty of \$50.)

Appeal Process

If an individual who receives notice of a violation contests the violation, they must first contact E-ZPass Customer Service, which is handled by ACS, the contractor that MdTA uses for E-ZPass accounts and violations. If the issue remains contested, the individual may file a written appeal. Appeals are investigated by ACS, and a “Notice of Appeal Determination” is sent to the individual. If the violation is still contested, the individual may file another written appeal to the E-ZPass Violation Enforcement Program Manager, who is an MdTA employee. The program manager issues a written determination. This determination is final, and the individual has no appeals left. If the program manager enforces the violation determination, whether the individual agrees with the decision or not, they must pay the violation and all associated fees or face the flagging or suspension of their vehicle registration and/or referral to the CCU.

Referrals to MVA for the flagging or suspension of the vehicle registration and/or referral to CCU are serious matters. If a vehicle’s registration is flagged, the owner will not be able to renew the registration until the violation, plus a \$30 administrative fee from MVA to remove the flag, is paid. If a vehicle’s registration is suspended, this results in an immediate suspension, and the owner of the vehicle could be arrested for driving on a suspended registration. If referral is made to CCU, CCU adds an additional fee for collecting the money, as well as interest penalties of 17%. To receive payment, CCU has debt collectors, may file lawsuits, and may refer debts to the Comptroller’s office so that the money is automatically deducted from an individual’s income tax refund. Debt collection through CCU can also negatively affect an individual’s credit.

DLS is concerned about the serious effects that can result from the failure to pay a toll. Failure to pay can ultimately result in arrest if the individual drives while their registration is suspended or can negatively affect an individual's credit. While some individuals violate tolls knowingly with no regard for the consequences, others are otherwise law-abiding citizens who fail to pay tolls due to an expired credit card. If an individual does not keep their account information up-to-date, including payment information and address, notices of violations could be sent to the wrong address, and several toll violations could accumulate before the individual is aware of the problem. By this time, several unpaid tolls, as well as a \$15 administrative fee for each unpaid toll can accumulate.

MVA Appeals Process

Appeals of actions taken by MVA take a much different route. Sections 12-201 through 12-209 of the Transportation Article state that individuals may contest the suspension or revocation of their driver's license. Statute outlines that appeals must be allowed and what governs those appeals. COMAR 11.11.02 assigns these responsibilities for appeals to the Office of Administrative Hearings (OAH) for review. Statute says that appeals of the hearing/appeal procedure would go to circuit court. If MVA makes the determination that it is suspending a license based on accumulated points or alcohol violations, then the individual may appeal that decision first to OAH and then to circuit court. OAH handles appeals for MVA "including but not limited to" suspension or revocation of any of the following: driver's license, dealer license, vehicle salesman license, driver's school license, and termination of vehicle franchise.

Allowing MVA appeals to be heard by OAH instead of MVA is an important step in the process because it allows individuals a "fair, impartial and independent opportunity to be heard on the issue(s) in question" (from the OAH web site).

While the E-ZPass appeal process involves more layers of appeal, there is never a hearing outside of MdTA. In essence, MdTA (or its contractor) initiates the violation and all appeals stop at MdTA. With penalties as serious as the suspension of vehicle registration, which could result in arrest, or referral of the debt to CCU that could impact an individual's credit, there should be some level of independent review of the contested violation. **DLS recommends a statutory change, either through the budget reconciliation bill or separate legislation, that would require MdTA to institute an appeals process through OAH so that individuals have an opportunity to have their cases heard by an independent third party.**

Operating Budget Recommended Actions

1. Nonbudgeted.

PAYGO Budget Recommended Actions

1. Nonbudgeted.

Updates

1. MdTA Issues \$300 Million in Revenue Bonds and \$325 Million in Grant Anticipation Revenue Vehicle Bonds

In 2007, MdTA issued two sets of bonds. The first was \$325.0 million in GARVEE bonds for the ICC, and the second was \$300.0 million in revenue bonds to fund MdTA's capital program.

GARVEE Bond Issuance

Chapters 471 and 472 of 2005 established a finance plan for construction of the ICC, which included authorization to issue \$750 million in GARVEE bonds. In order to match planned expenditures, MdTA separated the total authorization into two issuances. The first of these issuances was in May 2007, and the second issuance is expected in the fall of 2008.

The rating agencies viewed MdTA's GARVEE bond issuance favorably. The issuance received ratings of AAA from Standard & Poor's, Aa2 from Moody's Investors Services, and AA from Fitch Ratings. Maryland is only the second state in the nation to receive an AAA rating for a GARVEE bond issuance. The ratings were based on the following strengths of the issuance:

- long history of federal transportation funding;
- strong financial coverage ratios;
- subordinate lien of the TTF;
- limited statutory authorization for only \$750 million;
- 12-year maturity that limits the risk of federal surface transportation program reauthorization; and
- a clearly articulated procedure to ensure the timely flow of TTF revenues should federal aid be insufficient for debt service.

The following risks were noted:

- federal highway aid program reauthorization risk; and
- litigation involving the project may delay implementation or increase costs.

Based on these favorable ratings, the true interest cost (TIC) was 3.99%, and the sale achieved a premium of approximately \$18.0 million. MdTA's forecast indicates that it plans to reduce the size of its second GARVEE bond issuance to \$408.1 million in recognition of the premium that was received. However, statute does not require MdTA to do so. This would leave an authorization from the General Assembly for \$16.9 million that MdTA is not utilizing.

Revenue Bond Issuance

In September 2007, MdTA issued \$300.0 million worth of revenue bonds to support its capital program, which included \$10.2 million in capitalized interest bonds to pay a portion of the interest payments through fiscal 2011. The TIC for the issuance was 4.57%, and MdTA received a premium of \$3.8 million.

The issuance received underlying ratings of AA- from Standard & Poor's, Aa3 from Moody's Investors Services, and AA- from Fitch Ratings. Utilizing a financial guaranty insurance policy, the issuance was assigned a rating of AAA by all three rating agencies. The underlying rating of AA- from Standard & Poor's represented an upgrade from the previous ranking of A+. The ratings were based on the following strengths of the issuance:

- strong liquidity position, with 1,050 days cash on hand at the end of fiscal 2006;
- large and well-diversified system consisting of six pledged facilities, with monopoly control over eastern Maryland's essential highway, bridge, and tunnel network, particularly I-95;
- willingness and ability to raise toll rates, demonstrated by a 100%-150% toll increase for noncommuters in 2001-2003, and traffic levels that showed relative inelasticity over that time;
- cooperative relationship with MDOT on managing MdTA's support for other State transportation projects; and
- strong historical debt service coverage.

The following risks were noted:

- MdTA's debt issuance program, which will considerably increase its debt profile in the medium term;
- managing growing capital and operating needs for existing facilities while undertaking large capital construction projects;
- increasing reliance on debt to finance capital needs, with the potential for existing facilities to cross-subsidize ICC-related debt service obligations for an extended period; and
- greater than inflationary operating expense growth and MdTA's existing commuter discount program could pose a constraint on financial margins.

MdTA Financial Forecast
Fiscal 2007-2013
(\$ in Millions)

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Revenues							
Toll Revenues	\$278.6	\$285.0	\$288.2	\$291.4	\$450.6	\$468.9	\$603.7
Concessions	8.1	8.3	6.0	6.0	10.0	13.0	13.0
Investment Income and Other	31.4	35.5	41.5	36.6	28.5	29.1	32.8
Maryland Department of Transportation	39.5	39.8	42.8	44.3	46.0	47.8	49.6
Total Revenues	\$357.6	\$368.6	\$378.5	\$378.3	\$535.1	\$558.8	\$699.1
Expenses							
Operations	\$189.1	\$206.5	\$219.7	\$241.7	\$263.7	\$281.6	\$298.0
MDOT Transfer	43.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Service	24.5	24.4	36.8	45.8	57.9	127.4	171.3
Capital Program	399.4	920.7	1,143.9	1,089.3	655.2	211.4	132
Less: GARVEE Bond Proceeds	-341.9	0.0	-408.1	0.0	0.0	0.0	0.0
Less: Federal Funds for the ICC	-18.0	-0.7	0.0	0.0	0.0	0.0	0.0
Less: Revenue Bond Proceeds	0.0	-915.0	-600.0	-510.0	-395.0	-125.0	0.0
Less: MDOT PAYGO	-30.0	-30.0	-30.0	-30.0	0.0	0.0	0.0
Less: General Fund Transfers	-53.0	0.0	-85.0	-126.9	0	0.0	0.0
Total Expenses	\$213.0	\$206.0	\$277.3	\$709.9	\$581.7	\$495.4	\$601.4
Annual Surplus/Deficit	\$144.6	\$162.6	\$101.1	-\$331.6	-\$46.6	\$63.3	\$97.8
Total Cash Balance	\$575.4	\$738.0	\$839.2	\$507.6	\$461.0	\$524.2	\$622.0
Debt							
Debt Outstanding	\$245.1	\$1,240.4	\$1,890.0	\$2,428.5	\$2,810.8	\$2,914.2	\$2,879.3
Ratio of Total Cash to Toll Revenues (Policy 1.0)	2.01	2.52	2.85	1.71	1.00	1.09	1.01
Debt Service Coverage (Policy 2.0)	6.88	5.93	3.82	2.57	4.36	2.02	2.22
Rate Covenant Compliance (Legal 1.0)	1.79	1.52	1.28	1.05	2.72	1.33	1.47

GARVEE: Grant Anticipation Revenue Vehicle

ICC: InterCounty Connector

MDOT: Maryland Department of Transportation

PAYGO: pay-as-you-go

Includes projected average statewide toll increases of \$1.20 in fiscal 2011, \$0.85 in fiscal 2013, and \$0.05 in fiscal 2015.

Audit Findings

Audit Period for Last Audit:	January 1, 2004 – October 31, 2006
Issue Date:	June 2007
Number of Findings:	7
Number of Repeat Findings:	3
% of Repeat Findings:	43%
Rating: (if applicable)	n/a

Finding 1: MdTA did not always require contractors working on architectural and engineering contracts to submit appropriate documentation to support labor-related costs billed.

Finding 2: Controls over MdTA’s corporate purchasing cards were inadequate, and certain purchasing card transactions lacked required supporting documentation.

Finding 3: MdTA did not refer certain questionable activities involving corporate purchasing cards to the Office of the Attorney General’s Criminal Division as required.

Finding 4: MdTA lacked current written agreements to support certain payments from other State agencies that totaled approximately \$12 million.

Finding 5: **Certain cash receipts collected by the E-ZPass system contractor were not adequately controlled.**

Finding 6: **MdTA did not submit three construction contracts totaling \$636,283 to the Board of Public Works for its review.**

Finding 7: **MdTA did not adequately control certain equipment and conduct physical inventories as required.**

*Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
Maryland Transportation Authority Operating Budget**

<u>Object/Fund</u>	<u>FY07 Actual</u>	<u>FY08 Amended Budget</u>	<u>FY09 Budget</u>	<u>FY08-FY09 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,604.50	1,641.50	1,639.00	-2.50	-0.2%
Total Positions	1,604.50	1,641.50	1,639.00	-2.50	-0.2%
Objects					
01 Salaries and Wages	\$ 108,900,391	\$ 118,047,958	\$ 131,074,266	\$ 13,026,308	11.0%
02 Technical and Spec. Fees	2,580,501	2,641,472	5,643,886	3,002,414	113.7%
03 Communication	852,330	1,224,745	1,141,624	-83,121	-6.8%
04 Travel	165,308	186,055	135,492	-50,563	-27.2%
06 Fuel and Utilities	4,094,699	4,181,100	6,178,401	1,997,301	47.8%
07 Motor Vehicles	3,247,742	2,815,344	3,406,828	591,484	21.0%
08 Contractual Services	29,178,976	31,330,725	36,465,383	5,134,658	16.4%
09 Supplies and Materials	4,916,982	5,824,270	5,898,452	74,182	1.3%
10 Equip. – Replacement	2,177,615	15,616,613	8,733,801	-6,882,812	-44.1%
11 Equip. – Additional	4,158,842	18,010,399	8,860,017	-9,150,382	-50.8%
12 Grants, Subsidies, and Contributions	43,000,000	0	0	0	0.0%
13 Fixed Charges	30,630,544	31,081,046	43,692,748	12,611,702	40.6%
Total Objects	\$ 233,903,930	\$ 230,959,727	\$ 251,230,898	\$ 20,271,171	8.8%
Funds					
07 Nonbudgeted Fund	\$ 233,903,930	\$ 230,959,727	\$ 251,230,898	\$ 20,271,171	8.8%
Total Funds	\$ 233,903,930	\$ 230,959,727	\$ 251,230,898	\$ 20,271,171	8.8%

**Fiscal Summary
Maryland Transportation Authority**

<u>Program/Unit</u>	<u>FY07 Actual</u>	<u>FY08 Amended</u>	<u>FY09 Budget</u>	<u>Change</u>	<u>FY08-FY09 % Change</u>
Operating Program	\$ 233,903,930	\$ 230,959,727	\$ 251,230,898	\$ 20,271,171	8.8%
Capital Program	316,376,282	918,311,339	1,141,413,154	223,101,815	24.3%
Total Expenditures	\$ 550,280,212	\$ 1,149,271,066	\$ 1,392,644,052	\$ 243,372,986	21.2%
Nonbudgeted Fund	\$ 550,280,212	\$ 1,149,271,066	\$ 1,392,644,052	\$ 243,372,986	21.2%
Total Appropriations	\$ 550,280,212	\$ 1,149,271,066	\$ 1,392,644,052	\$ 243,372,986	21.2%

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