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# **Maryland Department of Transportation Fiscal 2017 Budget Overview**

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

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For further information contact: Steven D. McCulloch

Phone: (410) 946-5530

*Analysis of the FY 2017 Maryland Executive Budget, 2016*



**J00**  
**Maryland Department of Transportation**  
Fiscal 2017 Budget Overview

*Analysis in Brief*

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**Issues**

***Long-term Federal Surface Transportation Reauthorization Passed:*** At the end of calendar 2015, Congress passed, and the President signed, the Fixing America’s Surface Transportation Act of 2015 (FAST Act) providing federal funding levels for surface transportation programs for federal fiscal 2016 through 2020 and establishing new freight funding programs. **The Maryland Department of Transportation should comment on how the funding certainty provided by the FAST Act will affect capital planning, how it intends to utilize National Highway Freight Program formula funding, and if and for which project(s) it intends to seek funding under the new Nationally Significant Freight and Highway Projects discretionary grants program.**

***Scoring System for Transportation Capital Project Selection Could Ensure Greater Focus on Economic Benefits:*** Maryland’s ability to fund its transportation capital program falls short of identified needs. In addition, current statutory requirements do not ensure that the transportation projects funded by the State will generate the greatest return on investment in terms of easing congestion or stimulating economic growth. A priority setting process that uses a cost-benefit analysis may help the State select transportation projects that yield the greatest benefit possible. **The Secretary should comment on how the greater emphasis on economic outcomes could be incorporated in development of the Consolidated Transportation Program.**

**Recommended Actions**

1. Add annual budget bill language requiring notification of capital budget changes.
2. Add annual budget bill language establishing a position cap.
3. Adopt committee narrative expressing the intent that the Maryland Department of Transportation use the five-year average annual increase when forecasting operating expenses.

*J00 – MDOT – Fiscal 2017 Budget Overview*

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***Transportation Trust Fund Overview***

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

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

**Fiscal 2015 TTF Revenue Closeout**

As shown in **Exhibit 1**, the TTF ended fiscal 2015 with a fund balance of \$269 million, an amount of \$169 million higher than the \$100 million projected ending balance. The higher fund balance is the net effect of a lower level of expenditures (\$79 million) combined with higher than expected revenue attainment (\$90 million).

Spending was a net of \$79 million less than estimated. Increases related to a bond refunding, winter maintenance, and other department operations were offset by decreased capital spending, the majority of which was due to suspended spending on the Red and Purple Line transit projects as they were being reevaluated.

Nonbond-related revenues exceeded projections by a net \$131 million. Bond sales were \$89 million below projections reflecting reduced cash flow needs and receipt of \$48 million in bond premiums.

**Exhibit 1**  
**Fiscal 2015 Transportation Trust Fund Closeout**  
**State Funds Only**  
**(\$ in Millions)**

	<u>Projected</u>	<u>Actual</u>	<u>Variance</u>
<b>Starting Fund Balance</b>	<b>\$255</b>	<b>\$255</b>	<b>\$0</b>
<b>Revenues</b>			
Motor Fuel Taxes	\$877	\$924	\$47
Titling Taxes	786	796	10
Corporate Income Tax	164	166	2
Sales Tax – Rental Vehicles	32	31	-1
Registrations, and Miscellaneous MVA Fees	659	667	8
MDOT Operating Revenues (MAA, MPA, and MTA)	407	414	7
Other Receipts and Adjustments	56	114	58
Bond Proceeds and Premiums	490	449	-41
<b>Total Revenues</b>	<b>\$3,471</b>	<b>\$3,561</b>	<b>\$90</b>
<b>Uses of Funds</b>			
MDOT Operating Expenditures	\$1,711	\$1,770	\$59
MDOT Capital Expenditures	1,467	1,299	-168
MDOT Debt Service	220	248	28
Highway User Revenues	167	172	5
Other Expenditures	61	58	-3
<b>Total Expenditures</b>	<b>\$3,626</b>	<b>\$3,547</b>	<b>-\$79</b>
<b>Final Ending Fund Balance</b>	<b>\$100</b>	<b>\$269</b>	<b>\$169</b>

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

Note: Totals may not sum due to rounding.

Source: Maryland Department of Transportation

## **Fiscal 2016 Year-to-date Revenue Receipts**

Fiscal 2016 attainment for three of the TTF's largest revenue sources are exceeding projections based on five-year average attainment rates. With collections recorded through November 2015, motor fuel tax revenues were \$15.1 million higher than expected, motor vehicle titling revenues were \$6.0 million higher, and motor vehicle registration revenues were up by \$5.1 million. Should attainment continue at the level experienced to date, combined collections could exceed estimates by \$74.0 million for all of fiscal 2016.

## **Fiscal 2016 through 2021 Revenues**

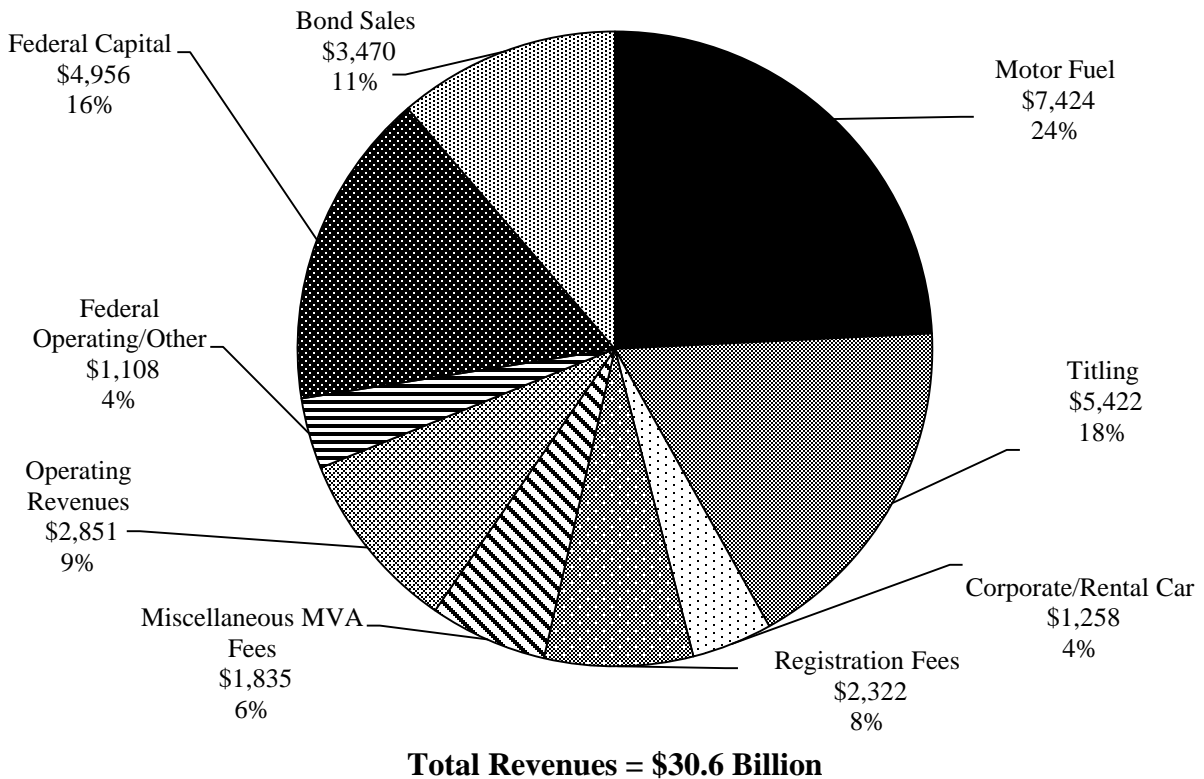
**Exhibit 2** shows that the TTF's largest revenue sources in the fiscal 2016 to 2021 forecast period are the motor fuel tax, titling tax, federal capital aid, and bond sale revenues, which collectively represent 69.4% of all projected revenues. Because the U.S. Congress failed to pass Internet sales tax legislation by December 1, 2015, the sales and use tax equivalent rate on the sale of gasoline increased from 3.0% to 4.0% effective January 1, 2016, and will increase to 5.0% effective July 1, 2016. Rather, the TTF would have begun receiving a portion of the general sales tax. The two provisions were estimated to result in equivalent amounts of revenue to the TTF.

MDOT is projecting that \$3.5 billion in bonds will be sold to support the capital program, representing 11.3% of projected revenues.

## **Revenue Risks**

A large downside revenue risk in the six-year forecast is the motor fuel average price per gallon, which is currently lower than the estimate upon which the fiscal 2017 forecast is based. The fiscal 2017 sales and use tax equivalent, the portion of the motor fuel tax that is based on the average cost per gallon, is based on an average price per gallon *excluding federal and State taxes* of \$2.23. According to data from the Bureau of Revenue Estimates, the average daily price of regular gasoline in Maryland, net of State and federal taxes, for the six-month period ending December 31, 2015, was \$1.88. If this lower price is used to calculate the sales and use tax equivalent for fiscal 2017, revenues decrease by \$58.3 million from the current estimate of \$362.9 million for this portion of motor fuel tax revenues. Increased sales of gasoline due to lower prices would help offset some portion of the decrease in the sales and use tax equivalent revenues. Should gasoline prices remain at current levels for several years, the revenue loss would be greater relative to the current forecast.

**Exhibit 2**  
**Transportation Trust Fund**  
**State-sourced Revenues and Federal Funds**  
**Fiscal 2016-2021**  
**(\$ in Millions)**



MVA: Motor Vehicle Administration

Source: Maryland Department of Transportation, Fiscal 2016-2021 *Transportation Trust Fund Forecast*

**Six-year Transportation Trust Fund Forecast Summary**

**Exhibit 3** shows the TTF forecast summary, including the fiscal 2015 actual and the fiscal 2016 to 2021 projections. It reflects the decision of MDOT to increase the target closing balance from the \$100 million level that it used for many years to \$125 million for fiscal 2016 to 2018 and to \$150 million thereafter. The increased fund balance will accommodate working cash-flow requirements during the year.



**Exhibit 3**  
**Transportation Trust Fund Forecast Summary**  
**Fiscal 2015-2021**  
**(\$ in Millions)**

	Fiscal Year							Total 2016-21
	Actual 2015	2016	2017	2018	2019	2020	2021	
Opening Fund Balance	\$255	\$269	\$125	\$125	\$125	\$150	\$150	
Closing Fund Balance	\$269	\$125	\$125	\$125	\$150	\$150	\$150	
<b>Net Revenues</b>								
Taxes and Fees	\$2,353	\$2,538	\$2,676	\$2,764	\$2,867	\$2,924	\$2,999	\$16,769
Operating and Miscellaneous	618	602	593	717	729	628	690	3,959
<b>Subtotal</b>	<b>\$2,972</b>	<b>\$3,140</b>	<b>\$3,269</b>	<b>\$3,481</b>	<b>\$3,596</b>	<b>\$3,552</b>	<b>\$3,689</b>	<b>\$20,728</b>
Bond Proceeds	401	450	685	860	565	465	445	3,470
Bond Premiums	49	0	0	0	0	0	0	0
Fund Balance Increase/Use	-15	144	0	0	-25	0	0	119
<b>Total Net Revenues</b>	<b>\$3,407</b>	<b>\$3,735</b>	<b>\$3,954</b>	<b>\$4,341</b>	<b>\$4,136</b>	<b>\$4,017</b>	<b>\$4,134</b>	<b>\$24,317</b>
<b>Expenditures</b>								
Debt Service	\$248	\$264	\$310	\$354	\$344	\$341	\$402	\$2,014
Operating Budget	1,860	1,863	1,923	1,992	2,040	2,108	2,159	12,085
State Capital	1,299	1,608	1,721	1,995	1,752	1,569	1,574	10,218
<b>Total Expenditures</b>	<b>\$3,407</b>	<b>\$3,735</b>	<b>\$3,954</b>	<b>\$4,341</b>	<b>\$4,136</b>	<b>\$4,017</b>	<b>\$4,134</b>	<b>\$24,317</b>
<b>Debt</b>								
Debt Outstanding	\$2,020	\$2,296	\$2,774	\$3,412	\$3,786	\$4,076	\$4,296	
Debt Coverage – Net Income	3.0	3.4	3.7	3.4	3.3	3.2	3.0	
<b>Local Highway User Revenue</b>	<b>\$172</b>	<b>\$176</b>	<b>\$177</b>	<b>\$179</b>	<b>\$183</b>	<b>\$184</b>	<b>\$187</b>	<b>\$1,087</b>
<b>Capital Summary</b>								
State Capital\HUR Capital	\$1,299	\$1,608	\$1,721	\$1,995	\$1,752	\$1,569	\$1,574	\$10,218
Net Federal Capital (Cash Flow)	742	771	1,086	978	771	644	706	4,956
<b>Total Capital Expenditures</b>	<b>\$2,041</b>	<b>\$2,379</b>	<b>\$2,807</b>	<b>\$2,973</b>	<b>\$2,523</b>	<b>\$2,213</b>	<b>\$2,280</b>	<b>\$15,174</b>
GARVEE Debt Service	\$87	\$87	\$87	\$87	\$87	\$51	\$0	\$401

GARVEE: Grant Anticipation Revenue Vehicle

HUR: Highway User Revenues

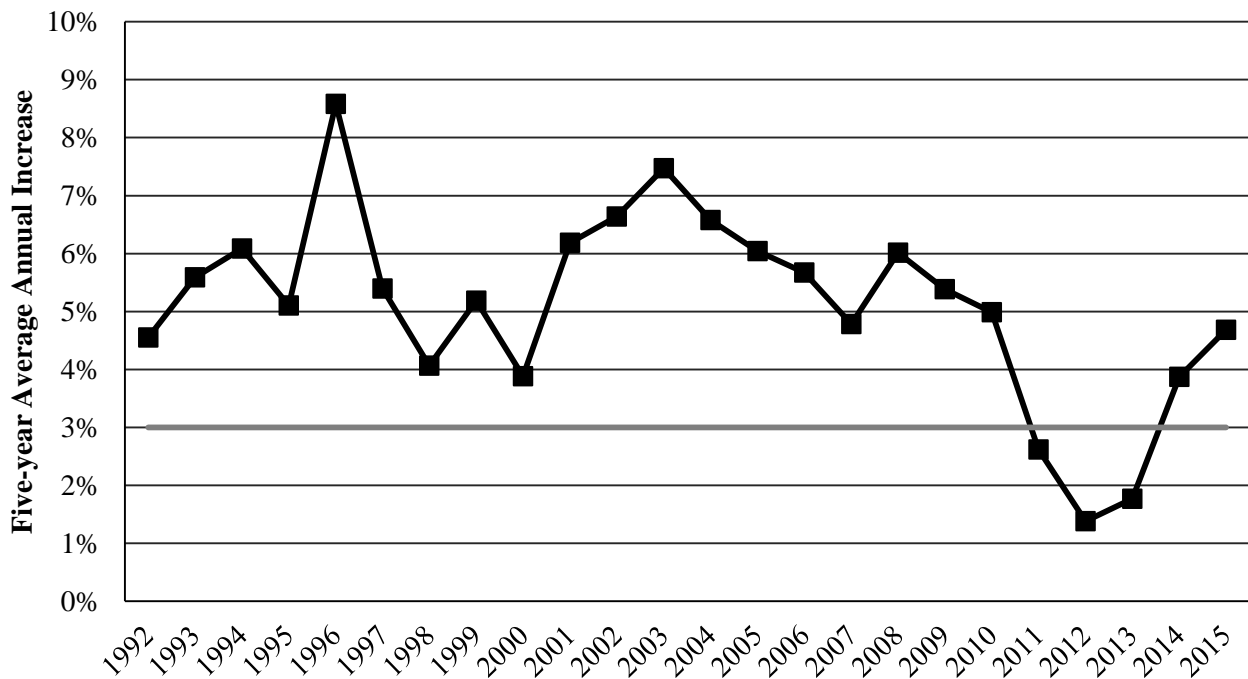
Source: Maryland Department of Transportation, *Transportation Trust Fund Forecast*, January 2016

Revenues are used first to pay debt service and then to cover the department’s operating expenses. Remaining revenues are used for the capital program, which is also funded through the sale of bonds and with federal capital aid. Over the six-year forecast period, bond proceeds are projected to cover almost 23% of all capital expenditures. The projected issuance of debt will increase the amount of debt from the \$2.02 billion outstanding at the end of fiscal 2015, to almost \$4.30 billion by the end of fiscal 2021. Bond covenants require MDOT to maintain a net income to debt service ratio of at least 2.0 and the department has an administrative policy to maintain a ratio of no less than 2.5. As shown in Exhibit 3, the debt service coverage ratio grows from 3.0 in fiscal 2015 to a forecast period high of 3.7 in fiscal 2017 and then declines to 3.0 by fiscal 2021.

**Operating Budget Forecast Understates Likely Spending Levels**

For fiscal 2016 to 2021, the average annual increase in departmental operating expenses included in the MDOT forecast is 2.99%. As shown in **Exhibit 4**, the five-year average annual increase has only dipped below 3.00% three times since fiscal 1992 and those five-year averages encompass the year prior to and years of the Great Recession. The median five-year average annual increase for this period is 5.30%, and the mean five-year average annual increases is 5.10%.

**Exhibit 4**  
**Maryland Department of Transportation**  
**Operating Expenses – Five-year Average Annual Change**  
**For Five-year Periods Ending Fiscal 1992-2015**

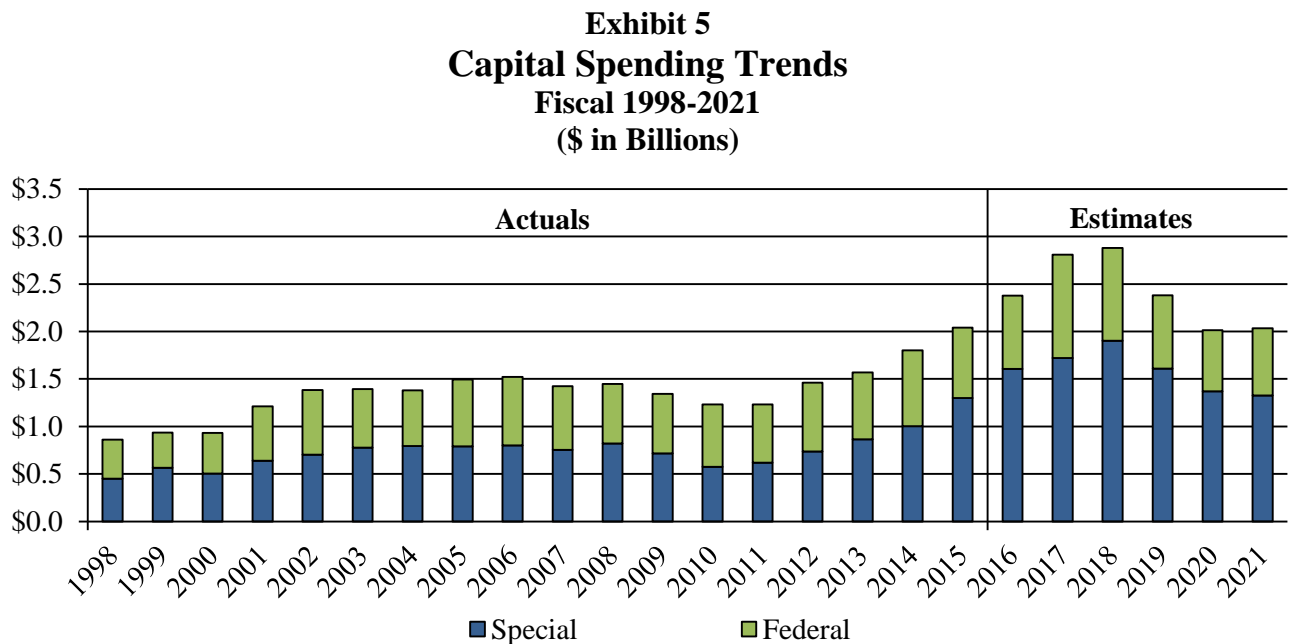


Source: Maryland Department of Transportation, *Transportation Trust Fund Forecasts*, 1989-2016

Underestimating the level of operating expenses results in capital spending levels that are overstated, since operating expenses and debt service are deducted from available revenues to determine the amounts available for the capital program. Should operating expenses increase at the median rate of the five-year average annual increases going back to 1992, the amount available for capital program spending would be \$679 million less than in the MDOT forecast. While MDOT is making efforts to reduce operational spending – it self-imposed a 2% cost containment effort for fiscal 2016 in response to the 2% across-the-board reduction applied to general fund agencies – cost controls have been imposed in the past, which are unsustainable over time. An inquiry as part of the fiscal 2017 baseline budget process revealed that none of the fiscal 2016 cost containment actions being taken were of an ongoing nature that could be carried into future year. This suggests that while MDOT may constrain budget growth for a year or two, deferred expenses will eventually be incurred. **To encourage truth in forecasting, committee narrative is included in the recommended action section of this analysis that would state the intent that MDOT use the five-year average annual increase for the period ending with the most recent complete fiscal year to calculate out-year operating expenses. For the current TTF forecast this would be 4.7% and would reduce the amount available for the capital program by \$492 million.**

### Capital Spending Trends

**Exhibit 5** shows the level of planned capital spending compared with past years. Combined special and federal capital spending exceeded \$2 billion for the first time in fiscal 2015 and is projected to continue to increase each year through fiscal 2018, when it is projected to reach nearly \$2.9 billion, exclusive of the proposed Highway User Revenue (HUR) capital grant.



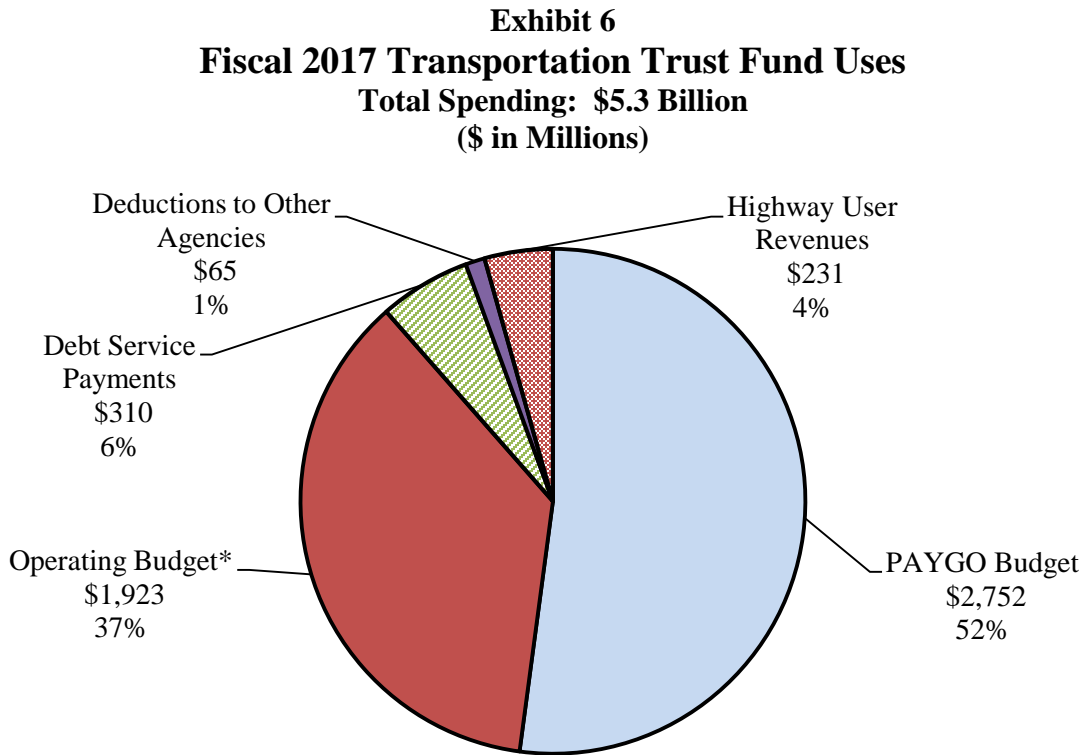
Source: Maryland Department of Transportation; Department of Legislative Services

## Budget Overview

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**Exhibit 6** shows all expenditures from the TTF by category in fiscal 2017. The pay-as-you-go (PAYGO) capital program comprises just over half the spending, and the operating budgets of the modes accounts for a further 37% of total spending. The remainder of TTF expenditures go toward debt service on Consolidated Transportation Bonds (CTB), the share of the HURs distributed to counties and municipalities, and deductions to other State agencies.

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PAYGO: pay-as-you-go

Note: The chart includes special funds from the Transportation Trust Fund and federal funds only. It excludes \$258 million in other funding for the capital program. For illustrative purposes, other funding can include the Maryland Transportation Authority, passenger facility charges, customer facility charges, local county participation, pass through federal funding for the Washington Metropolitan Area Transit Authority, and funding from the Transportation Security Administration.

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

\* Includes \$10 million for contingencies and \$2 million for BaltimoreLink to be added by budget amendment.

Source: Maryland Department of Transportation, *Transportation Trust Fund Forecast*, January 2016

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## **Proposed Budget**

**Exhibit 7** shows the operating and PAYGO capital budgets for the modal administrations along with amounts budgeted for debt service and local highway user grants from the fiscal 2015 actuals through the 2017 allowance. For all three years, the capital grants to local governments have been added to the Local Highway User Grants line and subtracted from the capital budget for the Secretary's office. Fiscal 2016 includes deficiency appropriations, which add positions to MTA for the BaltimoreLink initiative. The fiscal 2017 amounts have been adjusted to reflect back of the bill reductions totaling \$1.8 million (\$1,842,652 million in special funds and \$264 in federal funds), which reduce the amount budgeted for health insurance. Funds for employee salary step increases are included in the Department of Budget and Management (DBM) budget, and will be distributed to agencies by budget amendment and are therefore not included in the amounts shown in Exhibit 7. MDOT will receive an additional \$6.9 million special funds and an estimated \$628,000 federal funds when the salary step funding is distributed.

MDOT's total fiscal 2017 allowance increases \$503.5 million, or 10.7%, compared to the fiscal 2016 working appropriation. Almost 80.0% of the increase is attributable to increases in the capital budget (\$401.0 million). The remaining changes in descending order are the operating budget (\$38.6 million), local aid (\$36.7 million), and debt service (\$27.2 million). Total special fund spending increases \$188.0 million, or 4.9%, compared to the fiscal 2016 working appropriation, while federal funds increase by \$315.5 million, or 36.4%. It should be noted that the fiscal 2016 working appropriation does not reflect all known changes from the legislative appropriation due to timing issues associated with submitting the budget for publication with the fiscal 2017 allowance. For example, debt service is currently projected at \$264.0 million in fiscal 2016, a reduction due to lower bond sales. Final numbers will be calculated in the budget closeout and reported as actuals with the submission of the fiscal 2018 budget.

**Exhibit 7**  
**Transportation Budget Overview**  
**Fiscal 2015-2017**

	<u>Actuals</u> <u>2015</u>	<u>Working App.</u> <u>2016<sup>1</sup></u>	<u>Allowance</u> <u>2017<sup>2</sup></u>	<u>\$ Change</u> <u>2016-2017</u>	<u>% Change</u> <u>2016-17</u>
<b>Operating</b>					
Secretary's Office	\$75,339,237	\$83,050,799	\$82,967,093	-\$83,706	-0.1%
WMATA	284,843,793	320,422,000	323,422,000	3,000,000	0.9%
State Highway Administration	301,487,654	262,030,859	271,203,458	9,172,599	3.5%
Port Administration	47,867,305	50,978,579	51,502,302	523,723	1.0%
Motor Vehicle Administration	194,887,065	204,678,138	206,501,591	1,823,453	0.9%
Maryland Transit Administration	767,008,964	763,837,194	787,911,461	24,074,267	3.2%
Aviation Administration	188,090,075	186,903,130	187,015,023	111,893	0.1%
<b>Subtotal</b>	<b>\$1,859,524,093</b>	<b>\$1,871,900,699</b>	<b>\$1,910,522,928</b>	<b>\$38,622,229</b>	<b>2.1%</b>
<b>Debt Service</b>	<b>\$248,347,697</b>	<b>\$282,666,738</b>	<b>\$309,911,986</b>	<b>\$27,245,248</b>	<b>9.6%</b>
<b>Local Highway User Grants</b>	<b>\$187,695,128</b>	<b>\$194,304,256</b>	<b>\$231,006,625</b>	<b>\$36,702,369</b>	<b>18.9%</b>
<b>Capital</b>					
Secretary's Office	\$33,678,447	\$79,027,542	\$90,178,487	\$11,150,945	14.1%
WMATA	157,119,828	130,715,000	153,567,000	22,852,000	17.5%
State Highway Administration	1,166,922,309	1,402,838,000	1,566,650,051	163,812,051	11.7%
Port Administration	88,877,571	121,241,000	116,892,843	-4,348,157	-3.6%
Motor Vehicle Administration	20,620,351	23,240,000	29,593,692	6,353,692	27.3%
Maryland Transit Administration	434,285,426	439,357,000	675,273,203	235,916,203	53.7%
Aviation Administration	123,397,584	155,271,000	120,488,188	-34,782,812	-22.4%
<b>Subtotal</b>	<b>\$2,024,901,516</b>	<b>\$2,351,689,542</b>	<b>\$2,752,643,464</b>	<b>\$400,953,922</b>	<b>17.0%</b>
<b>Total of All Funds</b>					
Special Fund	\$3,487,823,393	\$3,831,755,225	\$4,019,734,478	\$187,979,253	4.9%
Federal Fund	831,688,192	867,906,010	1,183,450,525	315,544,515	36.4%
Reimbursable Fund	956,849	900,000	900,000	0	0.0%
<b>Grand Total</b>	<b>\$4,320,468,434</b>	<b>\$4,700,561,235</b>	<b>\$5,204,085,003</b>	<b>\$503,523,768</b>	<b>10.7%</b>

WMATA: Washington Metropolitan Area Transit Authority

<sup>1</sup> Includes deficiencies.

<sup>2</sup> Adjusted to reflect reductions made to health insurance funding in Section 19 of the budget bill.

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

Source: Maryland State Budget

## ***Operating Budget Analysis***

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MDOT's operating allowance includes expenditures for each of the modes, as well as debt service and local aid through HURs. The fiscal 2017 allowance totals almost \$2.5 billion, an increase of \$102.6 million compared to the fiscal 2016 working appropriation. Almost 80% of the operating allowance is used for the operating budgets of each of the modes.

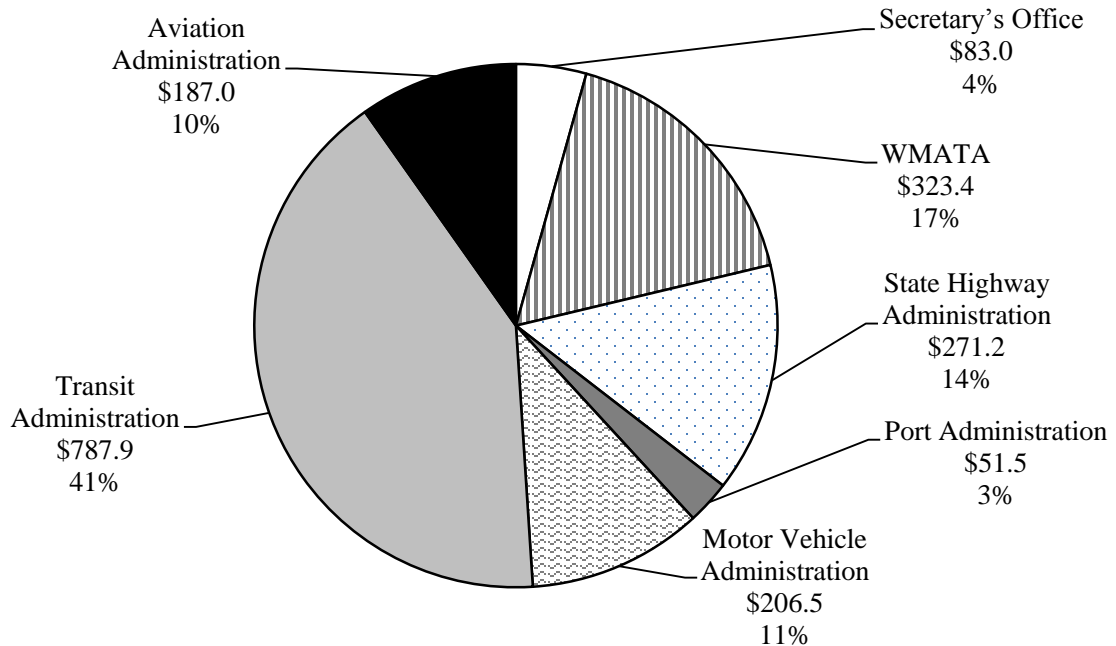
### **Fiscal 2017 Proposed Budget**

#### **Operating Programs**

The fiscal 2017 allowance for the modal operating budgets, adjusted to reflect the back of the bill reductions for health insurance, totals \$1.9 billion, an increase of \$38.6 million, or 2.1%, over the fiscal 2016 working appropriation. The largest increase in dollar terms is for MTA, which increases \$24.1 million, or 3.2%. Other large increases occur in the Maryland State Highway Administration (SHA) (\$9.2 million or 3.5%), and the Washington Metropolitan Area Transit Authority (WMATA) (\$3.0 million or 0.9%). The factors leading to these increases will be discussed in the budget analysis for each of the modes.

**Exhibit 8** shows fiscal 2017 operating budget allowances by mode and provides the percentage of total operating spending that the budget for each mode represents. Combined MTA and WMATA transit spending represents the largest share of the MDOT operating budget, at 58.2%.

**Exhibit 8**  
**Fiscal 2017 Operating Budget Allowance by Mode**  
**Total Spending: \$1.9 Billion**  
**(\$ in Millions)**



WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland State Budget Books, Fiscal 2017, Volume 1

### **Back of the Bill Reductions**

Section 19 of the fiscal 2017 budget bill makes reductions to remove overbudgeted amounts for health insurance subsidies. This section reduces the MDOT budget by \$1.8 million.

### **Employee Salary Increments**

As indicated earlier, funds for salary step increases are budgeted in DBM and will be distributed to agencies via budget amendment. For MDOT, this distribution will comprise \$6,932,086 in special funds and \$627,941 in federal funds for a total of \$7,560,027.

### **Personnel**

As shown in **Exhibit 9**, the fiscal 2017 allowance contains 9,258.5 regular positions that is 173.0 more than in the fiscal 2016 working appropriation. Contractual full-time equivalents remain



unchanged at 40.7 between fiscal 2016 and 2017. New positions are being added in SHA (27.0) due to the increased capital program, in MVA (17.0) to convert the Highway Safety function from a contract with the University of Baltimore to an in-house operation, and in MTA (129.0) as part of the BaltimoreLink transit initiative.

**Exhibit 9**  
**Regular and Contractual Full-time Equivalents**  
**Operating and Capital Programs**  
**Fiscal 2015-2017**

	<u>2015</u>	<u>Working</u> <u>2016</u>	<u>Allowance</u> <u>2017</u>	<u>Change</u> <u>2016-17</u>	<u>% Change</u> <u>2016-17</u>
<b>Regular Positions</b>					
Secretary’s Office	298.5	299.5	299.5	0.0	0.0%
State Highway Administration	3,036.5	3,036.5	3,063.5	27.0	0.9%
Port Administration	219.0	219.0	219.0	0.0	0.0%
Motor Vehicle Administration	1,712.5	1,712.5	1,729.5	17.0	1.0%
Transit Administration	3,318.5	3,317.5	3,446.5	129.0	3.9%
Aviation Administration	500.5	500.5	500.5	0.0	0.0%
<b>Subtotal</b>	<b>9,085.5</b>	<b>9,085.5</b>	<b>9,258.5</b>	<b>173.0</b>	<b>1.9%</b>
<b>Contractual Positions</b>					
Secretary’s Office	6.0	6.0	6.0	0.0	0.0%
State Highway Administration	17.0	17.0	17.0	0.0	0.0%
Port Administration	0.7	1.2	1.2	0.0	0.0%
Motor Vehicle Administration	0.0	0.0	0.0	0.0	n/a
Transit Administration	16.0	16.0	16.0	0.0	0.0%
Aviation Administration	0.5	0.5	0.5	0.0	0.0%
<b>Subtotal</b>	<b>40.2</b>	<b>40.7</b>	<b>40.7</b>	<b>0.0</b>	<b>0.0%</b>

Source: Department of Budget and Management

**Debt Service**

The fiscal 2017 allowance for debt service payments is \$309.9 million, an increase of \$27.2 million, or 9.6%, from the fiscal 2016 working appropriation. The increase is the result of established debt service schedules for previously issued bonds and the planned issuance of \$685.0 million in new debt in fiscal 2017.

At the end of fiscal 2017, CTB debt outstanding is expected to total \$2.8 billion, which remains below the statutory cap of \$4.5 billion. The MDOT forecast indicates that bond coverage ratios will be adequate throughout the forecast period.

## **Local Highway User Revenues**

HUR are derived from a portion of tax and fee revenues that are deposited into the GMVRA and subsequently distributed among the TTF, Baltimore City, counties, and municipalities. The local share of HUR in fiscal 2017 is \$177.4 million, a \$1.1 million increase over fiscal 2016. In addition to the HUR distribution, local governments received a \$25.0 million capital grant in fiscal 2016, and the fiscal 2017 allowance contains a capital grant of \$53.6 million. The combined HUR and capital grant amount in fiscal 2017 equals 12.5% of estimated HUR revenues.

**Exhibit 10** provides a summary of HUR and local capital grant distributions for fiscal 2016 and 2017.

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### **Exhibit 10** **Distribution of Highway User Revenues and Local Transportation Capital Grants** **Fiscal 2016-2017**

	<u>Percent Share</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>
<b>Highway User Revenues</b>			
MDOT	90.4%	\$1,660,577,488	\$1,670,639,912
Local Share	9.6%	176,344,512	177,413,088
<b>Total HUR</b>	<b>100.0%</b>	<b>\$1,836,922,000</b>	<b>\$1,848,053,000</b>
<b>HUR Local Distribution</b>			
Baltimore City	7.7%	\$141,442,994	\$142,300,081
Counties	1.5%	27,553,830	27,720,795
Municipalities	0.4%	7,347,688	7,392,212
<b>Total</b>	<b>9.6%</b>	<b>\$176,344,512</b>	<b>\$177,413,088</b>
<b>Local Transportation Capital Grants</b>			
Baltimore City		\$2,000,000	\$5,544,159
Counties		4,000,000	27,720,795
Municipalities		19,000,000	20,328,583
<b>Total</b>		<b>\$25,000,000</b>	<b>\$53,593,537</b>
<b>Total Local HUR and Capital Grants</b>		<b>\$201,344,512</b>	<b>\$231,006,625</b>

MDOT: Maryland Department of Transportation  
HUR: Highway User Revenues

Source: Maryland State Budget Books, Fiscal 2017, Volume 1

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

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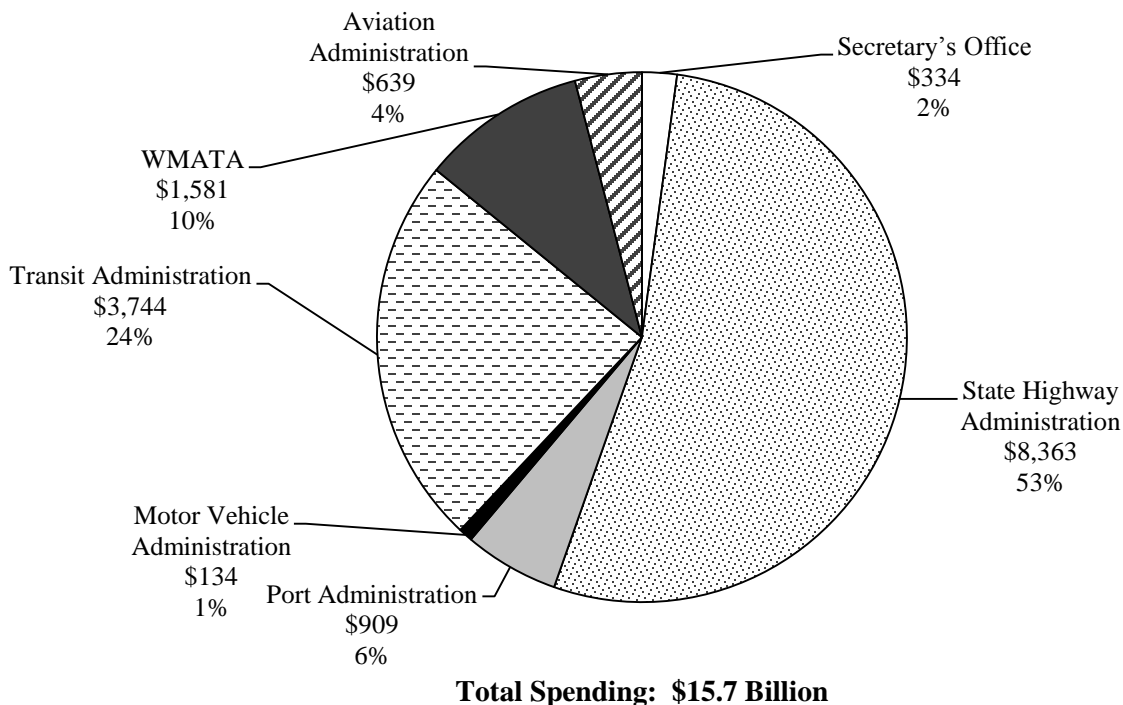
The *Consolidated Transportation Program* (CTP) is issued annually and is posted on the MDOT website. The CTP provides a description of major projects proposed by MDOT for development and evaluation or construction over the next six-year period.

### **Fiscal 2016 through 2021 CTP**

The fiscal 2016 through 2021 CTP totals \$15.7 billion for projects supported by State, federal, and other funds. This is a decrease of approximately \$137.0 million from the fiscal 2015 through 2020 CTP. **Exhibit 11** shows the funding level for each mode over the current six-year period. SHA accounts for over half the capital program, at 53%. Transit, including MTA and WMATA, accounts for 34% of spending.

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**Exhibit 11**  
**Proposed Six-year Capital Funding by Mode**  
**Fiscal 2016-2021**  
**(\$ in Millions)**



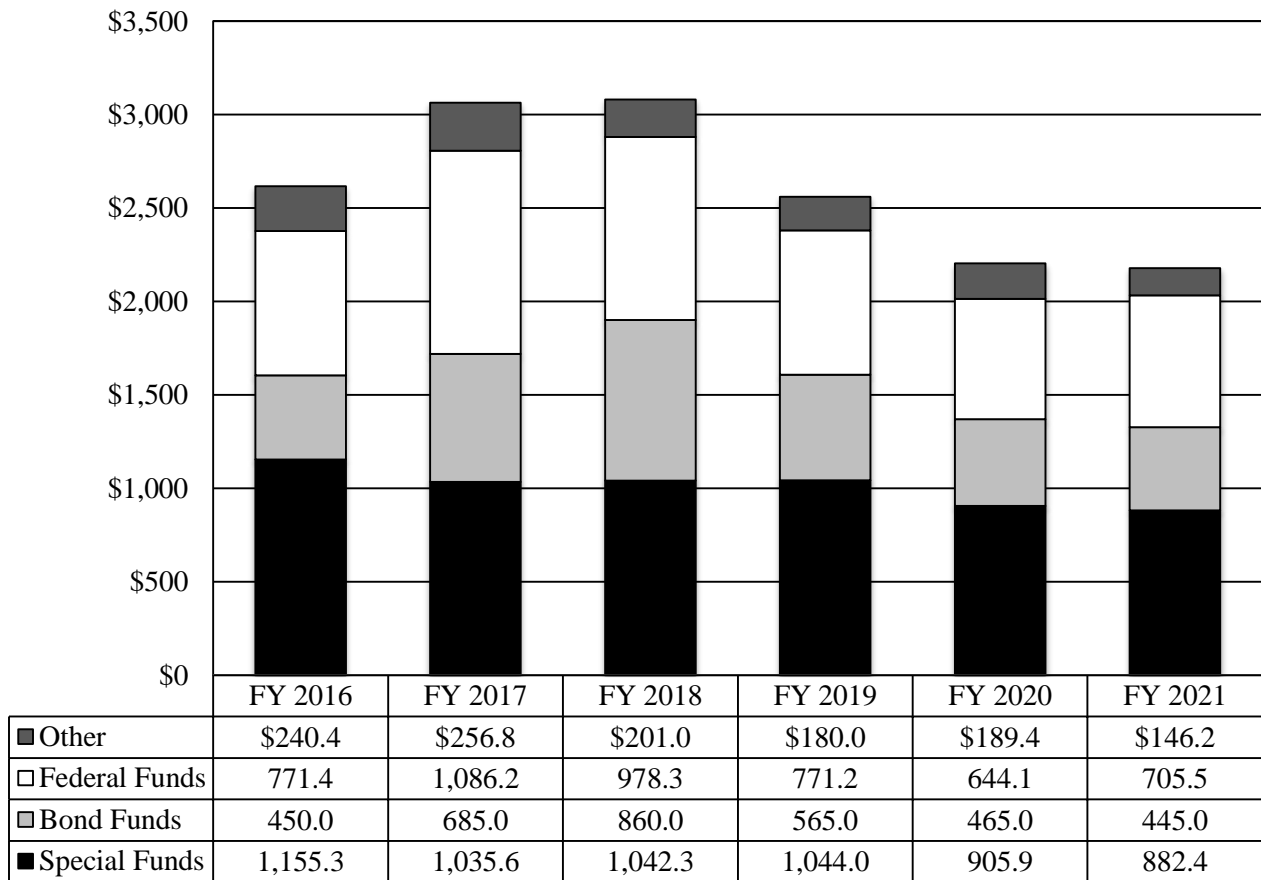
WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland State Budget Books, Fiscal 2017, Volume 1

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**Exhibit 12** shows the level of special, federal, and other funds for each year of the capital program. Special funds, including bond funds, make up the largest share of the capital program at 60.7%. Federal funds comprise the next largest funding source at 31.6%.

**Exhibit 12**  
**Proposed Capital Funding by Year and Source**  
**Fiscal 2016-2021**  
**(\$ in Millions)**



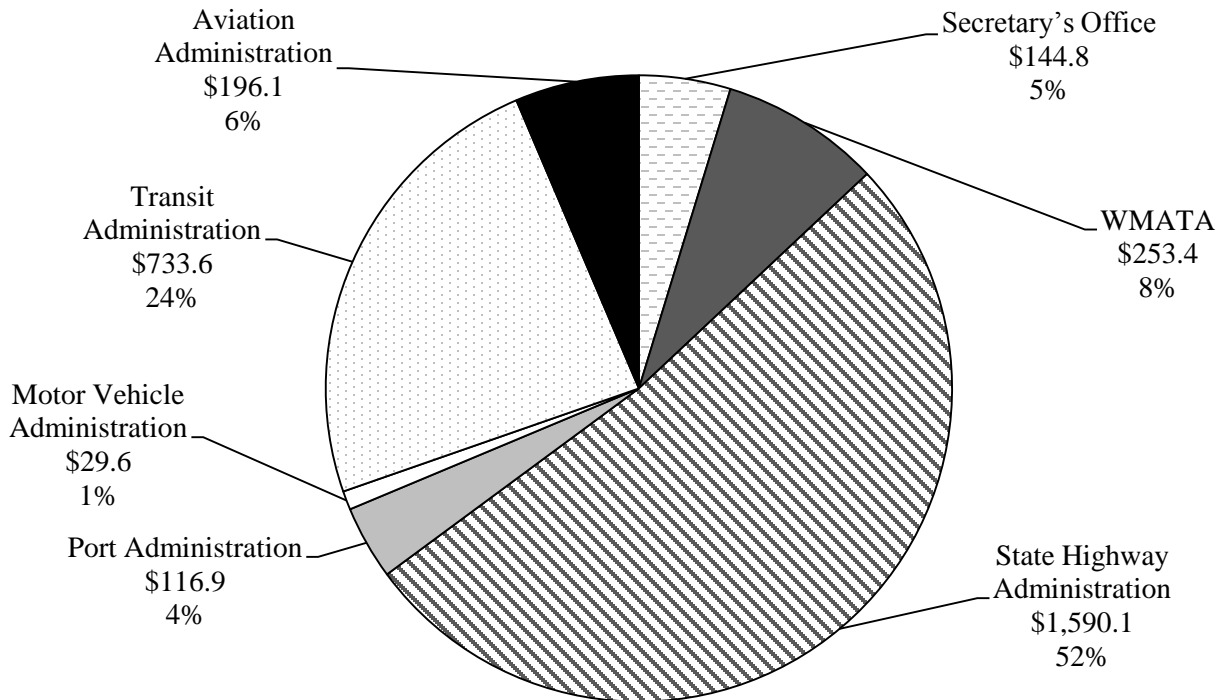
Source: Maryland Department of Transportation, *2016-2021 Consolidated Transportation Program*

### **Fiscal 2017 Capital Budget**

**Exhibit 13** shows the MDOT fiscal 2017 capital budget by mode. Including other funds that do not flow through the MDOT budget, the fiscal 2017 capital spending is projected at just under \$3.1 billion representing an increase of \$448.6 million, or 17.1%, increase over planned capital

spending for the current year. Federal funds increase by almost \$315.0 million (40.8%), while special and other funds increase by \$115.3 million (7.2%) and \$18.4 million (7.7%) respectively.

**Exhibit 13**  
**Fiscal 2017 Capital Funding by Mode**  
( \$ in Millions )



**Total Spending: \$3.1 Billion**

WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation, 2016-2021 Consolidated Transportation Program

## Other Funds

The 2016 through 2021 CTP includes \$257.8 million in other funds for fiscal 2017 as shown in **Exhibit 14**. This funding comprises passenger facility charges and customer facility charges for projects at the Baltimore/Washington International Thurgood Marshall Airport and county participation in projects for MTA and SHA.

**Exhibit 14**  
**Fiscal 2017 Other Funds**  
**(\$ in Thousands)**

<u>Project</u>	<u>Other Source</u>	<u>2017 Funding</u>
Runway Safety Area/Pavement Management Program	Passenger Facility Charges	\$27,854
D/E Concourses Connector	Passenger Facility Charges	33,329
Consolidated Rental Car Facility	Customer Facility Charges	2,739
Loading Bridge Replacement Program	Passenger Facility Charges	4,091
Concourse B Ticket Counters	Passenger Facility Charges	7,000
Permanent Noise Monitoring System Replacement	Passenger Facility Charges	578
<b><i>Subtotal – Maryland Aviation Administration Other Funds</i></b>		<b><i>\$75,591</i></b>
Purple Line	Montgomery/Prince George’s	\$16,600
Purple Line Associated Projects	Montgomery County	40,728
LOTS Elderly and Disabled Nonprofit Services	Local Governments	945
LOTS Baltimore City Harbor Connector	Baltimore City	17
LOTS Transportation Development Plan	Local Governments	49
<b><i>Subtotal – Maryland Transit Administration Other Funds</i></b>		<b><i>\$58,339</i></b>
Canton Railroad Grant	Canton Railroad Company	\$987
<b><i>Subtotal – The Secretary’s Office Other Funds</i></b>		<b><i>\$987</i></b>
WMATA Federal Funding	Federal Government	\$99,870
<b><i>Subtotal – WMATA Other Funds</i></b>		<b><i>\$99,870</i></b>
MD 140 Reisterstown Road, Garrison View	Baltimore	\$2,653
US 40, South Philadelphia Boulevard	Harford	983
MD 97 Georgia Avenue, 16th Street	Montgomery	287
MD 586 Multi-Modal Transit Study	Montgomery	1,480
MD 355 Rockville Pike Maple Avenue	Montgomery	5,509
MD 97 Brookeville Bypass	Montgomery	1,950
MD 5 Branch Avenue, MD 373, and Brandywine	WSSC	1,832
War of 1812 Archaeological/Historical Study in Bladensburg	National Park service	2
I-81, Maryland Veterans Memorial Highway	West Virginia	8,297
<b><i>Subtotal – State Highway Administration Other Funds</i></b>		<b><i>\$22,993</i></b>
<b>Total – Other Funds</b>		<b>\$257,780</b>

LOTS: locally operated transit systems

WMATA: Washington Metropolitan Area Transit Authority

WSSC: Washington Suburban Sanitary Commission

Source: Maryland Department of Transportation

## ***Issues***

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### **1. Long-term Federal Surface Transportation Reauthorization Passed**

On December 4, 2015, President Barack H. Obama signed the Fixing America's Surface Transportation Act of 2015 (FAST Act) providing federal funding levels for surface transportation programs for federal fiscal 2016 through 2020 and transferring \$70.0 billion in federal general funds and \$0.3 billion in the Leaking Underground Storage Tank (LUST) program funds into the Highway Trust Fund (HTF) to ensure its solvency through federal fiscal 2020. This is the first reauthorization bill in over 10 years that provides long-term funding certainty for states.

#### **Highway Funding**

The FAST Act provides for an average annual increase in highway funding of 2.8% from federal fiscal 2015 through 2020. Maryland's apportionment will increase by approximately 5.1% to \$609.6 million in federal fiscal 2016, from the current \$580.0 million. Funding then increases by just over 2.0% per year, with Maryland scheduled to receive \$665.5 million in the final fiscal year under the Act. MDOT projects that SHA will receive an increase of nearly \$208.0 million over the six-year authorization period.

#### **New Highway Programs – Freight**

The FAST Act creates two new programs to help state and local governments plan and fund freight mobility projects:

- **National Highway Freight Program** – A new formula freight program to provide funding to states for freight projects on the National Highway Freight Network (NHFN). States with over 2% of the total mileage on the NHFN must spend certain proportions of their funding within certain corridors. States with less than 2% (Maryland included) can spend their apportionments on any part of the NHFN within the state. Maryland is scheduled to receive \$17.4 million in funding in federal fiscal 2016, increasing to \$22.8 million by federal fiscal 2020.
- **Nationally Significant Freight and Highway Projects** – A new discretionary grant program for the Secretary of the U.S. Department of Transportation to select projects of national or regional significance. Applicants can be states or groups of states, Metropolitan Planning Organizations, municipal governments, special purpose districts, federal land agencies, Indian tribes, or combinations thereof. Projects must be highway freight projects on the NHFN with a total project cost that exceeds \$100 million (with 10% of funding reserved for projects below \$100 million). The FAST Act provides \$800 million for this program in federal fiscal 2016 with \$50 million increases each year through federal fiscal 2020.

## **Transit Funding**

Maryland’s share of formula funding will be \$240.1 million in federal fiscal 2016, and will grow at an average annual rate of 2.2% over the five-year authorization period ending at an apportionment of \$256.6 million in federal fiscal 2020. Transit programs remain largely unchanged under the FAST Act although the Act reinstates the Bus and Bus Facility discretionary funding program with a five-year authorization of \$1.5 billion. MDOT indicates that all transit funding in Maryland is expected to increase by approximately \$25.0 million over the six-year authorization period to support both State-run and locally operated transit systems.

## **Federal Highway Trust Fund Status**

As indicated above, general fund and LUST program balance transfers totaling \$70.3 billion are made in the FAST Act, bringing the total general fund transfers since federal fiscal 2008 to \$139.9 billion and total LUST program transfers to \$3.7 billion. The funding offsets or “pay fors” in the FAST Act are unrelated to transportation and do nothing to address the structural imbalance between ongoing HTF revenues, provided largely through the 18.4 cent federal gas tax, and ongoing spending. The largest funding offset is a \$53.3 billion transfer from the Federal Reserve surplus account funded through payments by Federal Reserve member banks. This will make the next surface transportation reauthorization process more difficult because the purchasing power of the federal gas tax will have been eroded by an additional five years.

**MDOT should comment on how the funding certainty provided by the FAST Act will affect capital planning, how it intends to utilize NHFP formula funding, and if and for which project(s) it intends to seek funding under the new Nationally Significant Freight and Highway Projects discretionary grants program.**

## **2. Scoring System for Transportation Capital Project Selection Could Ensure Greater Focus on Economic Benefits**

### **Background**

The amount of funding that would be needed for all desired transportation projects that meet the eligibility requirements set forth in statute is far in excess of available funding. The CTP aligns transportation capital spending with the estimated resources that will be available over the six-year forecast period. MDOT and ultimately the Governor, has wide latitude in deciding which projects to include in the CTP and which to defer. A change in Administrations can lead to very different funding decisions as has been demonstrated with the shift away from mass transit and toward road and highway funding announced by the current Administration.

Current statutory requirements related to adding projects to the CTP require that each project:

- support local government land use plans and goals; and



- address State transportation goals as identified in the State’s long-range transportation planning document – the Maryland Transportation Plan.

Statutory requirements do not, however, ensure that the funded projects will generate the greatest return on investment in terms of easing congestion and stimulating economic growth. What is lacking in the CTP development process is a scoring system that would help identify the projects that should receive the highest funding priority.

### **Balancing Transportation-related Economic Challenges**

While most transportation capital projects can be said to support economic activity, some projects have tremendous potential in this respect while others are much more limited. Two examples help illustrate this point. First, the Port of Baltimore, one of Maryland’s largest economic engines, is hampered by the inability to double-stack shipping containers on railcars because the antiquated Howard Street tunnel is not big enough. The inability to double-stack containers impedes Maryland’s ability to compete for shipping business. Second, continued development of the Great Seneca Science Corridor, a major high-tech employment center planned in Montgomery County, is dependent on progress in construction of the Corridor Cities Transitway, which is designed to ensure adequate transit access and help alleviate and prevent unacceptable levels of road congestion in the I-270 corridor.

Maryland’s economy would be greatly improved by replacing the Howard Street Tunnel and by constructing the Corridor Cities Transitway. The cost for each of these projects is large. However, if all projects were evaluated and ranked based on a cost-benefit basis for inclusion in the CTP, these two projects would likely be highly ranked and funded sooner than currently planned.

### **Priority Setting Processes – Other States**

North Carolina, Virginia, and Washington have all enacted laws establishing project priority setting processes to more effectively guide transportation investment decisions and increase transparency in how projects are selected for funding. A key component of these processes is the use of a cost-benefit analysis approach to determine which investments will yield the greatest economic and other desired outcomes.

### **Conclusion**

Despite the transportation revenue increases passed in 2013, Maryland’s ability to fund its transportation capital program falls well short of identified needs. This makes it important that the projects that are funded yield the greatest benefit possible. Developing a data-driven, cost-benefit approach to project selection would help ensure that outcome. **The committees may wish to consider legislation modifying the project selection process to give greater emphasis on economic outcomes. The Secretary should comment on how the greater emphasis on economic outcomes could be incorporated in development of the CTP.**

## ***Recommended Actions***

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1. Add the following language:

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

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

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

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

**Explanation:** This annual budget bill language requires the department to notify the budget committees of proposed changes to the transportation capital program that will add a new project that was not in the fiscal 2016 through 2021 *Consolidated Transportation Program* (CTP) or will increase a total project’s cost by more than 10%, or \$1 million, due to a change in scope. Reports are to be submitted with the draft and final versions of the CTP, with each using the 2016 session CTP as the basis for comparison. In addition, notification is required as needed throughout the budget year, if certain changes to projects are made.

*J00 – MDOT – Fiscal 2017 Budget Overview*

<b>Information Request</b>	<b>Authors</b>	<b>Due Date</b>
Capital budget changes from one CTP version to the next	Maryland Department of Transportation	With draft CTP With final CTP
Capital budget changes throughout the year	Maryland Department of Transportation	45 days prior to the expenditure of funds or seeking Board of Public Works approval

2. Add the following language:

The Maryland Department of Transportation (MDOT) may not expend funds on any job or position of employment approved in this budget in excess of x,xxx.x positions and xx.x contractual full-time equivalents paid through special payments payroll (defined as the quotient of the sum of the hours worked by all such employees in the fiscal year divided by 2,080 hours) of the total authorized amount established in the budget for MDOT at any one time during fiscal 2017. The level of contractual full-time equivalents may be exceeded only if MDOT notifies the budget committees of the need and justification for additional contractual personnel due to:

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

The Secretary shall use the authority under Sections 2-101 and 2-102 of the Transportation Article to implement this provision. However, any authorized job or position to be filled above the regular position ceiling approved by the Board of Public Works shall count against the Rule of xx imposed by the General Assembly. The establishment of new jobs or positions of employment not authorized in the fiscal 2017 budget shall be subject to Section 7-236 of the State Finance and Procurement Article and the Rule of xx.

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

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Need for additional regular or contractual positions	MDOT	As needed

3. Adopt the following narrative:

**Truth in Forecasting:** The committees are concerned that the 2.99% average annual increase in departmental operating expenses that the Maryland Department of Transportation (MDOT) used in its fiscal 2016 through 2021 Transportation Trust Fund (TTF) forecast understates the amount of operating expenses likely to be incurred over the forecast period and, as a consequent, leads to an overestimate of the level of funding that will be available during the forecast period to support the capital program. The committees note that in past 24 years that the 5-year average annual increase in departmental operating expenses has only dipped three times below 3.00% and those instances covered the years of the Great Recession. It is therefore the intent of the committees that the out-year estimates of departmental operating expenses that MDOT incorporates in TTF forecasts be inflated, at a minimum, by a rate equal to the 5-year average annual increase in operating expenses experienced during the period ending with the most recently completed fiscal year.