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Maryland Transportation Authority

Operating Budget Data

(\$ in Thousands)

	<u>FY 13</u> <u>Actual</u>	<u>FY 14</u> <u>Working</u>	<u>FY 15</u> <u>Allowance</u>	<u>FY 14-15</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Nonbudgeted Fund	\$347,198	\$390,492	\$409,286	\$18,794	4.8%
Adjusted Nonbudgeted Fund	\$347,198	\$390,492	\$409,286	\$18,794	4.8%
Adjusted Grand Total	\$347,198	\$390,492	\$409,286	\$18,794	4.8%

- The fiscal 2015 allowance increases \$18.8 million, or 4.8%, compared to the fiscal 2014 working appropriation. When adjusting for debt service costs, the operating budget increases by \$14.6 million, or 5.4%.
- The largest increase in the allowance is for E-ZPass costs including service center costs, credit card fees, transponders, and reciprocity fees.
- While the Maryland Transportation Authority (MDTA) is nonbudgeted, it does adhere to the personnel actions taken in the allowance including salary increases – except for the 2% general salary increase – and reductions to health insurance and retirement contributions.

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

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PAYGO Capital Budget Data

(\$ in Thousands)

	Fiscal 2013	Fiscal 2014		Fiscal 2015
	<u>Actual</u>	<u>Legislative</u>	<u>Working</u>	<u>Allowance</u>
Nonbudgeted	\$329,140	\$497,239	\$417,718	\$411,874
Total	\$329,140	\$497,239	\$417,718	\$411,874

- The fiscal 2014 working appropriation declines by \$79.5 million largely due to schedule changes in a number of projects.
- The fiscal 2015 allowance decreases by \$5.8 million due to cash flow and schedule changes in a number of projects.

Operating and PAYGO Personnel Data

	<u>FY 13 Actual</u>	<u>FY 14 Working</u>	<u>FY 15 Allowance</u>	<u>FY 14-15 Change</u>
Regular Operating Budget Positions	1,789.50	1,789.50	1,789.50	0.00
Regular PAYGO Budget Positions	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Regular Positions	1,789.50	1,789.50	1,789.50	0.00
Operating Budget FTEs	0.00	0.00	0.00	0.00
PAYGO Budget FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total FTEs	0.00	0.00	0.00	0.00
Total Personnel	1,789.50	1,789.50	1,789.50	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	103.8	5.8%
Positions and Percentage Vacant as of 12/31/13	200.8	11.2%

- The personnel complement in the fiscal 2015 allowance remains unchanged compared to the fiscal 2014 working appropriation.
- The budgeted turnover rate is 5.8%, requiring 103.8 vacant positions. As of December 31, 2013, the agency had 200.8 vacant positions for a vacancy rate of 11.2%.

Analysis in Brief

Major Trends

Annual Tolled Traffic and Toll Revenue: Total toll revenue, excluding the InterCounty Connector, increased \$49.4 million, or 12.6%, from fiscal 2012 due to the full annualization of the fiscal 2012 toll increase. The fiscal 2013 revenues were higher than expected due to traffic not declining as much as expected. In fiscal 2014, revenues are estimated to total \$566.7 million due to the second planned toll increase. Fiscal 2015 revenue growth returns to a normal level of 1.7%, or \$576.5 million.

Electronic Tolling: Electronic toll transactions expedite the toll collection process; reduce delays at toll plazas, reduce vehicle idling time, thereby reducing emissions; and allow for the efficient movement of goods and people. MDTA's goal is to reach 75% electronic toll collection by fiscal 2014. It is anticipated that in fiscal 2014, MDTA will exceed that goal. Electronic tolling has increased from around 15% in fiscal 2001 to almost 80% in fiscal 2015.

Issues

What Now for the Maryland Transportation Authority?: Previously, MDTA had been an administrative agency focused on maintaining its facilities and collecting revenue but that changed with the construction of two megaprojects. As construction on the two projects comes to an end, the question becomes what kind of agency will MDTA evolve into and what will its core focus be? Based upon its capital program, it appears that the agency will focus on maintaining its existing facilities, with the potential replacement of the Harry W. Nice Memorial Bridge (Nice Bridge) as the highest priority in the short term. There are also several projects to modernize and improve the toll collection process. **The Department of Legislative Services (DLS) recommends that MDTA discuss its decisionmaking process for moving forward with the Nice Bridge project, the potential costs, and the issues surrounding a public-private partnership for the project. DLS also recommends that the agency discuss what other facilities may be considered for all electronic tolling, the potential use of congestion pricing as a traffic management tool, and what the priorities are for the future.**

Update on Video Tolling and Citation Program: Chapter 113 of 2013 was enacted to redefine the tolling and citation program for MDTA. Prior to the change, statute was written in a way that did not reflect current tolling practices. **DLS recommends that MDTA discuss what impact a transition to an all electronic toll system may have on the number of citations in the future.**

Operating Budget Recommended Actions

1. Nonbudgeted.

PAYGO Budget Recommended Actions

1. Nonbudgeted.

Updates

New Travel Plazas Opening This Year: The Maryland House travel plaza reopened to the public on January 16, 2014. The Chesapeake House is set to open later this year. As a result of the public-private partnership, several new enhancements to the travel plazas have been made.

Bay Bridge Crash Update: On July 19, 2013, a crash on the Bay Bridge resulted in one passenger vehicle going over the jersey wall. Fortunately, no one was seriously injured in the accident. Subsequent investigations by the MDTA police and the National Transportation Safety Board faulted the driver of a tractor trailer for distracted driving.

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Maryland Transportation Authority

Budget Analysis

Program Description

The Maryland Transportation Authority (MDTA) 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 Memorial Highway (I-95) and the Thomas J. Hatem Memorial Bridge (Hatem Bridge) (US 40);
- **Central Region** – includes the Baltimore Harbor (I-895) and Fort McHenry (I-95) tunnels and thruways, the Francis Scott Key Bridge (I-695), and I-395 leading to Baltimore City; and
- **Southern Region** – includes the Harry W. Nice Memorial Bridge (Nice Bridge) (US 301), the William Preston Lane, Jr. Memorial Bridge (Bay Bridge) (US 50/301), and the InterCounty Connector (ICC) (MD 200).

In addition to these toll facilities, MDTA also owns the Intermodal Container Transfer Facility at the Port of Baltimore, which is leased to the Maryland Port Administration (MPA), who subleases it to CSX Railroad.

Membership of MDTA’s board is comprised of eight members 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 the northern region of I-95, which is patrolled by the Department of State Police. MDTA is also under contract with the Maryland Aviation Administration to provide law enforcement services at the Baltimore/Washington International Thurgood Marshall (BWI Marshall) Airport, with MPA to provide law enforcement services at MPA-owned facilities at the Port of Baltimore.

To achieve its vision of “creating E-Z passage throughout Maryland,” MDTA has identified the following key goals:

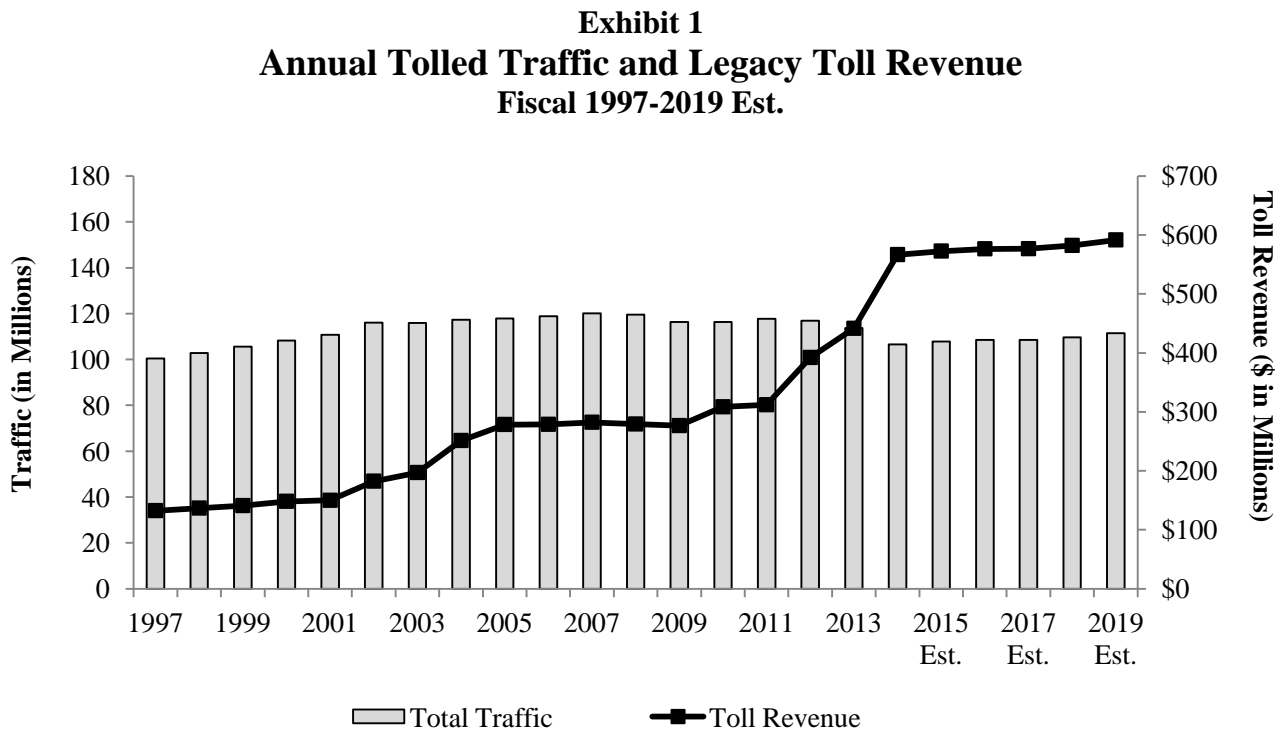
- move people and goods efficiently and effectively;
- safety and security;
- strategic financing and financial stewardship; and

- improve external and internal customer service and performance.

Performance Analysis: Managing for Results

1. Annual Tolled Traffic and Toll Revenue

In order to achieve its vision of “creating E-Z passage throughout Maryland,” MDTA’s first goal is to efficiently and effectively move people and goods across the State. **Exhibit 1** shows the annual tolled traffic and toll revenue at MDTA’s legacy facilities from fiscal 1997 through 2019. This chart excludes new traffic and revenue from the ICC beginning in fiscal 2011 and the I-95 Express Toll Lanes (ETL) beginning in fiscal 2015. Inclusion of this data would skew historical comparisons.



Note: Traffic and revenue data are for “legacy” facilities and do not include the InterCounty Connector or express toll lanes on Interstate 95.

Source: Maryland Transportation Authority

In fiscal 2013, traffic totaled 113.7 million vehicles, a decrease of 2.7% due to the toll increase. Toll revenue in fiscal 2013 totaled \$441.6 million, an increase of \$49.4 million, or 12.6%, from fiscal 2012 due to the full annualization of revenues from the fiscal 2012 toll increase. Compared to the

estimate, fiscal 2013 actual revenues were \$13.3 million higher than estimated due to traffic not declining as much as forecasted from the increase in the toll rates.

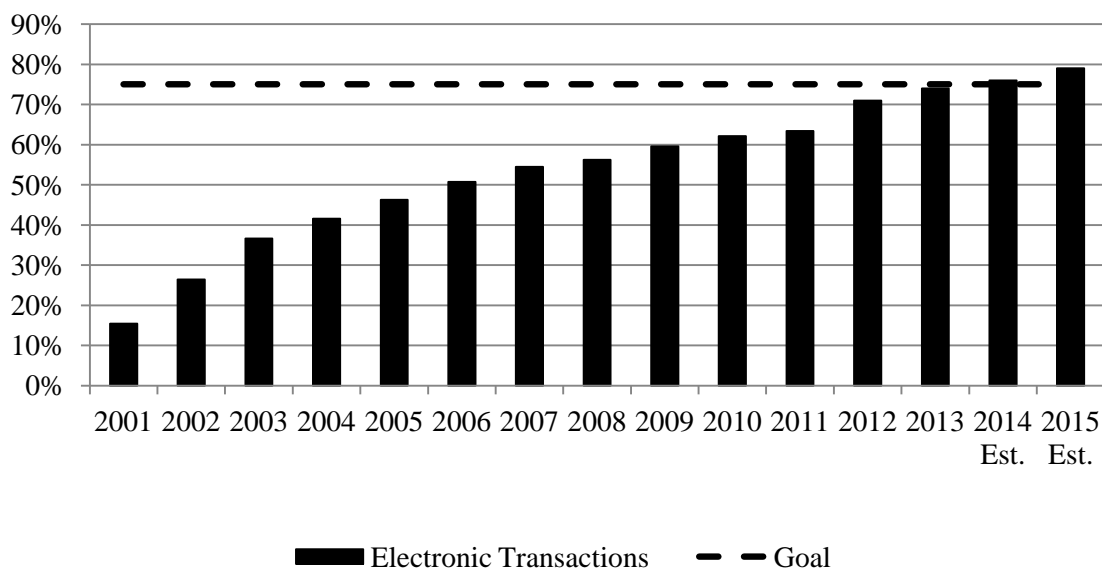
In fiscal 2014, revenues are estimated to total \$566.7 million, an increase of \$125.1 million, or 28.3%. The increase in fiscal 2014 revenues is from the second phase increase in tolls that went into effect on July 1, 2013. Similar to prior toll increases, traffic is expected to decline 6.2%.

Beginning in fiscal 2015, revenue and traffic growth are projected to stabilize and grow approximately 1.0% on average throughout the forecast period. Fiscal 2015 revenues total \$576.5 million, an increase of \$9.8 million, or 1.7%. The total number of toll transactions on existing facilities is not expected to reach its pre-recession fiscal 2007 peak until after the current forecast period.

2. Electronic Tolling

Electronic toll transactions expedite the toll collection process; reduce delays at toll plazas; reduce vehicle idling time, thereby reducing emissions; and allow for the efficient movement of goods and people. E-ZPass electronic toll collection is available at all toll facilities, as well as throughout the northeastern part of the United States. The use of electronic tolling continues to increase. **Exhibit 2** shows the percentage of tolls collected electronically at all of MDTA's toll facilities. This exhibit includes the use of E-ZPass, automatic vehicle identification decals at the Hatem Bridge, and video tolling. In fiscal 2013, 74% of tolls were collected electronically. MDTA's goal is to reach 75% electronic toll collection by fiscal 2014. As shown, MDTA anticipates reaching its goal in fiscal 2014. The use of electronic tolling is expected to continue to increase over the next several years following the opening of I-95 ETLs and the maturation of the ICC. In addition, there are several projects in the capital program for the planning or construction of all electronic toll lanes at facilities. It should be noted that approximately 15% of tolls were collected electronically in fiscal 2001, and 14 years later, the percentage has increased to almost 80%.

Exhibit 2
Percentage of Tolls Collected Electronically
Fiscal 2001-2015 Est.



Source: Maryland Transportation Authority's *Managing for Results*, January 2014 Submission

Fiscal 2013 Closeout

Fiscal 2013 actual spending at MDTA totaled \$347.2 million, or \$22.7 million less than the working appropriation. The major changes in spending include:

- \$7.7 million less due to higher vacancies than expected and difficulty in hiring certain skilled positions;
- \$2.8 million less for publicity and advertising due to delays in the procurement of a new marketing contract;
- \$2.2 million less for contract costs;
- \$2.2 million for information technology (IT) due to deferred replacements of desktops and laptops as a result of a statewide contract not being in place and schedule changes to several major IT projects;

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- \$1.9 million less for additional and replacement equipment and vehicles due to the timing of purchases; and
- \$1.8 million less for annual inspections due to the assignment of less task orders than expected.

Proposed Budget

As shown in **Exhibit 3**, the fiscal 2015 allowance increases \$18.8 million, or 4.8%, compared to the fiscal 2014 working appropriation. The operating budget, not including debt service costs, increases \$14.6 million, or 5.4%. While MDTA is a nonbudgeted agency, its budget does conform to the cost containment actions taken in agency budgets for the most part. Specifically, the allowance includes an increment with this increase offset by reductions to employee health insurance and retirement contributions. It should be noted that the 2% cost-of-living adjustment is not included in the operating budget.

**Exhibit 3
Proposed Budget
Maryland Transportation Authority
(\$ in Thousands)**

How Much It Grows:	Nonbudgeted Fund	Total
2014 Working Appropriation	\$390,492	\$390,492
2015 Allowance	<u>409,286</u>	<u>409,286</u>
Amount Change	\$18,794	\$18,794
Percent Change	4.8%	4.8%

Where It Goes:

Personnel Expenses

Salaries	\$3,919
Social Security	277
Overtime	210
Other fringe benefit adjustments	11
Retirement	-1,046
Employee and retiree health insurance	-2,545

Other Changes

E-ZPass costs (includes service center costs, credit card fees, transponders and reciprocity fees)	6,857
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Where It Goes:

On-call construction repairs	4,878
Debt Service	4,202
Insurance	1,750
Professional services	1,564
Additional and replacement equipment	1,274
Information technology equipment	1,030
Maintenance services and equipment.....	175
Trust Agreement expenses	132
Contract with Maryland State Police for I-95	-139
Uniforms	-179
Telephone.....	-193
Other	-242
Publicity and advertising.....	-251
Snow removal	-375
Gas and electric	-377
Additional and replacement vehicles	-2,138
Total	\$18,794

Note: The fiscal 2014 working appropriation reflects negative deficiencies and contingent reductions. The fiscal 2015 allowance reflects back of the bill and contingent reductions. Numbers may not sum to total due to rounding.

Other major increases in the allowance include:

- \$6.9 million for E-ZPass costs due to higher transaction costs associated with video tolling, citations, and higher credit card fees due to higher toll rates;
- \$4.9 million for on-call construction repairs and a \$1.6 million increase in professional services as a result of accounting changes that moved certain maintenance and operating expenditures from the capital to the operating budget;
- \$4.2 million for increased debt service costs based on bond amortization schedules;
- \$1.8 million for insurance costs based on actual premiums; and,
- \$1.3 million for additional and replacement equipment based on needs.

The largest decrease in the allowance is for new and replacement vehicles totaling \$2.1 million.

Financial Forecast

Section 4-313 of the Transportation Article establishes the Transportation Authority Fund, a nonlapsing fund into which all MDTA revenues flow except to the extent they are pledged under a trust agreement. MDTA revenues come primarily from tolls but also from concession income from travel plazas it owns along I-95, investment income, and payments from MDOT. MDOT payments include a capital lease of Masonville Auto Terminal and reimbursement for services provided at BWI Marshall Airport and the Port of Baltimore.

To support its capital program, MDTA may issue toll revenue bonds with a maturity up to 40 years. Typically, MDTA issues its toll revenue bonds with a 30- to 33-year maturity. Chapters 471 and 472 of 2005 established a finance plan for the ICC that included MDTA revenue bonds and a number of alternative funding sources specific to the ICC. These funding sources include Grant Anticipation Revenue Vehicle (GARVEE) bonds, federal funds, a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan, transfers from the TTF, and funds from the State's general fund or proceeds from general obligation (GO) bonds.

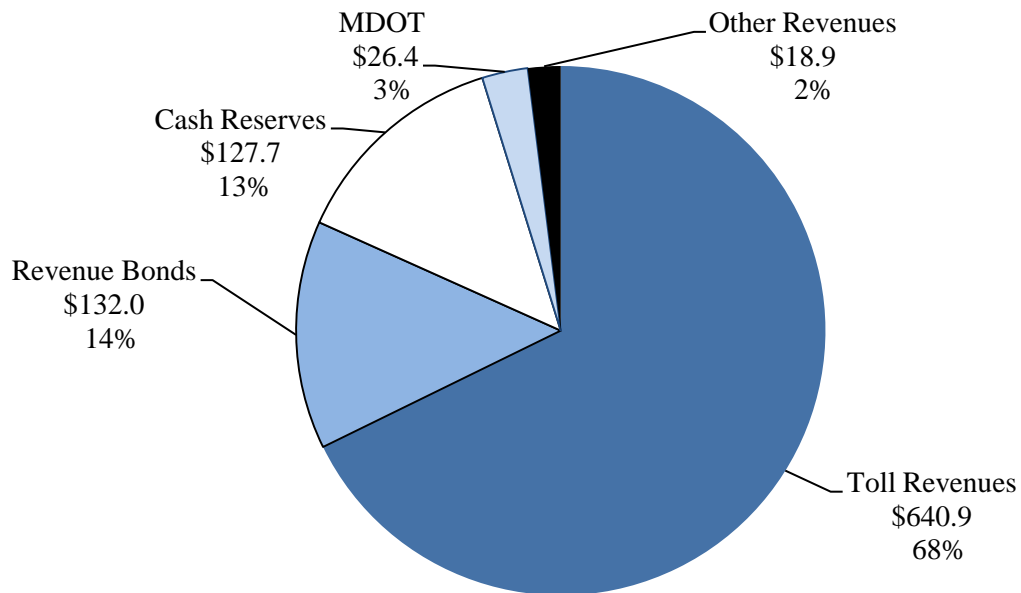
The terms of MDTA's trust agreement with its bondholders are the driving force in MDTA finances. Maintaining its bond coverage ratios is the primary concern, and all revenue adjustments and operating and capital expenditures are managed to maintain these ratios. To this end, MDTA develops and maintains a six-year financial forecast. Section 4-210 of the Transportation Article requires MDTA to provide the legislature a copy of its financial forecast by July 1 each year and in conjunction with submission of the Governor's budget in January.

Sources and Uses of Funding

Exhibit 4 provides information on all of the funding supporting MDTA's fiscal 2014 operating and capital budgets. The primary sources of fiscal 2015 funding are from toll revenues (\$640.9 million) and revenue bonds (\$132.0 million) largely to support funding for the ETL project. The \$132.0 million bond issuance represents the last drawdown of TIFIA loan.

Exhibit 5 provides a breakdown of fiscal 2015 spending by category. The capital program, including the ICC, the I-95 ETLs, and all other capital projects, accounts for about 50% of all spending in fiscal 2015. The operating budget, including the operating budget for the MDTA Police, accounts for about 35% of all spending. Debt service payments account for the remaining 15%.

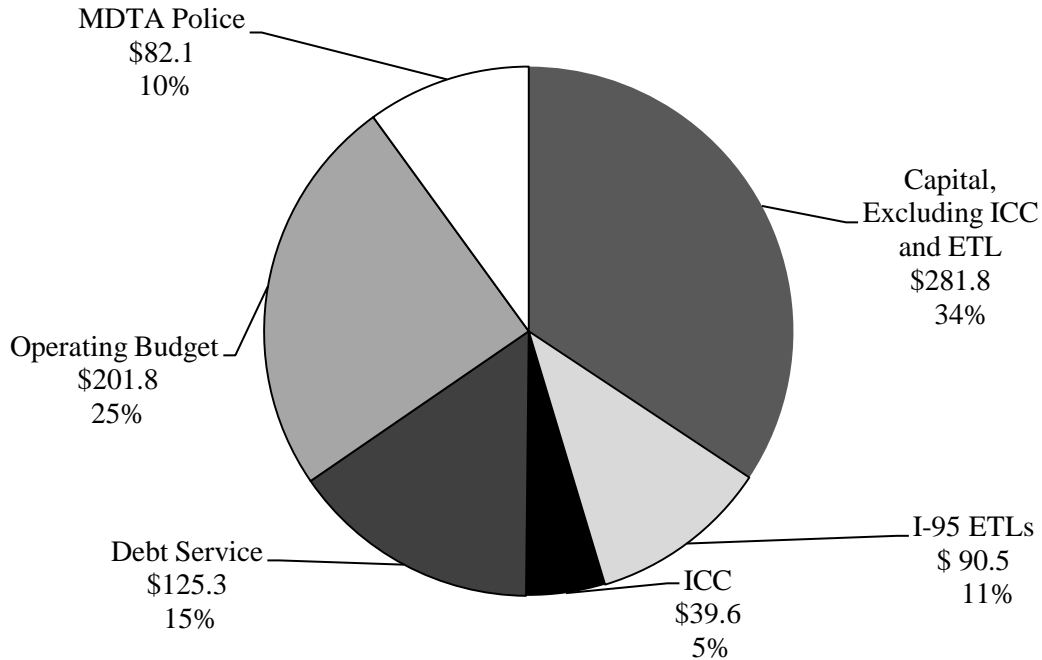
Exhibit 4
Fiscal 2015 Sources of Funding
(\$ in Millions)



MDOT: Maryland Department of Transportation

Source: Maryland Transportation Authority's January 2014 Financial Forecast, Version 4

Exhibit 5
Fiscal 2015 Uses of Funding
(\$ in Millions)



ETL: Express Toll Lanes
ICC: InterCounty Connector
MDTA: Maryland Transportation Authority

Source: Maryland Transportation Authority's January 2014 Financial Forecast, Version 4

Toll Revenues

Toll revenues are the primary revenue source for MDTA. Increased operating costs, rising debt service, and the need to maintain aging infrastructure required toll increases. In September 2011, the MDTA board approved a comprehensive set of toll increases. As discussed earlier, these toll increases did have an adverse effect on transactions. The current forecast does not reflect any additional toll increases in the forecast period.

Total toll revenue is expected to increase from \$481.2 million in fiscal 2013 to \$681.2 million in fiscal 2019. In fiscal 2014, toll revenues are expected to total \$616.5 million, an increase of \$135.3 million, or 28.1%, due to the second phase of the toll increase taking effect and continued growth in ICC revenue. Revenues increase to \$640.9 million in fiscal 2015.

Traffic growth is estimated to be about 1.0% over the period which reflects national trends and not exceed the peak of fiscal 2007 during the forecast period. As the population ages and more individuals telework, fewer transactions are expected. In its travel forecast, impacts are also reflected from capital projects being undertaken in the coming years. For example, in fiscal 2017, there is no growth in traffic due to capital projects affecting revenue potential for the Harbor Tunnel.

ICC revenue is expected to total \$49.8 million in fiscal 2014 and increase to \$82.1 million in fiscal 2019. ICC traffic growth stabilizes in fiscal 2015, once construction on the project is completed, but traffic growth is expected to be greater than growth on the other facilities as the road matures. Unlike the ICC that has a ramp up in traffic growth, the I-95 ETL project has little to no ramp up in traffic growth with toll revenues totaling \$7.5 million in fiscal 2019, significantly less than the ICC.

Debt Service

Increased reliance on debt to fund construction of a new facility and the major expansion of an existing toll facility will result in significantly higher debt service payments over the next 30 years. Debt service will increase from a low of \$25.0 million in fiscal 2007 to annual debt service of \$158.5 million in fiscal 2019 based upon debt issuances through fiscal 2019. Debt service costs could increase in the coming years if MDTA issues more revenue bonds to support the capital program.

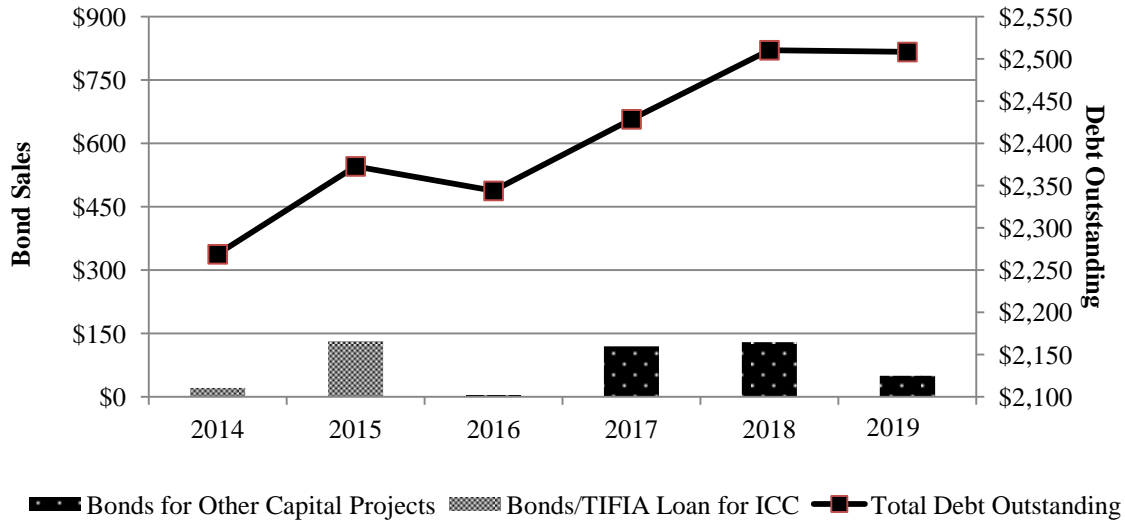
Revenue Bonds

Beginning in fiscal 2015 through fiscal 2019, MDTA will issue \$437.0 million in bonds to support its capital program. This includes the remaining \$132.0 million draw of a TIFIA loan in fiscal 2015.

The next bond issue is expected in fiscal 2016 for \$5.0 million, with the next sizable debt issuance in fiscal 2017. In December 2012, all three rating agencies reaffirmed MDTA's debt with a stable outlook.

Exhibit 6 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 2014 through 2019. Smaller bond sales are projected from fiscal 2016 to 2019. Total debt outstanding is expected to peak in fiscal 2018 at \$2.510 billion. This level of debt outstanding remains below the statutory debt outstanding limit of \$3.0 billion.

**Exhibit 6
Bond Sales and Debt Outstanding
Fiscal 2014-2019
(\$ in Millions)**



ICC: InterCounty Connector
TIFIA: Transportation Infrastructure Finance and Innovation Act

Source: Maryland Transportation Authority’s January 2014 Financial Forecast, Version 2013-05 v.4

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 do not exceed \$3 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. MDTA does, however, have its own measures to ensure that debt outstanding remains affordable. Coverage ratios include the following:

- The rate covenant compliance ratio, as stipulated in the trust agreement, requires that the ratio of net revenues (total revenues minus operating expenses) to the amount deposited into the Maintenance and Operating Reserve Account plus 120% of debt service must be at least 1.00. The additional bonds test requires the rate covenant to be met on a five-year prospective basis. The fiscal 2015 rate covenant compliance ratio is projected to be 2.61, and adequate coverage is provided through the forecast period. It should be noted that the recent toll increases helped

MDTA to meet its required coverage ratios but also had the effect of providing additional bonding capacity.

- A second ratio is the debt service coverage ratio, which is a ratio of net revenues to debt service. Although the trust agreement stipulates that the ratio must be at least 1.20, MDTA maintains an administrative policy that requires it to be above 2.00. In fiscal 2014, the debt coverage ratio is 3.21 and decreases to 2.42 in fiscal 2019. While the debt service coverage ratio is met throughout the forecast period, debt service as a percent of revenues totals 21.7% in fiscal 2019. By way of comparison, the State's debt limit is that debt service should not exceed 8% of revenues. With debt service accounting for so much of available revenues, less cash is available for capital expenditures in the future.
- The ratio of the cash balance to toll revenues must be at least 1.00 or a minimum balance of \$350.0 million in unencumbered cash. This is an administrative policy only and is not contained in the trust agreement. In fiscal 2015, the ratio of total cash to toll revenues is 0.93, and the encumbered cash balance is \$522.6 million. Minimum cash balance requirements are met throughout the forecast period.

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 \$564.0 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 are backed by fees at BWI Marshall Airport;
- \$40.0 million for three parking facilities at Largo, New Carrollton, and College Park, which are backed by lease payments from the Washington Metropolitan Area Transit Authority;
- \$23.8 million for the Calvert Street parking garage in Annapolis for State employees, which is backed by general fund lease payments from the Department of General Services; and
- \$750.0 million in GARVEE bonds to fund construction of the ICC, which is backed by future federal highway aid with a secondary pledge from the TTF.

Exhibit 7 shows debt service and debt outstanding for MDTA's conduit financed bonds. In fiscal 2015, debt service on the conduit issuances will total \$134.8 million with debt outstanding of \$820.6 million. 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 7
Debt Service Payments and Debt Outstanding on Conduit Projects
Fiscal 2013-2015
(\$ in Thousands)

	<u>2013</u>	<u>2014</u> ¹	<u>2015</u> ¹
<u>Debt Service Payments</u>			
2002 Series – BWI Marshall Airport rental car facility	\$8,999	\$8,990	\$8,985
2003 A&B Series – various BWI Marshall Airport projects	10,819	11,201	0
2004 Series – WMATA parking garages	2,887	2,891	2,894
2005 Series – Calvert Street Parking Garage	1,543	1,532	1,517
2007 and 2008 Series – GARVEE Bonds	87,451	87,458	87,454
2012 A&B Series – BWI Marshall Airport Refunding Elm Rd	16,373	19,725	19,766
2012 A Series – various BWI Marshall Airport projects	4,154	4,122	4,084
2012 B Series – various BWI Marshall Airport projects	1,171	7,970	7,970
2012 C Series – various BWI Marshall Airport projects ¹	32	925	2,170
Total Debt Service Payments	\$133,428	\$144,814	\$134,840
<u>Debt Outstanding</u>			
2002 Series – BWI Marshall Airport rental car facility	\$99,040	\$96,495	\$93,785
2003 A&B Series – various BWI Marshall Airport projects	11,200	0	0
2004 Series – WMATA parking garages	31,860	30,480	29,040
2005 Series – Calvert Street Parking Garage	19,995	19,300	18,585
2007 and 2008 Series – GARVEE Bonds	479,035	415,775	349,440
2012 A&B Series – BWI Marshall Airport Refunding Elm Rd	182,025	171,180	159,860
2012 A Series – various BWI Marshall Airport projects	49,110	47,275	45,405
2012 B Series – various BWI Marshall Airport projects	92,070	86,610	81,040
2012 C Series – various BWI Marshall Airport projects	43,400	43,400	43,400
Total Debt Outstanding	\$1,007,735	\$910,515	\$820,555

BWI Marshall Airport: Baltimore/Washington International Thurgood Marshall Airport

GARVEE: Grant Anticipation Revenue Vehicle

WMATA: Washington Metropolitan Area Transit Authority

¹ The fiscal 2014 and 2015 debt service payments are estimates only, as they are variable rate passenger facility charge revenue bonds.

Source: Maryland Transportation Authority

Financial Outlook: Stable

After several years of concern regarding its ability to meet its debt coverage ratios, MDTA has been able to manage through the instability and present a more solid financial forecast. This improved outlook is largely due to the implementation of large toll increases, which have provided the department with more cash to meet its debt coverage ratios and other financial measures. Other factors assisting in the financial turnaround include the megaprojects nearing completion and constraining growth in the operating budget. There are several items to note, however, regarding the financial forecast.

Revenue Growth: With the implementation of the second phase of the toll increases, the toll rates for the foreseeable future are set. The toll increases were estimated and structured to provide sufficient revenue for the MDTA to meet its financial coverage ratios. Now that a sufficient rate has been set for tolls, the remaining revenue risk is traffic growth. As was discussed earlier, traffic growth on existing facilities is expected to be approximately 1% with a minor disruption due to construction projects in fiscal 2017. Usage and revenues on the ICC are expected to continue to grow while there will be little in the way of additional revenue with the opening of the I-95 ETLs. The underlying assumptions for revenue growth appear to be conservative; however, understanding future traffic usage after the recession and with capital projects is difficult. If revenues do not meet estimates, either operating or capital budget spending would need to be lowered or additional toll increases would be required.

Operating Budget Spending: MDTA was able to constrain operating budget spending for several fiscal years. This constrained level of spending allowed the agency to have more cash on hand to help meet its various coverage and financial requirements. As was shown previously, actual fiscal 2013 spending was less than originally estimated by \$22.7 million. This is not a new phenomenon. MDTA appears to reflect higher levels of operating budget spending as a type of hedge against revenue declines. For example, the fiscal 2014 operating budget is \$30.1 million higher than actual spending levels with growth from fiscal 2014 to 2015 of \$13.5 million, which is more in line with out-year growth. While showing a higher operating budget figure may be conservative in nature, it does not necessarily represent what the agency will actually spend in a given fiscal year. Furthermore, by showing a higher operating budget amount, the department may be projecting the issuance of bonds for the capital budget that are not needed.

Debt Issuances and Debt Outstanding: From fiscal 2016 to 2019, MDTA is projected to issue revenue bonds for its capital projects. This is forecasted even though there may be sufficient cash on hand through the operating budget that the debt issuances may be unnecessary. It should be noted that while the MDTA is carrying a heavy debt load, there is additional bonding capacity to fund projects.

Capital Program: As construction comes to an end on the two megaprojects, MDTA will need to recalibrate its capital program. In the short term, the agency will focus on maintaining the existing system. Nearly all of MDTA's facilities are at least 35 years old, and the Hatem and Nice Bridges are the oldest facilities at 72 years old. As facilities age, operations and maintenance costs increase, and significant rehabilitations instead of just repairs are required.

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 projects are the ICC and construction of ETLs on an eight-mile stretch of I-95 from the I-895 split to north of MD 43.

Fiscal 2013 Actual Spending

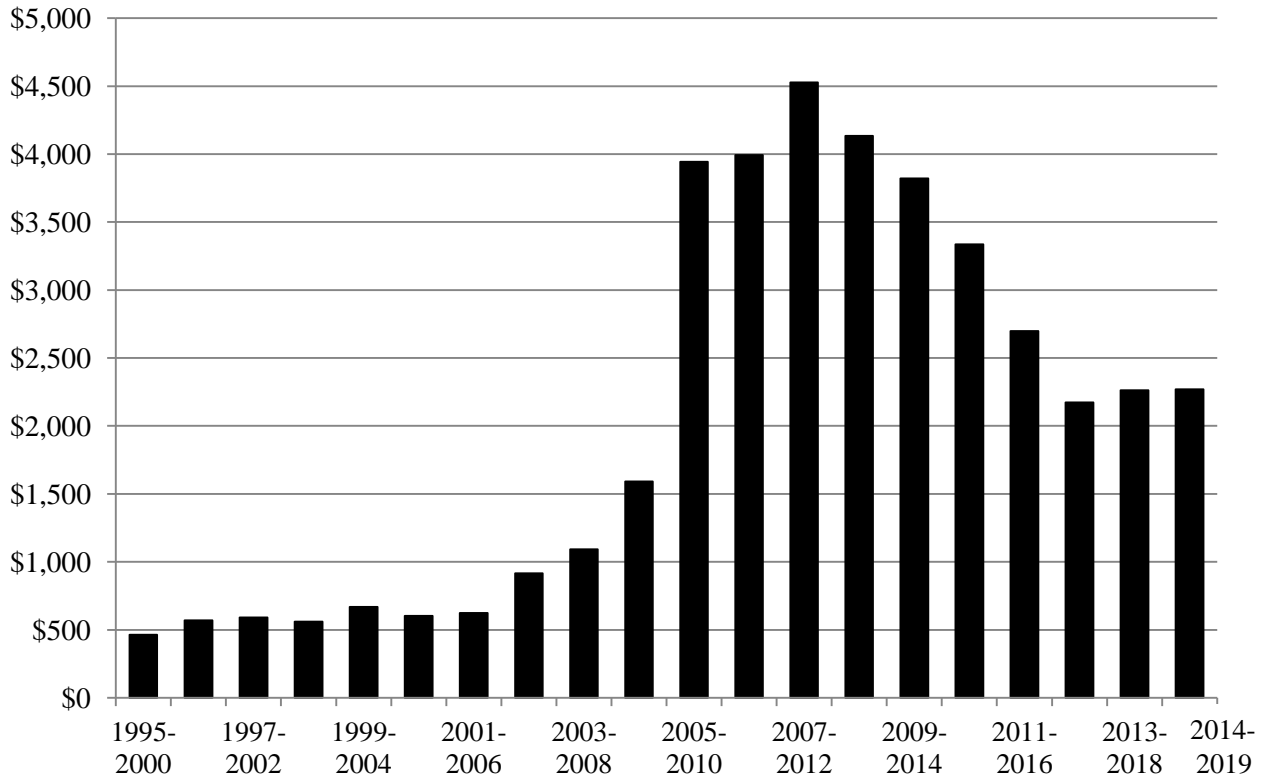
In fiscal 2013, actual spending was \$187.9 million less than what was anticipated during the 2013 legislative session. The actual amount spent on capital in fiscal 2013 was \$329.1 million, or 63.7%, of the amount originally allocated. Of the \$187.9 million that was not spent, approximately \$73.5 million was for the two megaprojects (the ICC and the ETL project) due to cash flow and schedule changes. Other changes in capital spending include project delays, bid/project cost savings, and scope changes in a number of projects. While the change in spending associated with lower bid costs is a positive development, a spend rate of 63.7% for capital projects is very low. **The Department of Legislative Services (DLS) recommends that MDTA discuss why the fiscal 2013 spend rate was so low and what it is doing to improve the actual rate of capital spending in the future.**

Fiscal 2014 to 2019 Consolidated Transportation Program

The six year capital program totals \$2.3 billion, an increase of \$5.5 million compared to the fiscal 2013 to 2018 *Consolidated Transportation Program* (CTP). Compared to the draft CTP, spending increases \$47.0 million largely due to \$50.0 million in additional funding for planning and right-of-way acquisition for the Nice Bridge replacement.

Exhibit 8 shows the size of MDTA's six-year capital program from 1995 through the present. MDTA's six-year capital program had historically been around \$500 million. The six-year capital program began growing in the fiscal 2004 to 2009 CTP, where the ICC made its first appearance in MDTA's development and evaluation program. In the fiscal 2005 to 2010 CTP, six-year spending increased dramatically when both the ICC and I-95 ETLs were moved into the construction program. As work began on the two projects, six-year spending in the fiscal 2007 to 2012 CTP again increased as cost estimates for the I-95 ETLs increased by \$353.9 million. The capital program reached its peak of \$4.5 billion in that same year, increasing nearly \$4.0 billion more than historical spending. Since then, the capital program has decreased gradually, as a result of the economic downturn, and decreases in future spending on the ICC and I-95 ETLs as the projects near completion.

Exhibit 8
Size of Six-year Consolidated Transportation Program
Fiscal 1995-2019
(\$ in Millions)



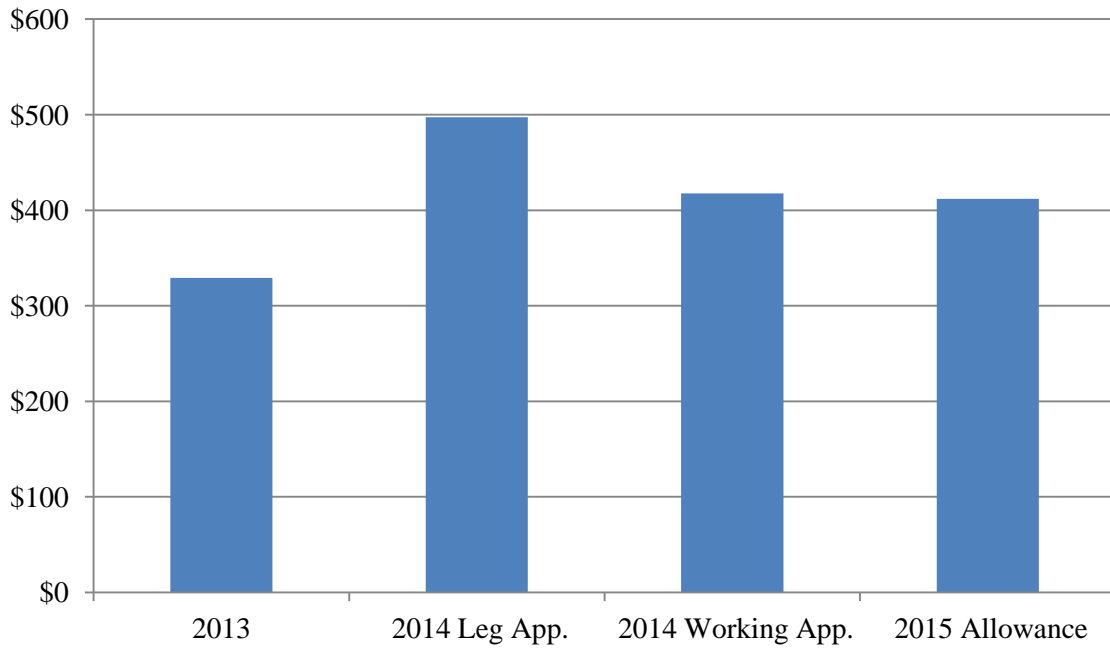
Source: Department of Legislative Services

Fiscal 2014 and 2015 Cash Flow Analysis

The fiscal 2014 working appropriation is \$79.5 million less than the legislative appropriation due largely to schedule changes in a number of projects.

The fiscal 2015 legislative appropriation is \$5.8 million less than the fiscal 2014 working appropriation due to cash flow and schedule changes across a number of projects, as shown in **Exhibit 9**.

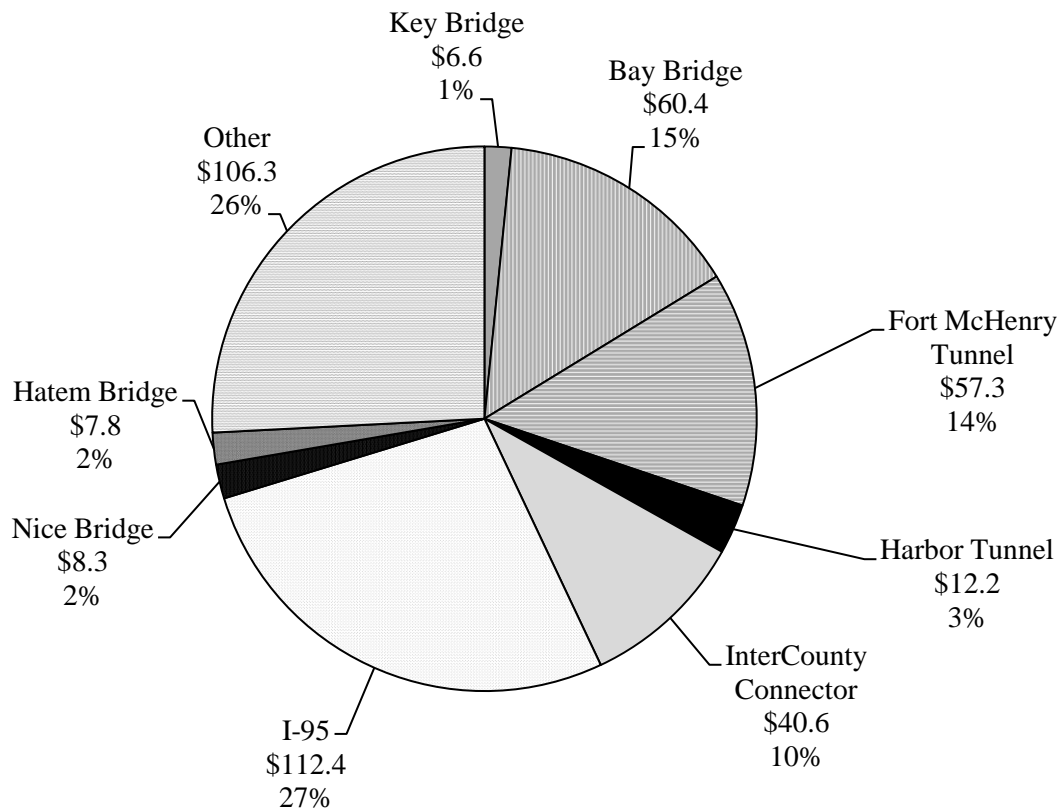
Exhibit 9
Cash Flow Changes
Fiscal 2013-2015
(\$ in Millions)



Source: Maryland Department of Transportation, 2014-2019 *Consolidated Transportation Program*

Exhibit 10 shows capital spending by facility in fiscal 2015.

Exhibit 10
Capital Expenditures by Facility
Fiscal 2015
(\$ in Millions)



Source: Governor's Fiscal 2015 Budget Books

Exhibit 11 provides a partial list of major construction projects funded in fiscal 2013. The projects listed account for 90% of all funding for major projects in the construction program in fiscal 2015.

Exhibit 11
Major Construction Projects
Funded in Fiscal 2015
(\$ in Thousands)

<u>Project</u>	<u>2015</u>	<u>Total \$</u>	<u>Completion of Fiscal Cash Flow</u>
Express Toll Lanes – Involves the construction of two managed lanes in each direction from I-895 north to north of MD 43	\$90,535	\$1,093,218	2017
John F. Kennedy Memorial Highway – Resurfacing I-95 northbound and southbound from MD 43 to the Maryland/Delaware state line	13,206	37,228	2016
Fort McHenry Tunnel – Rehabilitate the tunnel deck for all four bores	10,724	37,448	2017
Fort McHenry Tunnel – Rehabilitate decks, repair structure, replace joints, add drainage troughs and paint	35,326	88,576	2016
Fort McHenry Tunnel – Replace weathering steel high mast light poles	9,832	20,692	2016
Bay Bridge – Partial painting of all structural steel surfaces on the westbound bridge	25,014	76,024	2016
Bay Bridge – Rewrap, dehumidify, and shield the main cables and anchorages on both spans	20,339	54,078	2015
InterCounty Connector – Construction of a new east-west, multimodal highway in Montgomery and Prince George’s counties between I-270 and I-95/US 1	39,571	2,386,588	2016
Total	\$244,547	\$3,793,852	

Source: Maryland Department of Transportation, 2014-2019 *Consolidated Transportation Program*

Projects Added to the Construction Program

Exhibit 12 shows that 4 projects totaling \$123.9 million were added to the fiscal 2014 to 2019 CTP.

Exhibit 12
Projects Added to the Construction Program
Fiscal 2015
(\$ in Thousands)

<u>Project</u>	<u>2015</u>	<u>Total \$</u>	<u>Completion of Fiscal Cash Flow</u>
Fort McHenry Tunnel – Replace weathering steel high mast light poles North and South of the tunnel	\$9,832	\$20,692	2016
Key Bridge – Clean and Paint approach spans on bridges over Curtis Creek	3,511	5,611	2016
Hatem Bridge – Convert to all electronic tolling and rehabilitate approach roadways	2,000	10,816	2017
Authoritywide – Replace electronic toll collection and operating system 3rd generation	1,530	86,767	Ongoing
Total	\$16,873	\$123,886	

Source: Maryland Department of Transportation, 2014-2019 *Consolidated Transportation Program*

Projects Added to the Development and Evaluation Program

One project was added to the Development and Evaluation program to convert the Key Bridge to all electronic tolling, as shown in **Exhibit 13**. The total cost of the project is \$20.7 million.

Exhibit 13
Projects Added to the Development and Evaluation Program
Fiscal 2015
(\$ in Thousands)

<u>Project</u>	<u>2015</u>	<u>Total \$</u>	<u>Completion of Fiscal Cash Flow</u>
Key Bridge – convert to all electronic tolling	\$250	\$2,000	2015

Source: Maryland Department of Transportation, 2014-2019 *Consolidated Transportation Program*

Issues

1. What Now for the Maryland Transportation Authority?

Previously, MDTA had largely been an administrative agency focused on maintaining its facilities and collecting revenue. With its aging facilities and two expansion projects constructed simultaneously, MDTA expanded its capital program, which resulted in large debt issuances and toll increases. Suddenly, MDTA became a contracting and constructing agency overseeing large expansion projects in addition to its previous administrative role. Prior to fiscal 2008 and the construction of the major projects, MDTA's six-year capital program had been just over \$500 million on average. At the peak of planning, MDTA's six-year capital program exceeded \$4.5 billion. With the expansion projects coming to an end in calendar 2014, the question becomes what kind of agency will MDTA evolve into and what will its core focus be? Looking at the funding priorities of the capital program provides some clues as to what the future may hold. As described below, the priorities appear to be maintaining existing facilities, with plans starting for the potential replacement of the Nice Bridge, and modernizing toll collection.

Facilities

One of the major priorities for MDTA will be maintaining its older facilities. As shown in **Exhibit 14**, MDTA has a number of extremely old facilities. One of the major system preservation projects that MDTA is undertaking is the replacement of the Canton Viaduct on I-895 and numerous projects at the Bay Bridge totaling over \$300 million.

Exhibit 14 Age of the Maryland Transportation Authority Facilities

<u>Facility</u>	<u>Age</u>
Baltimore Harbor Tunnel	November 1957 (56 years)
Fort McHenry Tunnel	November 1985 (29 years)
Bay Bridge	July 1952 (61 years), June 1973 (41 years)
Hatem Bridge	August 1940 (73 years)
Key Bridge	March 1977 (36 years)
Nice Bridge	December 1940 (73 years)
JFK Highway	November 1963 (50 years)

Source: Maryland Transportation Authority

Depending on the facility and the projected life-cycle costs, the cost of maintaining the facility may actually be greater over the long term compared to replacing the facility. MDTA indicates that it will perform life-cycle cost analyses on all its facilities to evaluate and prioritize major capital needs in the coming years. Based upon the current information available, the Nice Bridge is the highest

priority for replacement in the short term. The fiscal 2014 to 2019 CTP includes \$56.3 million for preliminary engineering work and right-of-way acquisitions for the potential replacement of the Nice Bridge. At this time, a final decision on the timeline and funding of the project is not expected until fall 2015.

One option that is being considered for the construction and financing of the Nice Bridge is a public-private partnership (P3). There are certain legal and financial questions that remain about a P3 option. The concern is that using a facility's revenues to repay private financing may violate the Trust Agreement that MDTA has with its bond holders. **DLS recommends that MDTA discuss more fully its decisionmaking process for moving forward with the Nice Bridge project, the potential costs, and the issues surrounding a P3 for the project.**

Toll Collection

Besides maintaining its toll facilities, the other core function MDTA has, and what its previous focus had been, is collecting toll revenue. There are several projects in the fiscal 2014 to 2019 CTP that focus on modernizing and improving the toll collection process. The largest project is the replacement of the electronic toll collection system with a cost of \$86.8 million. Not only will this project modernize toll collection, it will provide a new 10-year contract for toll operations. The project will improve MDTA's capacity for handling video tolling and citations as required under Chapter 113 of 2013. In addition, the new system will allow for vehicles to be differentiated by more than just the number of axles which is the current method. **DLS recommends that MDTA discuss what other ways tolls could be assessed if not by axles and if it is considering pursuing such an approach.**

Another major project that MDTA has funded in the fiscal 2014 to 2019 CTP is the conversion of the Hatem and Key Bridge to all electronic tolling (AET). AET is currently used on the ICC and I-95 ETLs and is growing in use across the country. Initial plans were to convert the Hatem Bridge in 2015 and the Key Bridge in 2016, but MDTA is re-evaluating this timeline based upon customer concerns. An important aspect of AET is the use of overhead gantries that allow individuals to pay their toll while traveling at a highway speed. This also allows for real time congestion pricing as a way to manage congestion. **DLS recommends that MDTA discuss what other facilities may be considered for all electronic tolling and when. DLS also recommends that MDTA discuss the possibility of using real time congestion pricing as a traffic management tool and what the priorities in the coming years will be now that the megaprojects are coming to a close.**

2. Update on Video Tolling and Citation Program

Chapter 113 of 2013 was enacted to redefine the tolling and citation program for MDTA. Prior to the change, statute was written in a way that did not reflect current tolling practices. Previously, a toll violation occurred when an individual went through a cash toll and did not pay. Statute was written before the advent of electronic tolling. Chapter 113 of 2013 does the following:

J00J00 – Maryland Transportation Authority

- requires MDTA to send the vehicle owner a notice of toll due when a toll facility is used without paying cash or using E-ZPass;
- gives the owner 30 days to pay the video toll amount without penalty;
- if the video toll amount is not paid within 30 days, then a civil citation and \$50 fine is issued, and the vehicle owner can pay the citation and fine or request a trial in District Court. Failure to pay the citation and fine could lead to referral to the Motor Vehicle Administration (MVA) for non-renewal or suspension of the vehicle registration and/or referral to the Central Collection Unit (CCU);
- MDTA is authorized to enter into agreements for reciprocal enforcement of toll violations between the State and other jurisdictions; and
- amnesty for all fees accumulated prior to July 1, 2013, and brings past outstanding tolls under the new process.

Implementing Chapter 113 of 2013

Due to the new administrative processes that needed to be put in place, a decision was made to delay the Notice of Toll Due process to October 1, 2013. To implement the process, MDTA has had to coordinate with several agencies, including the following:

- **Courts:** coordinating efforts in each of the counties affected by the new law to determine what evidence needs to be submitted for court, the method of scheduling court dates, method for reconciling the disposition of cases, and customer accounts based on court actions;
- **MVA:** coordinating on the process for flagging vehicle registrations for nonrenewal or suspension and reconciling customer accounts; and
- **CCU:** coordinating on the process for abating previous amounts due, future referrals, and the transmission of information and financial reconciliations.

With that delay, it is expected that the first round of District Court cases will be in spring 2014. MDTA reports that approximately 67,000 transactions per week are being sent a Notice of Toll Due. With the new legislation, MDTA indicates that there has been an increase in collection rates as well as complaints about the \$50 civil penalty. **DLS recommends that MDTA discuss what impact a transition to an all electronic toll system may have on the number of citations in the future.**

Operating Budget Recommended Actions

1. Nonbudgeted.

PAYGO Budget Recommended Actions

1. Nonbudgeted.

Updates

1. New Travel Plazas Opening This Year

On March 7, 2012, the Board of Public Works approved a concession agreement with Areas USA to become the travel plaza concessionaire. The agreement was a design, construct, operate, and maintain contract for the two travel plazas for 35 years. The agreement required one of the travel plazas to remain open at all times during reconstruction and that both travel plazas were to be completed by 2014.

Areas financed the reconstruction of the travel plazas using its own equity. It was estimated that the cost of reconstruction would be \$56.0 million. Areas would recoup this initial investment over the term of the contract through the operating revenues it collects from the plazas. MDTA does receive a portion of the revenue through a revenue-sharing agreement. In its financial forecast, MDTA assumes \$6.1 million in revenue from the two travel plazas in fiscal 2015.

Reconstruction of the Maryland House has been completed (\$30 million) and opened to the public on January 16, 2014. The space of the Maryland House has increased by approximately 9,000 square feet, plus there is a new convenience store at the Sunoco fuel station. Some of the amenities at the Maryland House now include natural lighting, additional bus parking, free WiFi, and a Leadership in Energy and Environmental Design certified building. Vendors include Wendy's, Phillips Seafood, Dunkin Donuts, Jerry's Subs and Pizza, Currito, Nathan's Famous, Auntie Anne's, and Carvel.

In summer/fall 2014, the Chesapeake House will reopen.

2. Bay Bridge Crash Update

On July 19, 2013, a crash on the Bay Bridge resulted in one passenger vehicle going over the jersey wall. Fortunately, no one was seriously injured in the accident. Subsequent investigations by the MDTA police and the National Transportation Safety Board (NTSB) faulted the driver of a tractor trailer for distracted driving. The individual has been charged with failure to control speed to avoid a collision, unsafe lane change, negligent driving, and speed greater than reasonable and prudent on the highway.

This was the second incident in 2013 where a vehicle was involved in an accident and rested on the jersey wall. These are the only two incidents where a passenger vehicle has either rested on or gone over the jersey wall. The NTSB preliminary report noted that in 2008, a trucker trailer dislodged a barrier and went into the Chesapeake Bay. After that accident, the barriers in the beam span portions of the eastbound span were upgraded.

The final NTSB report has not yet been issued.

Maryland Transportation Authority Financial Forecast
Fiscal 2013-2019
(\$ in Millions)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Revenues							
Toll Revenues	\$481.2	\$616.5	\$640.9	\$652.8	\$656.6	\$667.8	\$681.2
Concessions	4.1	3.6	6.1	6.6	6.7	6.7	6.8
Investment Income and Other	13.2	13.2	12.8	12.1	11.5	11.8	12.1
Maryland Department of Transportation	23.8	25.7	26.4	27.6	28.9	30.3	31.7
Total Revenues	\$522.2	\$659.0	\$686.2	\$699.1	\$703.6	\$716.6	\$731.8
Expenses							
Operations	\$239.2	\$269.3	\$282.8	\$297.5	\$313.0	\$330.0	\$346.5
Debt Service	109.2	121.2	125.3	128.7	143.5	151.8	158.5
Capital Program	329.2	417.8	411.9	449.6	360.5	353.5	276.3
Total Expenses	\$677.6	\$808.3	\$820.0	\$875.8	\$817.0	\$835.3	\$781.3
Less: Revenue Bond Proceeds	0	0	-132.0	-5.0	-120.0	-130.0	-50.0
Less: General Fund/GO Bonds	0	-21.5	0.0	0.0	0.0	0.0	0.0
Annual Surplus/Deficit	-\$155.4	-\$127.8	-\$1.8	-\$171.7	\$6.6	\$11.3	\$0.5
Total Cash Balance	\$714.9	\$587.1	\$585.3	\$413.6	\$420.2	\$431.5	\$432.0
Debt							
Debt Outstanding	\$2,295.5	\$2,268.8	\$2,372.8	\$2,343.8	\$2,428.5	\$2,510.2	\$2,508.1
Ratio of Total Cash to Toll Revenues	1.51	.97	.93	.65	.66	.66	.65
Unencumbered Cash (Policy \$350.0 million minimum)	\$625.4	\$524.1	\$522.6	\$350.9	\$351.2	\$353.8	\$350.9
Debt Service Coverage (Policy 2.0)	2.59	3.20	3.21	3.11	2.71	2.54	2.42
Rate Covenant Compliance (Legal 1.0)	2.08	2.60	2.61	2.53	2.21	2.06	1.96

GO: general obligation

Note: Includes approved toll increases in fiscal 2014.

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

<u>Object/Fund</u>	<u>FY 13 Actual</u>	<u>FY 14 Working Appropriation</u>	<u>FY 15 Allowance</u>	<u>FY 14 - FY 15 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,789.50	1,789.50	1,789.50	0.00	0%
Total Positions	1,789.50	1,789.50	1,789.50	0.00	0%
Objects					
01 Salaries and Wages	\$ 133,296,000	\$ 148,801,772	\$ 149,627,764	\$ 825,992	0.6%
02 Technical and Spec. Fees	853,458	1,346,180	1,297,833	-48,347	-3.6%
03 Communication	789,901	1,191,519	998,284	-193,235	-16.2%
04 Travel	50,616	92,602	77,587	-15,015	-16.2%
06 Fuel and Utilities	4,283,437	5,330,135	4,866,523	-463,612	-8.7%
07 Motor Vehicles	5,988,230	6,737,290	6,766,929	29,639	0.4%
08 Contractual Services	66,222,756	72,290,932	85,354,817	13,063,885	18.1%
09 Supplies and Materials	6,811,958	7,847,624	7,379,876	-467,748	-6.0%
10 Equipment – Replacement	5,370,475	10,683,207	10,672,481	-10,726	-0.1%
11 Equipment – Additional	5,706,188	6,056,229	6,233,854	177,625	2.9%
13 Fixed Charges	117,824,935	130,114,689	136,009,839	5,895,150	4.5%
Total Objects	\$ 347,197,954	\$ 390,492,179	\$ 409,285,787	\$ 18,793,608	4.8%
Funds					
07 Nonbudgeted Fund	\$ 347,197,954	\$ 390,492,179	\$ 409,285,787	\$ 18,793,608	4.8%
Total Funds	\$ 347,197,954	\$ 390,492,179	\$ 409,285,787	\$ 18,793,608	4.8%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.

**Fiscal Summary
Maryland Transportation Authority**

<u>Program/Unit</u>	<u>FY 13 Actual</u>	<u>FY 14 Wrk Approp</u>	<u>FY 15 Allowance</u>	<u>Change</u>	<u>FY 14 - FY 15 % Change</u>
41 Operating Program	\$ 347,197,954	\$ 390,492,179	\$ 409,285,787	\$ 18,793,608	4.8%
42 Capital Program	329,140,422	417,718,000	411,874,000	-5,844,000	-1.4%
Total Expenditures	\$ 676,338,376	\$ 808,210,179	\$ 821,159,787	\$ 12,949,608	1.6%
Nonbudgeted Fund	\$ 676,338,376	\$ 808,210,179	\$ 821,159,787	\$ 12,949,608	1.6%
Total Appropriations	\$ 676,338,376	\$ 808,210,179	\$ 821,159,787	\$ 12,949,608	1.6%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.