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Maryland Transportation Authority
Maryland Department of Transportation

Operating Budget Data

(\$ in Thousands)

	<u>FY 14</u> <u>Actual</u>	<u>FY 15</u> <u>Working</u>	<u>FY 16</u> <u>Allowance</u>	<u>FY 15-16</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Nonbudgeted Fund	\$411,717	\$392,840	\$606,805	\$213,965	54.5%
Adjusted Nonbudgeted Fund	\$411,717	\$392,840	\$606,805	\$213,965	54.5%
Adjusted Grand Total	\$411,717	\$392,840	\$606,805	\$213,965	54.5%

- The fiscal 2016 allowance increases by \$214.0 million, or 54.5%, compared to the fiscal 2015 working allowance. When adjusting for debt service costs (a \$19.2 million increase) and a one-time revenue bond defeasance of \$193.6 million, the allowance increases by \$1.2 million, or 0.4%.

PAYGO Capital Budget Data

(\$ in Thousands)

	<u>Fiscal 2014</u> <u>Actual</u>	<u>Fiscal 2015</u> <u>Legislative</u>	<u>Fiscal 2015</u> <u>Working</u>	<u>Fiscal 2016</u> <u>Allowance</u>
Nonbudgeted.	\$359,385	\$411,874	\$395,324	\$293,513
Total	\$359,385	\$411,874	\$395,324	\$293,513

- The fiscal 2015 working appropriation declines by about \$16.6 million, due to a \$44.8 million decrease in system preservation projects, offset by a \$22.3 million increase for the InterCounty Connector (ICC) primarily caused by construction delays and a corresponding change in cash flow.
- The fiscal 2016 allowance decreases by \$101.8 million, largely due to the conclusion of the ICC and I-95 Express Toll Lanes (ETL).

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

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Operating and PAYGO Personnel Data

	<u>FY 14 Actual</u>	<u>FY 15 Working</u>	<u>FY 16 Allowance</u>	<u>FY 15-16 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	105.6	5.90%
Positions and Percentage Vacant as of 12/31/14	163.0	9.11%

- The number of budgeted Maryland Transportation Authority (MDTA) personnel remains unchanged in fiscal 2016 compared to fiscal 2015.
- The budgeted turnover rate is 5.9%, requiring 105.6 vacant positions. As of December 31, 2014, MDTA had 163.0 vacant positions, for a vacancy rate of 9.11%.

Analysis in Brief

Major Trends

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. In fiscal 2014, traffic at legacy facilities totaled 112.5 million vehicles, a decrease of 1.1%. Toll revenue at legacy facilities in fiscal 2014 totaled \$574.1 million, an increase of \$162.5 million, or 39.5%, from fiscal 2013 due to the final phase of the toll increases.

Electronic Tolling: In fiscal 2014, MDTA collected 77% of tolls electronically, exceeding its goal of 75% electronic collection by 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. **MDTA should revise upward its goal of the percentage of tolls collected electronically and also comment on the impact of the requirement for a follow-up study of all-electronic tolling.**

Issues

Two Mega-projects Open to Traffic: After several years of construction, MDTA’s two massive new facilities – the \$2.4 billion ICC and the \$1.1 billion I-95 ETLs – are fully open to traffic. Both facilities feature all-electronic tolling and have their tolls set with the goal of reducing traffic congestion. Together, the two facilities are expected to bring in \$76.3 million in revenue in fiscal 2016, increasing to \$95.8 million in fiscal 2020. **MDTA should comment on the impact of the two new facilities on the capital program and the authority’s operating budget. MDTA should also comment on how successful the two projects have been at reducing traffic congestion.**

Video Tolling and Citation Program Implementation: The implementation of Chapter 113 of 2013, enacted to redefine the tolling and citation program for MDTA in order to take into consideration current tolling practices, is nearly complete. MDTA had to coordinate with multiple agencies, including the Maryland Motor Vehicle Administration, (MVA), the Central Collection Unit (CCU), and the courts, and has, therefore, staggered implementation to ease the transition. Since the program’s inception, 6.4 million notices of tolls due have been issued, resulting in nearly 2.0 million citations, approximately 135,790 referrals to MVA for suspension or nonrenewal, and 105,042 referrals to CCU. **MDTA should comment on the impact of implementing the video toll process on MDTA and other agencies and the response to the program from the public. MDTA should also discuss the reasons for the high number of notices of tolls due resulting from drivers on the ICC and any strategies for reducing that number.**

Impact of Toll Reduction: The Governor has announced that his Administration will review toll rates at MDTA with an eye toward a reduction. Any reduction could impact MDTA’s debt affordability benchmarks, or affect operations in other ways. **MDTA should comment on the impact of any potential reductions in toll rates on the Authority’s revenue, operations, and debt affordability benchmarks.**

Operating Budget Recommended Actions

1. Adopt committee narrative requesting a report on benchmarks for unencumbered cash on hand.

PAYGO Budget Recommended Actions

1. Nonbudgeted.

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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 Thomas J. Hatem Memorial Bridge (Hatem Bridge) (US 40), the John F. Kennedy Memorial Highway (I-95), and the newly opened Express Toll Lanes (ETL) on I-95;
- **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), which 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 Transportation 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, and with MPA to provide law enforcement services at MPA-owned facilities at the Port of Baltimore.

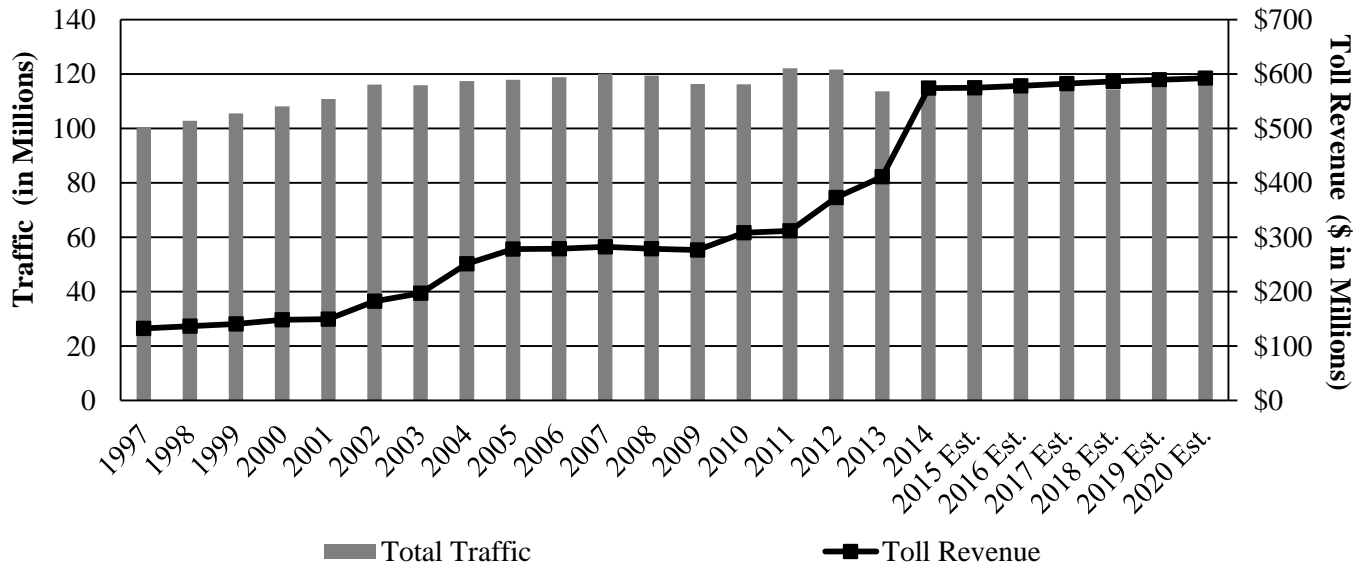
MDTA's goal is to be a financial steward of its dedicated revenue sources which are used to provide vital transportation links that move people and commerce in Maryland.

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 2020. This chart excludes new traffic and revenue from the ICC beginning in fiscal 2011 and the I-95 ETLs beginning in fiscal 2015. Inclusion of this data would skew historical comparisons.

Exhibit 1
Annual Tolled Traffic and Legacy Toll Revenue
Fiscal 1997-2020 Est.



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

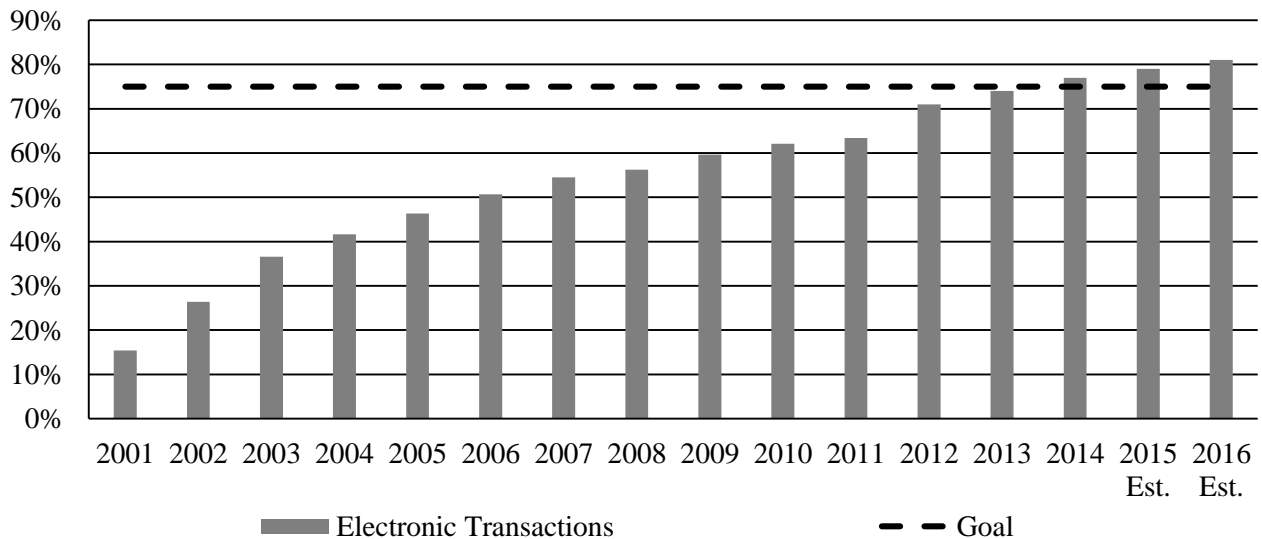
In fiscal 2014, traffic totaled 112.5 million vehicles, a decrease of 1.1%. Toll revenue in fiscal 2014 totaled \$574.1 million, an increase of \$162.5 million, or 39.5%, from fiscal 2013 due to the final phase of the toll increases. In fiscal 2015, revenues are estimated to total \$575.1 million, an increase of \$1.0 million, or 0.2%. Both revenue and traffic growth are projected to stabilize and grow approximately 0.5% throughout the forecast period. Fiscal 2020 revenues total \$592.7 million, only

\$18.6 million more than the fiscal 2014 revenue total. The total number of toll transactions on existing facilities is not expected to reach its prerecession 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 Maryland toll facilities, as well as parts of the Midwest and most of 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 2014, MDTA collected 77% of tolls electronically, exceeding its goal of 75% electronic collection by 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. Further expansion of all-electronic tolling facilities is on hold pending a study required by legislation passed in the 2014 session. **MDTA should revise upward its goal of the percentage of tolls collected electronically, and also comment on the impact of the requirement for a follow-up study of all-electronic tolling.**

Exhibit 2
Percentage of Tolls Collected Electronically
Fiscal 2001-2016 Est.



Source: Maryland Transportation Authority’s *Managing for Results*, January 2015 Submission

Fiscal 2014 Closeout

Fiscal 2014 actual spending at MDTA totaled \$257.1 million, or \$12.2 million less than the working appropriation. The major changes in spending include:

- \$13.3 million less due to higher than expected vacancies resulting from various division reorganizations that led to longer than typical open positions;
- \$2.6 million less due to lower than expected facility inspection costs;
- \$2.4 million less in publicity and advertising costs due to delays in the opening of the ICC and I-95 ETLs
- \$1.8 million less in equipment, insurance, and telephone costs;
- \$3.1 million more in snow removal costs;
- \$2.7 million more in E-ZPass costs, which were higher due to increased toll amounts;
- \$1.8 million more for on-call construction costs; and
- \$1.2 million more in contractual services for bridge engineering studies.

Proposed Budget

As shown in **Exhibit 3**, the fiscal 2016 allowance increases by \$214.0 million compared to the fiscal 2015 working appropriation. Excluding debt service, the allowance increases by \$1.2 million, or 0.4%.

	Exhibit 3	
	Proposed Budget	
	Maryland Transportation Authority	
	(\$ in Thousands)	
	Nonbudgeted	
How Much It Grows:	<u>Fund</u>	<u>Total</u>
Fiscal 2014 Actual	\$411,717	\$411,717
Fiscal 2015 Working Appropriation	392,840	392,840
Fiscal 2016 Allowance	<u>606,805</u>	<u>606,805</u>
Fiscal 2015-2016 Amt. Change	\$213,965	\$213,965
Fiscal 2015-2016 Percent Change	54.5%	54.5%

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Where It Goes:

Personnel Expenses

Salaries and turnover	\$4,346
Social Security contributions.....	390
End of overtime for cruise ship security provided by MDTA police	-300
Employee and retiree health insurance	2,900
Workers' compensation premium assessment.....	-600
Pension contribution	-1,200
Overtime for snow removal	371

Debt Service

Revenue bond defeasance.....	193,600
Debt service	19,200

New Facilities

E-ZPass fees due to increased ICC and I-95 ETL transactions	1,369
Increased contractual costs related to additional video tolling expenses.....	1,030
Reduced publicity and advertising costs related to ICC and I-95 ETL openings	-1,242

Other Changes

Increased information technology expenses	1,438
Vehicle expenses, excluding purchases	636
Additional and replacement equipment based on known needs	-1,600
Replacement vehicles due to replacement cycles	-2,223
Contractual engineers to reflect actual costs.....	-4,332
Other changes	182

Total **\$213,965**

ETL: express toll lane
ICC: InterCounty Connector
MDTA: Maryland Transportation Authority

Debt Service

While debt payments increase by \$212.8 million, only \$19.2 million of that increase is driven by scheduled debt service costs. The remaining \$193.6 million represents a one-time revenue bond defeasance, which is discussed further in the Financial Forecast section of this analysis.

Other Changes

- Personnel costs increase by \$5.9 million in the fiscal 2016 allowance, with a \$4.3 million increase in salaries and a \$2.9 million increase in employee and retiree health insurance offset by a \$1.2 million decrease in pension contributions.

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- Increased E-ZPass costs related to the increased number of transactions on the newly opened I-95 ETLs and increasing traffic on the ICC (\$1.4 million) are mostly offset by a decrease in publicity and advertising costs related to those facilities' openings (\$1.2 million). Video tolling costs increase by approximately \$1.0 million.
- Various contractual information technology expenses, such as system support and maintenance, increase by \$1.4 million.
- Budgeted costs for contractual engineers are reduced by \$4.3 million to reflect actual costs.

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 that they are pledged under a trust agreement. MDTA revenues come primarily from tolls but also from concession income from travel plazas that it owns along I-95, investment income, and payments from the Maryland Department of Transportation (MDOT). MDOT payments comprise a capital lease of the 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 loan, transfers from the TTF, and funds from the State's general fund or proceeds from general obligation bonds.

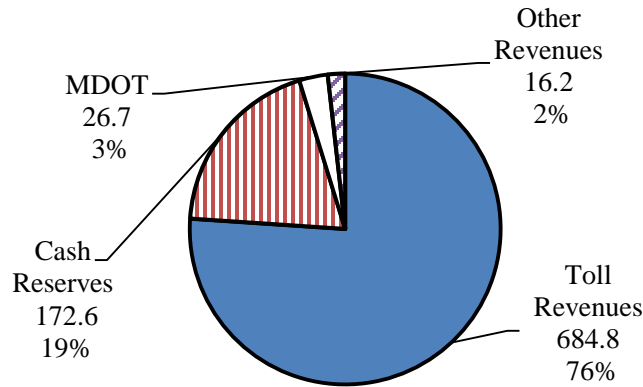
The terms of MDTA's trust agreement with its bondholders are the driving force in MDTA finances. Maintaining its bond coverage ratios is the primary concern, and all revenue adjustments and operating and capital expenditures are managed to maintain these ratios. To this end, MDTA develops and maintains 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 2016 operating and capital budgets. The primary source of fiscal 2016 funding is toll revenues, totaling \$684.8 million. MDTA will not issue revenue bonds in fiscal 2016 but will use \$172.6 million in cash reserves to make up the majority of the rest of its funding needs.

Exhibit 5 provides a breakdown of fiscal 2016 spending by category. The capital program accounts for about 33% of all spending in fiscal 2016. The operating budget, including the operating budget for the MDTA police, accounts for about 32% of all spending. Debt service payments account for 14%, and a bond defeasance of \$193.6 million accounts for the remaining 21% of spending.

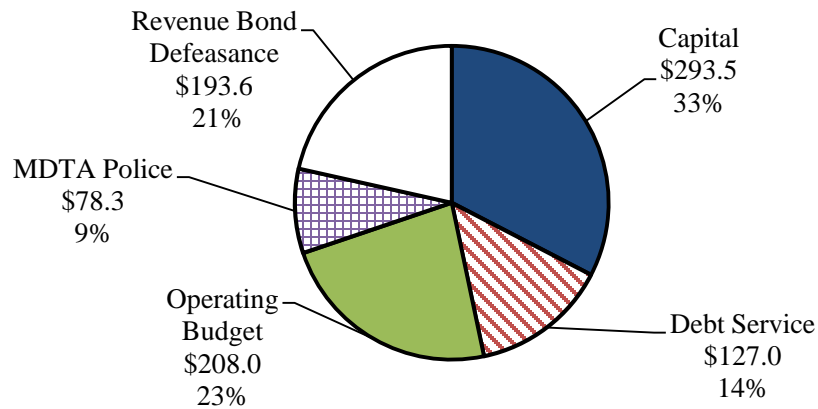
Exhibit 4
Fiscal 2016 Sources of Funding
(\$ in Millions)



MDOT: Maryland Department of Transportation

Source: Maryland Transportation Authority’s January 2015 Financial Forecast, Version 8

Exhibit 5
Fiscal 2016 Uses of Funding
(\$ in Millions)



MDTA: Maryland Transportation Authority

Source: Maryland Transportation Authority’s January 2015 Financial Forecast, Version 8

Toll Revenues

Toll revenues are the primary revenue source for MDTA. The current forecast does not reflect any additional toll increases in the forecast period. Total toll revenue is expected to increase from \$650.1 million in fiscal 2014 to \$719.7 million in fiscal 2020. In fiscal 2015, toll revenues are expected to total \$673.2 million, an increase of \$23.1 million. Approximately \$20.0 million of the toll revenue growth is due to new ETL revenue and growth in ICC revenue. Toll revenues increase to \$684.8 million in fiscal 2016.

Traffic growth is estimated to be about 0.6% over the period, reflecting recent national trends of slower rates of growth in vehicle miles traveled. ICC revenue is expected to total \$70.2 million in fiscal 2016 and increase to \$87.6 million in fiscal 2020. ICC traffic growth stabilizes in fiscal 2015, as construction on the project is complete, but traffic growth is expected to be greater than growth on the other facilities as the road matures. Unlike the ICC that had a ramp-up in traffic growth, the I-95 ETL project has little to no ramp-up in traffic growth with toll revenues totaling \$8.2 million in fiscal 2020, significantly less than the ICC.

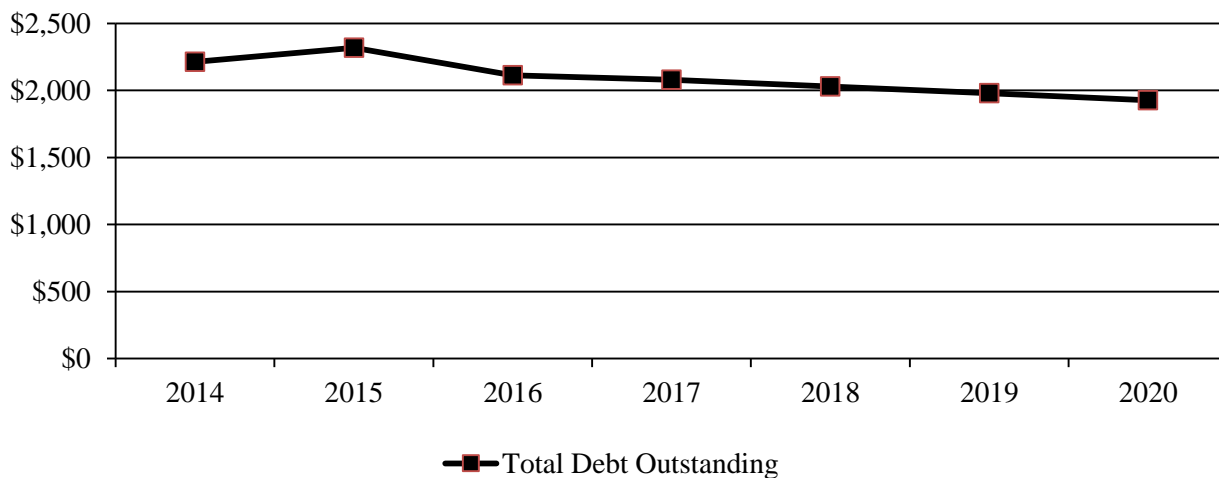
Debt Service

The reliance on debt to fund construction of a new facility and the major expansion of an existing toll facility resulted in significantly higher debt service payments over the next 30 years. Debt service increased from a low of \$25.0 million in fiscal 2007 to annual debt service of \$127.0 million in fiscal 2016. MDTA expects debt service costs to be approximately \$130.0 million over fiscal 2017 to 2020, lower than previously expected due to the lack of new debt issuances expected in the forecast and the \$193.6 million revenue bond defeasance in fiscal 2016. This lower than expected debt service continues through the forecast period, as no new debt is scheduled to be issued. Debt service costs could increase in the coming years if MDTA issues more revenue bonds to support the capital program.

Revenue Bonds

After drawing down \$132 million from the Transportation Infrastructure Finance and Innovation loan in fiscal 2015, MDTA has no plans to issue debt in the rest of the forecast years, both because there are no major new projects planned, and in order to reduce outstanding debt to allow for future projects. This returns MDTA to its traditional stance of using pay-as-you-go (PAYGO) funding for its capital program. All three rating agencies' most recent evaluation of MDTA have given the agency a stable outlook and categorize MDTA debt as investment grade. **Exhibit 6** shows the total bonds outstanding in each year from fiscal 2015 through 2020. The \$2.3 billion in outstanding debt in fiscal 2015 is the highest level in the forecast, and remains below the statutory debt outstanding limit of \$3.0 billion.

Exhibit 6
Bond Sales and Debt Outstanding
Fiscal 2014-2020
(\$ in Millions)



Source: Maryland Transportation Authority's January 2015 Financial Forecast, Version 8

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 2016 rate covenant compliance ratio is projected to be 2.80, and adequate coverage is provided through the forecast period.
- 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 2015, the debt coverage ratio is 3.99 and decreases to 3.23 in fiscal 2020. While the debt service coverage ratio is met

throughout the forecast period, debt service as a percent of revenues totals 16.9% in fiscal 2020. 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 2016, the ratio of total cash to toll revenues is 0.80, and the unencumbered cash balance is \$476.8 million. Minimum cash balance requirements are met throughout the forecast period; however, in fiscal 2020 the forecast cash balance is \$351.3 million with a ratio of cash to toll revenues of 0.59. The benchmark 1:1 ratio of unencumbered cash to toll revenues was set at a time when toll revenues approximately matched operating expenses. Bond rating agencies view the amount of cash on hand relative to operating expenses as a liquidity measure to ensure operations can continue even if revenues are lower than expected, expenses are higher than expected, or if there is a temporary loss of revenue generation. MDTA reports that for AA rated toll agencies, the median cash on hand should fund operations for 9 to 18 months. For MDTA in fiscal 2016, that would mean having between \$214.7 million and \$429.5 million in unencumbered cash on hand. Using the toll revenues as a benchmark would have meant having \$684.8 million in cash on hand in fiscal 2016, enough to fund operating costs for more than two years. **MDTA should comment on its benchmark for unencumbered cash on hand and whether a measure tied to operating expenses would be more appropriate. DLS recommends that committee narrative requesting a report be adopted.**

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 \$604.0 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 2016, debt service on the conduit issuances will total \$137.6 million with debt outstanding of \$762.3 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 2014-2016
(\$ in Thousands)

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Debt Service Payments			
2002 Series – BWI Marshall Airport rental car facility	\$8,990	\$8,985	\$8,979
2003 A&B Series – various BWI Marshall Airport projects	11,201	0	0
2004 Series – WMATA parking garages	2,891	2,182	0
2005 Series – Calvert Street Parking Garage	1,532	1,517	1,506
2007 and 2008 Series – GARVEE Bonds	87,458	87,454	87,450
2012 A&B Series – BWI Marshall Airport Refunding Elm Rd	19,725	19,766	19,798
2012 A Series – various BWI Marshall Airport projects	4,122	4,084	4,044
2012 B Series – various BWI Marshall Airport projects	7,970	7,970	7,969
2012 C Series – various BWI Marshall Airport projects ¹	36	923	2,170
2014 Series – WMATA Refunding parking garages	0	223	2,708
2014 Series – BWI Marshall Airport D/E Connector	0	1,335	2,957
Total Debt Service Payments	\$143,925	\$134,439	\$137,581
Debt Outstanding			
2002 Series – BWI Marshall Airport rental car facility	\$96,495	\$93,785	90,900
2003 A&B Series – various BWI Marshall Airport projects	0	0	0
2004 Series – WMATA parking garages	30,480	29,040	0
2005 Series – Calvert Street Parking Garage	19,300	18,585	17,845
2007 and 2008 Series – GARVEE Bonds	415,775	349,440	279,780
2012 A&B Series – BWI Marshall Airport Refunding Elm Rd	171,180	159,860	148,055
2012 A Series – various BWI Marshall Airport projects	47,275	45,405	43,500
2012 B Series – various BWI Marshall Airport projects	86,610	81,040	75,360
2012 C Series – various BWI Marshall Airport projects	43,400	43,400	43,400
2014 Series – WMATA Refunding parking garages	0	27,200	25,440
2014 Series – BWI Marshall Airport D/E Connector	0	39,380	37,985
Total Debt Outstanding	\$910,515	\$887,135	\$762,265

BWI Marshall Airport: Baltimore/Washington International Thurgood Marshall Airport

GARVEE: Grant Anticipation Revenue Vehicle

WMATA: Washington Metropolitan Area Transit Authority

¹The fiscal 2015 and 2016 debt service payments are estimates only for the variable rate passenger facility charge revenue bonds, series 2012C.

Source: Maryland Transportation Authority

Financial Outlook: Stable

After completing two major projects – the ICC and the I-95 ETLs – MDTA is focusing on a more traditional capital program geared toward system preservation that is largely funded on a PAYGO basis. The recent large toll increases have provided the agency with sufficient cash to meet debt coverage ratios and other important financial benchmarks. There are two items to note regarding the forecast.

Capital Program: Perhaps the most glaring area of long-term concern for the department is the age of several facilities. In the short term, the agency will focus on maintaining the existing system. However, 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. Preliminary estimates of a Nice Bridge replacement put the cost at more than \$1 billion; it is unclear at this time how a project of this magnitude would be financed. **MDTA should comment on possible plans for financing the construction of a new Nice Bridge, given the current constraints on the authority’s financing ability, and whether a public-private partnership is possible, fiscally prudent, and allowed by current trust agreements. MDTA should also comment on any impact on tolls were construction to start within the next 10 years.**

Revenue Growth: The toll rates for the foreseeable future are set – toll increases were estimated and structured to provide sufficient revenue for 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 discussed earlier, traffic growth is expected to be approximately 0.5% to 0.7%. 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 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.

While there are no toll increases projected in the financial forecast, the slow rate of toll revenue growth (average annual growth of 1.8%) relative to the rate of growth in expenses (average annual growth of 6.0%) would indicate the need for some increase in revenue at a point beyond the forecast period. **MDTA should comment on the forecast for potential toll increases beyond the forecast period.**

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 not building any new facilities and is focused on system preservation projects.

Fiscal 2014 Actual Spending

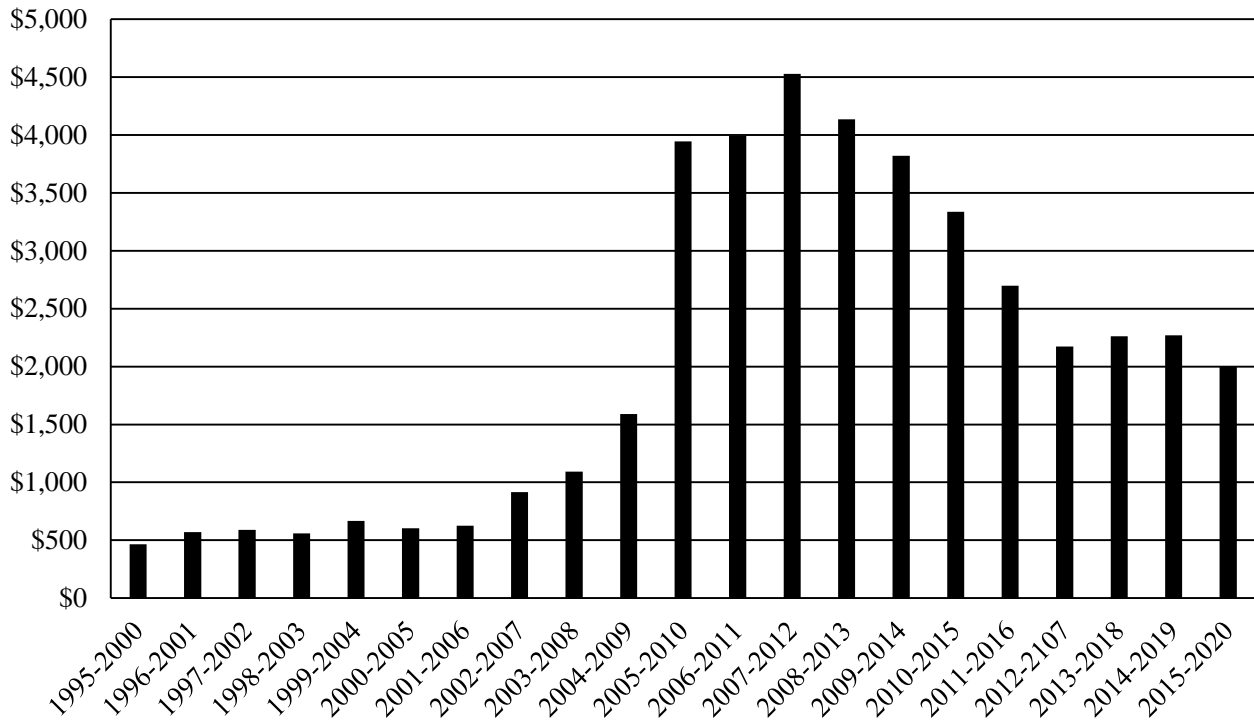
In fiscal 2014, actual spending was \$359.3 million, a spend rate of about 86.0% of the originally anticipated \$417.7 million during the 2014 legislative session. The difference is largely due to cash flow changes in projects. The fiscal 2013 spend rate for capital programs was 63.7%, marking the fiscal 2014 spend rate as a significant improvement.

Fiscal 2015 to 2020 Consolidated Transportation Program

The six year capital program totals \$2.0 billion, a decrease of \$266.6 million compared to the fiscal 2014 to 2019 *Consolidated Transportation Program* (CTP), with much of the change due to the winding down of the I-95 ETLs and the ICC.

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, nearly \$4.0 billion more than the historical spending level. The current CTP is at the lowest level since the inclusion of the ICC in the plan.

Exhibit 8
Size of Six-year Consolidated Transportation Program
Fiscal 1995-2020
(\$ in Millions)



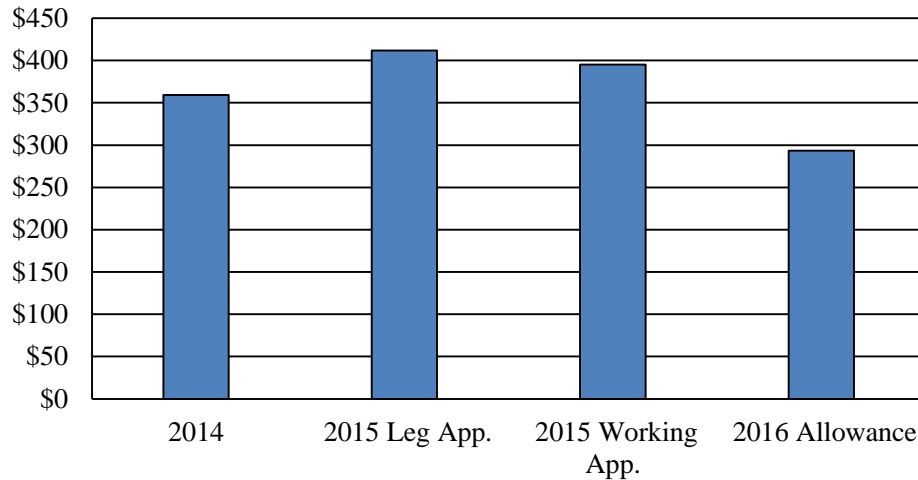
Source: Maryland Department of Transportation, 2015-2020 *Consolidated Transportation Program*

Fiscal 2015 and 2016 Cash Flow Analysis

The fiscal 2015 working appropriation is \$16.6 million less than the legislative appropriation. Spending on minor system preservation projects declined by \$44.8 million because funds were moved to major projects, while costs related to ICC construction increased by \$22.3 million due to funds moving from fiscal 2014 to 2015 due to project delays and ongoing stewardship and mitigation projects.

The fiscal 2016 allowance is \$101.8 million less than the fiscal 2015 working appropriation as shown in **Exhibit 9**. This is due to the winding down of construction of the ICC and I-95 ETLs.

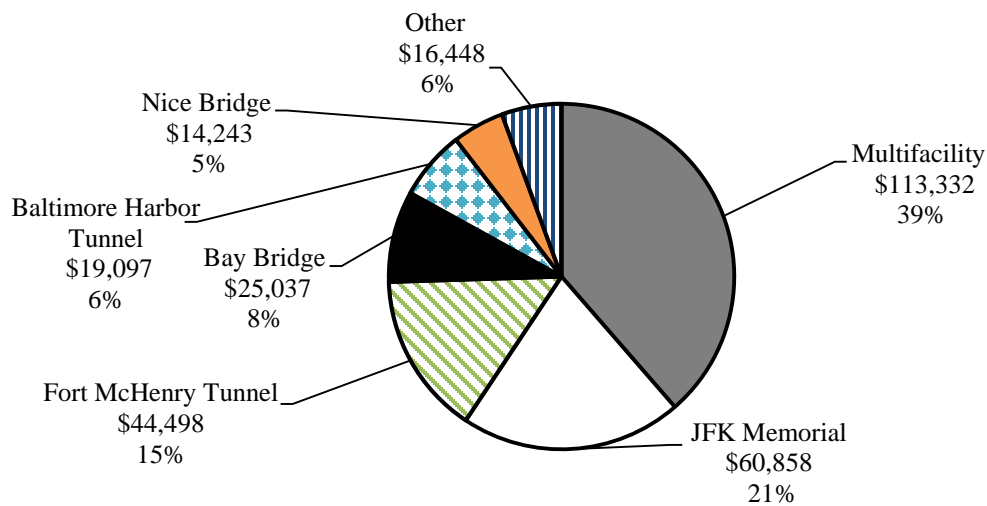
Exhibit 9
Cash Flow Changes
Fiscal 2014-2016
(\$ in Millions)



Source: Maryland Department of Transportation, 2015-2020 *Consolidated Transportation Program*

Exhibit 10 shows capital spending by facility in fiscal 2016.

Exhibit 10
Capital Expenditures by Facility
Fiscal 2016
(\$ in Millions)



Source: Governor’s Budget Books, Fiscal 2015

Exhibit 11 shows the five major construction projects with the most funding in fiscal 2016. The projects listed account for about 68% of all funding for major projects in the construction program in fiscal 2016, illustrating the lack of mega-projects in the CTP.

Exhibit 11
Major Construction Projects
Funded in Fiscal 2016
(\$ in Thousands)

<u>Project</u>	<u>2016</u>	<u>Total</u>	<u>Completion of Fiscal Cash Flow</u>
I-95 John F. Kennedy Memorial Highway – Express Toll Lanes	\$35,846	\$1,097,719	2017
I-95/I-395 Fort McHenry Tunnel – Rehabilitate Decks, Repair Superstructure, Replace Joints, Zone Paint and Other Miscellaneous Repairs	19,054	85,525	2016
I-95 John F. Kennedy Memorial Highway – Resurfacing	12,992	31,212	2017
US 301 Harry W. Nice Memorial Bridge – Replace Nice Bridge (D&E)	12,600	61,600	2019
US 50/301 Bay Bridge – Clean and Paint Structural Steel Westbound Bridge	8,640	98,661	2018
Total	\$89,132	\$1,374,717	

D&E: development and evaluation

Source: Maryland Department of Transportation, 2015-2020 *Consolidated Transportation Program*

Projects Added to the Construction Program

Exhibit 12 shows that five projects totaling \$205 million were added to the fiscal 2015 to 2020 CTP.

Projects Moved from the Construction Program to the Development and Evaluation Program

A project to convert the Thomas J. Hatem Memorial Bridge to all electronic tolling (AET) has been put on hold to allow for a study on AET required by the legislature in 2014.

Exhibit 12
Projects Added to the Construction Program
Fiscal 2016
(\$ in Thousands)

<u>Project</u>	<u>2016</u>	<u>Total</u>	<u>Completion of Fiscal Cash Flow</u>
I-95 John F. Kennedy Memorial Highway – Clean and Zone Paint the Tydings Bridge	\$6.6	\$10.1	2017
I-895 Baltimore Harbor Tunnel Thruway – Replace Vent Fans	6.2	63.6	2019
I-895 Baltimore Harbor Tunnel Thruway – Replace Deck and Superstructure of Bridge over Patapsco Flats	0.1	66.4	2020
US 50/301 Bay Bridge – Rehabilitate Suspension Spans Westbound Bridge	1.1	47.2	2019
US50/301 Bay Bridge – Structural Repairs and Miscellaneous Modifications	5.8	17.7	2018
Total	\$19.8	\$205.0	

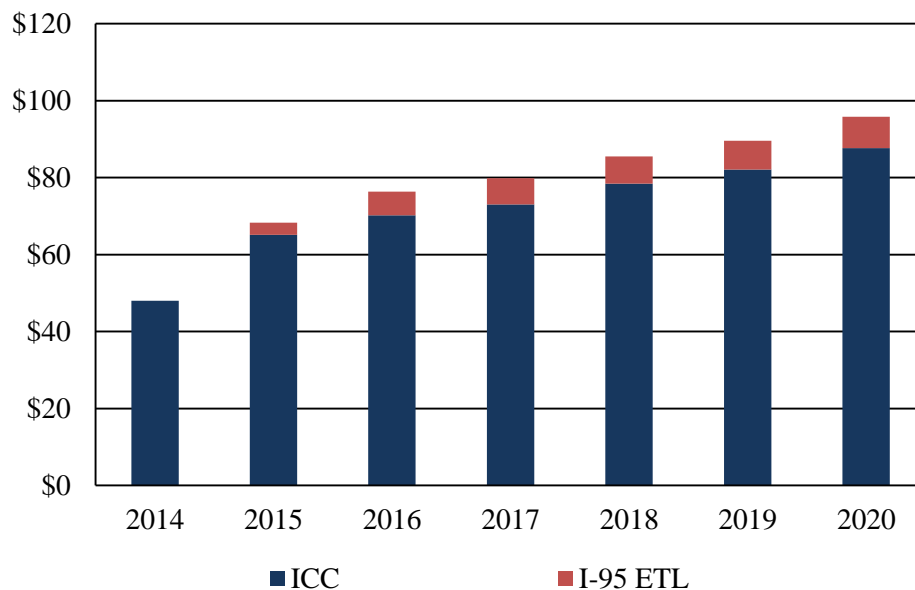
Source: Maryland Department of Transportation, 2015-2020 *Consolidated Transportation Program*

Issues

1. Two Mega-projects Open to Traffic

After several years of construction, MDTA’s two massive new facilities are fully open to traffic. The ICC connects I-270 in Montgomery County to I-95/U.S. 1 in Prince George’s County; the I-95 ETLs run for seven miles from I-895 to just north of MD 43 in Baltimore County. The ICC project’s total cost will be approximately \$2.4 billion, with \$2.5 million in expenses remaining in fiscal 2016, the final year for the project in the CTP. The I-95 ETL project’s total cost will be \$1.1 billion with construction expenses of \$35.8 million in fiscal 2016 and \$8.4 million in fiscal 2017, the final year for the project in the CTP. Both facilities feature AET and have their tolls set with the goal of reducing traffic congestion. Together, the two facilities are expected to bring in \$76.3 million in revenue in fiscal 2016, increasing to \$95.8 million in fiscal 2020, as shown in **Exhibit 13**.

Exhibit 13
Toll Revenue from New Facilities
Fiscal 2014-2020
(\$ in Millions)



ETL: express toll lanes
 ICC: InterCounty Connector

Source: Maryland Transportation Authority’s January 2015 Financial Forecast, Version 8

InterCounty Connector

While segments of the ICC have been in use since calendar 2011, traffic is still ramping up toward full usage. MDTA expects the road to reach maturity near the end of calendar 2015. Tolls on the highway are set with the goal of congestion management and vary from lower prices during nights and other low-traffic times to higher tolls at peak traffic times. The toll revenues shown above in Exhibit 13 are close to the projections made in 2011, with cumulative revenue through fiscal 2014 about 1% below the original forecast, which included toll rate increases that have not taken place. After adjusting for the assumed toll increases, cumulative revenues are slightly above projections.

Traffic counts on the ICC are also mostly in line with projections. Weekday traffic is now at about 46,000 average daily traffic (ADT), while certain segments exceed 50,000 ADT, with growth currently at about 1.8% per month. **Exhibit 14** shows the ADT for the five original ICC segments (not including the segment east of I-95), with weekday traffic at 46,497, 0.49% above projections, and weekend traffic at 29,289, 4.57% below projections.

Exhibit 14 Average Daily Traffic on the ICC November 2014

	<u>Weekday</u>	<u>Weekend</u>	<u>Total</u>
Actual	46,497	29,289	39,040
Projection	46,272	30,692	40,040
Variation	0.49%	-4.57%	-2.50%

ICC: InterCounty Connector

Source: Maryland Transportation Authority

MDTA increased the speed limit on the ICC from 55 mph to 60 mph on April 1, 2013, and a study on the impact of that change was completed in December 2014. On a per mile traveled basis, the number of crashes was 25% higher in the period after the speed limit was increased. MDTA will continue to study the issue of highway speeds but has noted its concern over the increase in crash rate after the speed limit increase.

I-95 ETLs

Unlike the ICC, there is very little ramp-up period for the I-95 ETLs, which opened to traffic in late 2014. Revenues are expected to total \$3.1 million in fiscal 2015; increasing to about \$6.1 million in fiscal 2016, the first full fiscal year of operation; and total \$8.2 million in fiscal 2020. MDTA sets toll rates at a level high enough to pay for operating and capital expenses not necessarily for each

facility, so that total revenues generated by all facilities will cover all MDTA expenses. It should be noted that the low amount of revenue generated by the I-95 ETLs relative to its cost means that the tolls paid on all other MDTA facilities are in effect subsidizing the I-95 ETL facility.

Similar to the ICC, the pricing on the I-95 ETLs is set with a goal of congestion management. **Exhibit 15** shows the rates at different times and for different vehicle sizes. The number of toll transactions at the facility is expected to grow at an average annual rate of 3.8% from fiscal 2017 through 2025. **MDTA should comment on the impact of the two new facilities on the capital program and the authority’s operating budget. MDTA should also comment on how successful the two projects have been at reducing traffic congestion.**

**Exhibit 15
I-95 ETL Rates**

	<u>Two-axle/Motorcycle</u>	<u>Three-axle</u>	<u>Four-axle</u>	<u>Five-axle</u>	<u>Six-axle+</u>
Peak	\$1.75	\$5.25	\$7.91	\$10.50	\$13.16
Off-Peak	1.40	4.20	6.30	8.40	10.50
Overnight	0.70	2.10	3.15	4.20	5.25

ETL: express toll lane

Source: Maryland Transportation Authority

2. Video Tolling and Citation Program Implementation

The implementation of Chapter 113 of 2013 is nearly complete. The law was enacted to redefine the tolling and citation program for MDTA in order to take into consideration current tolling practices, including video tolling.

The process outlined in Chapter 113, and shown in **Exhibit 16**, begins with a notice of toll due sent to a person who goes through a toll facility without paying their toll with cash or via an E-ZPass, rather than considering the failure to pay a deliberate act to evade the toll. After receiving the notice, the vehicle owner has 30 days to pay the video toll amount – which is typically 150% of the cash or base rate – without penalty. Failure to pay next results in a citation with a \$50 civil penalty, which the vehicle owner can pay or contest in District Court. If the owner fails to pay the citation or is found guilty, a past due notice is issued, and the owner has 15 days to pay the citation and penalty before being referred to the Motor Vehicle Administration (MVA) for suspension (less than \$1,000 owed) or nonrenewal (more than \$1,000 owed) of vehicle registration. A final notice is also issued, providing the vehicle owner an additional 15 days to pay prior to referral to the Central Collection Unit (CCU).

Exhibit 16
Implementation of Chapter 113 of 2013

<u>Activity</u>	<u>Implementation Date</u>
Notice of Toll Due	October 2013
Video Toll Citation	January 2014
Initiation of Court Hearings	June 2014
Cases Referred to CCU for Collection (non-Maryland plates only)	Spring 2015
MVA Flags Vehicle Registration for Nonrenewal/Suspension	Summer 2015

CCU: Central Collection Unit
MVA: Motor Vehicle Administration

Source: Maryland Transportation Authority

MDTA had to coordinate with multiple agencies, including MVA, CCU, and the courts, and has, therefore, staggered implementation to ease the transition. MVA flagging and CCU referral, the final two stages, are being implemented in February 2015. **Exhibit 17** shows that since the program's inception in October 2013 through January 2015, 6.4 million notices of toll due have been issued, resulting in nearly 2.0 million citations, approximately 135,790 referrals to MVA for suspension or nonrenewal, and 105,042 referrals to CCU. In fiscal 2014, 63.7% of all notices of toll due were as a result of nonpayment on the ICC. Further discussion of the impact on CCU is included in the budget analysis of the Department of Budget and Management.

MDTA should comment on the impact of implementing the video toll process on MDTA and other agencies and the response to the program from the public. MDTA should also discuss the reasons for the high number of notices of toll due resulting from drivers on the ICC and any strategies for reducing that number.

Exhibit 17
Video Tolling Impact
October 2013 to January 2015

<u>Status</u>	<u>Amount</u>	<u>Information</u>
Notices of toll due issued	6,381,407	
Citations issued	1,963,142	Citations as a % of notices of toll due issued: 30.8%
Court cases heard	11,199	Court cases heard as a % of citations issued: 0.6%
Court case backlog	65,017	Court case backlog as a % of citations issued: 3.3%
License plate referred to MVA for nonrenewal (Maryland plates only)	125,826	MVA nonrenewal of license plate referrals as a % of notices of toll due issued: 2.0%
License plate referred to MVA for suspension (Maryland plates only)	9,964	MVA suspension of license plate referrals as a % of notice of toll due issued: 0.2%
To CCU for collections (non-Maryland plates only)	105,042	MDTA referrals to CCU as a % of notices of toll due issued: 1.6%

CCU: Central Collection Unit
MDTA: Maryland Transportation Authority
MVA: Motor Vehicle Administration

Source: Maryland Transportation Authority

3. Impact of Toll Reduction

The Governor has announced that his Administration will review toll rates at MDTA with an eye toward a reduction. The MDTA board has independent authority over rate-setting at its facilities, toll rate increases require legislative notification but not approval. MDTA has indicated it is reviewing toll levels.

J00J00 – MDOT – Maryland Transportation Authority

As noted earlier in the Financial Forecast section of this analysis, current toll revenues are at a level that allows the authority to meet all of its debt affordability benchmarks – both policy and legal – for the entirety of the forecast period. The benchmarks that would be affected by a revenue reduction are:

- **Rate Covenant Compliance Ratio:** Ratio of net revenues to the amount deposited into the Maintenance and Operating Reserve Account plus 120% of debt service must be at least 1.0. Fiscal 2020: 2.57.
- **Debt Service Coverage Ratio:** Ratio of net revenues to debt service, must be at least 1.2, with an administrative policy of 2.0. Fiscal 2020: 3.23.
- **Unencumbered Cash:** Cash on hand must be at least \$350 million. Fiscal 2020: \$351.3 million.

MDTA has a covenant with its bond holders that it will set tolls to generate adequate revenue to meet its rate covenant ratio. To maintain favorable financial ratings and maintain affordable access to capital markets, MDTA must set tolls so that revenues meet its debt service coverage ratio and minimum unencumbered cash benchmark. Independent ratings agencies have recently noted MDTA's independent authority as a strength, and agencies such as Moody's and Fitch have favorably commented on the authority's strong ability and willingness to raise rates to maintain fiscal performance and meet benchmarks.

However, depending on the extent of any toll reduction, those benchmarks could be threatened. In addition, revenue reductions could also force choices between system preservation projects or reductions in operating expenses. The current forecast – based on current toll levels – does not contain any capacity for new projects, including the acknowledged need to replace the Nice Bridge. **MDTA should comment on the impact of any potential reductions in toll rates on the authority's revenue, operations, and debt affordability benchmarks.**

Operating Budget Recommended Actions

1. Adopt the following narrative:

Unencumbered Cash on Hand: Due to the changing nature of the Maryland Transportation Authority’s operating expenses and toll revenues, the Maryland Transportation Authority (MDTA) has as its benchmark that the amount of unencumbered cash on hand be a minimum of \$350 million. MDTA should report to the budget committees by November 1, 2015, on whether linking the benchmark to the level of operating expenses would be more appropriate, and what best practices are in use by other authorities nationally.

Information Request	Author	Due Date
Unencumbered cash on hand benchmark	MDTA	November 1, 2015

PAYGO Budget Recommended Actions

1. Nonbudgeted.

Maryland Transportation Authority Financial Forecast
Fiscal 2014-2020
(\$ in Millions)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Revenues							
Toll Revenues	\$650.1	\$673.2	\$684.8	\$692.9	\$702.6	\$710.0	\$719.7
Concessions	3.3	5.5	5.9	6.0	6.1	6.2	6.2
Investment Income and Other	8.5	10.8	10.3	9.3	9.1	9.1	13.4
Maryland Department of Transportation	24.5	26.9	26.7	28.0	29.3	30.7	32.1
Total Revenues	\$686.5	\$716.3	\$727.8	\$736.2	\$747.0	\$755.9	\$771.4
Expenses							
Operations	\$257.1	\$285.1	\$286.3	\$301.1	\$317.3	\$333.3	\$350.0
Debt Service	121.2	107.8	127.0	130.0	130.1	130.1	130.1
Capital Program	359.3	395.3	293.5	366.0	305.4	312.5	330.2
Total Expenses	\$737.7	\$788.2	\$706.8	\$797.1	\$752.8	\$775.8	\$810.4
Capital Funding Sources							
Revenue Bond Proceeds	0	\$132.0	0	0	0	0	0
General Fund/General Obligation Bonds	21.5	0	0	0	0	0	0
Revenue Bond Defeasance	-54.5	0	-193.6	0	0	0	0
Accounting Reconciliation	21.1	0	0	0	0	0	0
Annual Surplus/Deficit	-\$63.2	\$60.2	-\$172.6	-\$60.9	-\$5.8	-\$19.9	-\$39.0
Total Cash Balance	\$668.4	\$728.5	\$556.0	\$495.1	\$489.3	\$469.4	\$430.4
Debt							
Debt Outstanding	\$2,214.3	\$2,318.3	\$2,114.3	\$2,078.9	\$2,030.7	\$1,980.4	\$1,927.9
Ratio of Total Cash to Toll Revenues	102%	107%	80%	71%	69%	66%	59%
Unencumbered Cash (Policy \$350.0 million minimum)	\$577.1	\$517.1	\$476.8	\$415.9	\$410.1	\$390.2	\$351.3
Debt Service Coverage (Policy 2.0)	3.5	4.01	3.5	3.3	3.3	3.2	3.2
Rate Covenant Compliance (Legal 1.0)	2.9	3.2	2.8	2.7	2.7	2.6	2.6

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

<u>Object/Fund</u>	<u>FY 14 Actual</u>	<u>FY 15 Working Appropriation</u>	<u>FY 16 Allowance</u>	<u>FY 15 - FY 16 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	\$ 141,734,345	\$ 156,462,965	\$ 162,645,223	\$ 6,182,258	4.0%
02 Technical and Spec. Fees	275,097	1,537,532	1,247,345	-290,187	-18.9%
03 Communication	817,129	1,060,483	1,063,458	2,975	0.3%
04 Travel	342,004	389,646	480,466	90,820	23.3%
06 Fuel and Utilities	5,443,261	4,894,523	5,132,959	238,436	4.9%
07 Motor Vehicles	11,298,158	11,852,776	10,310,723	-1,542,053	-13.0%
08 Contractual Services	76,868,207	90,240,876	88,565,708	-1,675,168	-1.9%
09 Supplies and Materials	10,694,629	7,678,767	7,433,207	-245,560	-3.2%
10 Equipment – Replacement	2,194,572	3,117,199	1,949,954	-1,167,245	-37.4%
11 Equipment – Additional	1,190,601	1,418,254	1,046,378	-371,876	-26.2%
13 Fixed Charges	160,859,287	114,186,803	326,929,264	212,742,461	186.3%
Total Objects	\$ 411,717,290	\$ 392,839,824	\$ 606,804,685	\$ 213,964,861	54.5%
Funds					
07 Nonbudgeted Fund	\$ 411,717,290	\$ 392,839,824	\$ 606,804,685	\$ 213,964,861	54.5%
Total Funds	\$ 411,717,290	\$ 392,839,824	\$ 606,804,685	\$ 213,964,861	54.5%

Fiscal Summary
MDOT – Maryland Transportation Authority

<u>Program/Unit</u>	<u>FY 14</u> <u>Actual</u>	<u>FY 15</u> <u>Wrk Approp</u>	<u>FY 16</u> <u>Allowance</u>	<u>Change</u>	<u>FY 15 - FY 16</u> <u>% Change</u>
0000 Operating and Debt Service	\$ 411,717,290	\$ 392,839,824	\$ 606,804,685	\$ 213,964,861	54.5%
0000 Capital	359,384,934	395,324,000	293,513,000	-101,811,000	-25.8%
Total Expenditures	\$ 771,102,224	\$ 788,163,824	\$ 900,317,685	\$ 112,153,861	14.2%
Nonbudgeted Fund	\$ 771,102,224	\$ 788,163,824	\$ 900,317,685	\$ 112,153,861	14.2%
Total Appropriations	\$ 771,102,224	\$ 788,163,824	\$ 900,317,685	\$ 112,153,861	14.2%