

J00J00
Maryland Transportation Authority
Maryland Department of Transportation

Operating Budget Data

(\$ in Thousands)

	<u>FY 16</u> <u>Actual</u>	<u>FY 17</u> <u>Working</u>	<u>FY 18</u> <u>Allowance</u>	<u>FY 17-18</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Nonbudgeted Fund	\$404,472	\$442,491	\$443,244	\$754	0.2%
Adjusted Nonbudgeted Fund	\$404,472	\$442,491	\$443,244	\$754	0.2%
Adjusted Grand Total	\$404,472	\$442,491	\$443,244	\$754	0.2%

Note: Includes targeted reversions, deficiencies, and contingent reductions.

- The fiscal 2018 budget increases by \$753,656, or 0.2%, with increases in personnel offset by decreases in debt service costs.

PAYGO Capital Budget Data

(\$ in Thousands)

	<u>Fiscal 2016</u> <u>Actual</u>	<u>Fiscal 2017</u>		<u>Fiscal 2018</u> <u>Allowance</u>
		<u>Legislative</u>	<u>Working</u>	
Nonbudgeted	\$243,570	\$363,520	\$331,940	\$409,824
Total	\$243,570	\$363,520	\$331,940	\$409,824

- The fiscal 2017 working is \$31.6 million less than the legislative appropriation. A decline of \$55.4 million in system preservation minor projects is partially offset by increases elsewhere, such as an \$18.3 million addition for the rehabilitation of vent fans at the Fort McHenry Tunnel.

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

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- The fiscal 2018 allowance increases by \$77.9 million compared to the fiscal 2017 working appropriation. System preservation minor projects increase by \$34.2 million, the replacement of the toll collection and operation system adds \$28.5 million, and Fort McHenry Tunnel improvements add \$25.6 million.

Operating and PAYGO Personnel Data

	<u>FY 16</u> <u>Actual</u>	<u>FY 17</u> <u>Working</u>	<u>FY 18</u> <u>Allowance</u>	<u>FY 17-18</u> <u>Change</u>
Regular Operating Budget Positions	1,761.00	1,748.00	1,748.00	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	1,761.00	1,748.00	1,748.00	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	1,761.00	1,748.00	1,748.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	94.0	5.4%
Positions and Percentage Vacant as of 12/31/16	197.0	11.3%

- Personnel remains flat in the fiscal 2018 budget at 1,748 positions.
- The budgeted turnover rate is 5.4%, requiring 94 vacant positions. As of December 31, 2016, the Maryland Transportation Authority (MDTA) had 197 vacant positions, for a vacancy rate of 11.3%.

Analysis in Brief

Major Trends

Toll Revenue Beats Expectations: In fiscal 2016, traffic totaled 157.3 million vehicles, an increase of 9.4%. Toll revenue on legacy facilities in fiscal 2016 totaled \$615.8 million, a 2.5% decrease from fiscal 2015, a result of the toll reduction that took effect at the beginning of fiscal 2016. In fiscal 2017, revenues are estimated to total \$622.7 million, an increase of \$31.1 million, or 1.9%.

E-ZPass Use Continues to Increase: The use of E-ZPass continues to increase at MDTA facilities. In fiscal 2016, MDTA collected 75% of tolls with E-ZPass and has set a goal of collecting 79% of tolls with E-ZPass.

Issues

Nice Bridge Replacement Added to Construction Program: The 2017 to 2022 *Consolidated Transportation Program* includes the construction of a replacement for the Nice Bridge, a \$768.6 million project moved from the development and evaluation program to the construction program. MDTA's plan to replace the bridge, which was originally opened to traffic in 1940, calls for construction to begin in 2020. The bulk of the project costs will come in fiscal 2020 through 2023. MDTA projects that the replacement bridge will be financed with a combination of a Transportation Infrastructure Finance and Innovation Act loan, traditional MDTA bonds, and pay-as-you-go cash.

Actual Toll Revenues Higher Than Estimated: Actual fiscal 2016 toll revenues, as well as projected future revenues, are significantly higher than what was projected by MDTA in its January 2016 *Financial Forecast*. From fiscal 2016 through 2021, MDTA's actual and projected revenues on legacy facilities is anticipated to be \$199.3 million higher than was projected one year ago due to higher than expected traffic levels. When all facilities are included, actual fiscal 2016 revenue totaled \$63.7 million more than was anticipated in MDTA's July 2015 *Financial Forecast*.

Operating Budget Recommended Actions

1. Nonbudgeted.

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 (US 40), the John F. Kennedy Memorial Highway (I-95), and the 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).

Membership of the MDTA 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 the Maryland Port Administration (MPA) to provide law enforcement services at MPA-owned facilities at the Port of Baltimore.

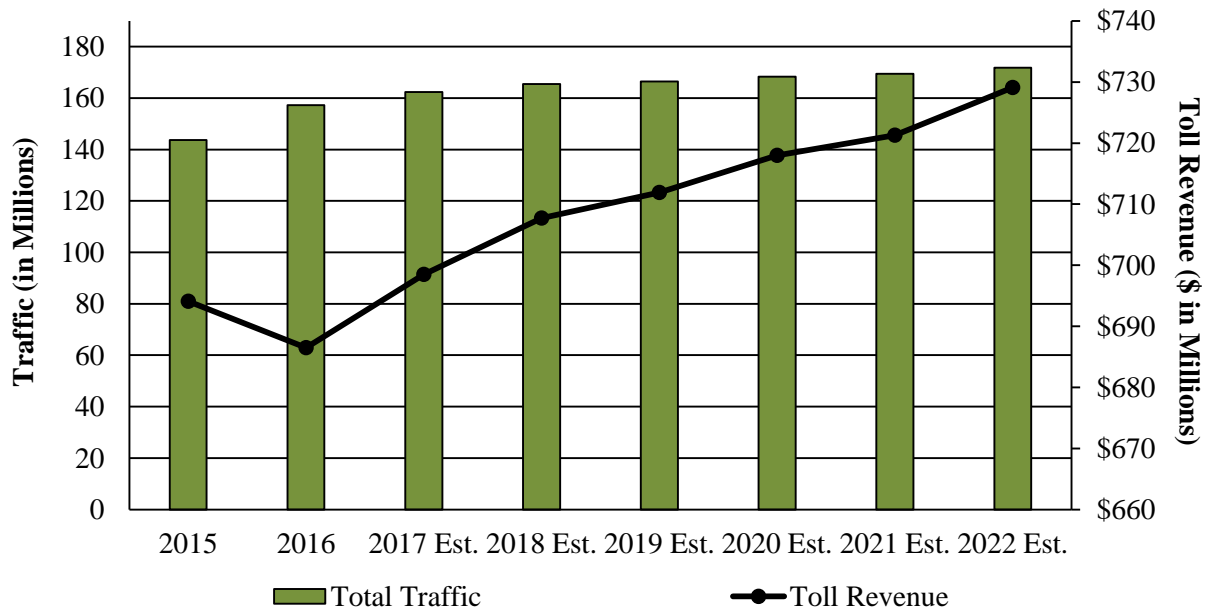
MDTA's goal is to be a financial steward of its dedicated revenue sources that are used to provide vital transportation links that move people and commerce in Maryland.

Performance Analysis: Managing for Results

1. Toll Revenue Beats Expectations

The first goal of MDTA 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 facilities from fiscal 2015 through 2022. In fiscal 2016, traffic totaled 157.3 million vehicles, an increase of 9.4%. Toll revenue in fiscal 2016 totaled \$686.5 million, a 1.1% decrease from fiscal 2015, a result of the toll reduction that took effect at the beginning of fiscal 2016. In fiscal 2017, toll revenues are estimated to total \$698.5 million, an increase of 1.7%. The decrease in toll revenue in fiscal 2016 is much lower than anticipated when toll levels were reduced; further analysis of toll revenue attainment is included in the Issues section of this analysis.

Exhibit 1
Annual Tolled Traffic and Toll Revenue
Fiscal 2015-2022 Est.



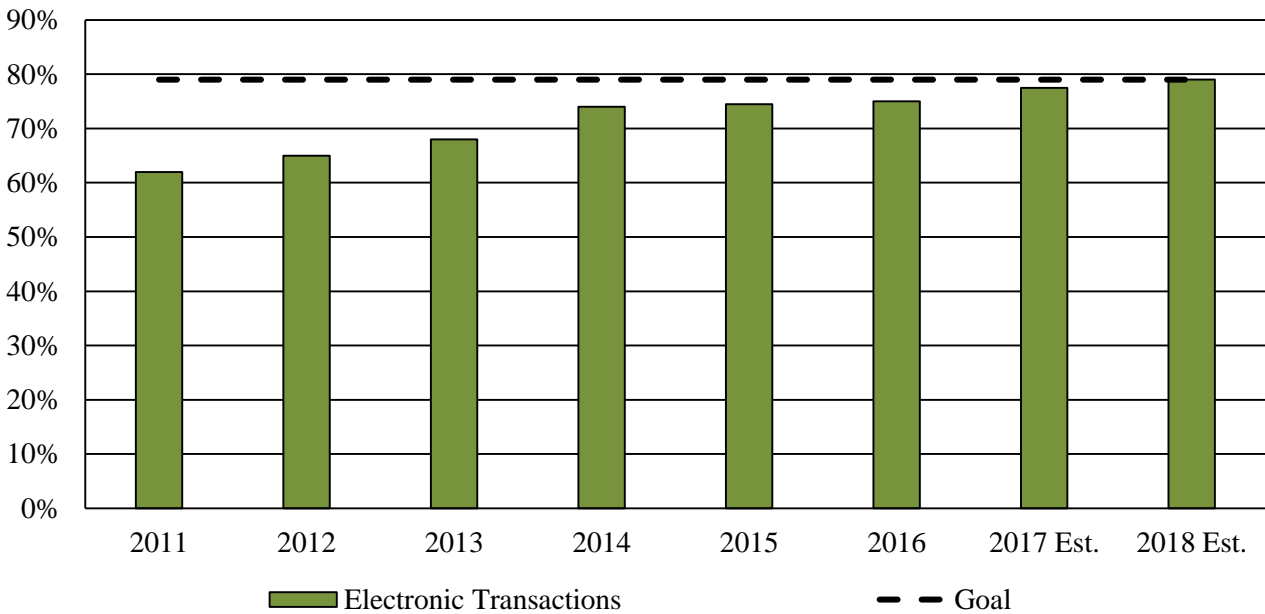
Source: Maryland Transportation Authority

2. E-ZPass Use Continues to Increase

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. E-ZPass use continues to increase. **Exhibit 2** shows the percentage of tolls collected with E-ZPass at all of MDTA’s toll facilities. In fiscal 2016, MDTA collected 75% of tolls with E-ZPass and has set a goal of collecting 79% of tolls with E-ZPass.

Exhibit 2
Percentage of Tolls Collected Electronically
Fiscal 2011-2018 Est.



Source: Department of Budget and Management

Fiscal 2016 Closeout

Fiscal 2016 actual spending at MDTA totaled \$404.5 million, or \$202.3 million less than the legislative appropriation of \$606.8 million.

The reductions in spending included:

- foregoing a planned \$193.6 million revenue bond defeasance; and
- \$15.7 million for various cost containment efforts, including a reduction of 28.5 positions and reductions in spending on contractual services, marketing, and equipment.

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The following increases partially offset the reductions:

- \$2.5 million for employee step increases;
- \$2.4 million for costs related to toll collection, including increased credit card fees and mailing costs; and
- \$2.1 million for various items, such as information technology services, snow removal, and indirect cost recovery for Maryland State Police law enforcement services.

Proposed Budget

As shown in **Exhibit 3**, the fiscal 2018 allowance increases by \$753,656, or 0.2%, compared to the current year working allowance.

Personnel costs increase by \$2.8 million in the fiscal 2018 allowance compared to the fiscal 2017 working appropriation. Increases in salary (\$1.6 million), pension contributions (\$1.3 million), workers compensation assessment (\$0.7 million), and turnover adjustments (\$0.7 million) are offset by a \$1.8 million decrease in health insurance costs. Other changes increase the personnel allowance by \$0.3 million.

The increases in personnel costs are partially offset by decreases elsewhere in the allowance, with the largest decline including a \$2.5 million reduction in debt service costs, which is mostly due to planned refinancing of debt in fiscal 2018, which is discussed elsewhere in this analysis.

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

How Much It Grows:	Nonbudgeted Fund	Total
Fiscal 2016 Actual	\$404,472	\$404,472
Fiscal 2017 Working Appropriation	442,491	442,491
Fiscal 2018 Allowance	<u>443,244</u>	<u>443,244</u>
Fiscal 2017-2018 Amount Change	\$754	\$754
Fiscal 2017-2018 Percent Change	0.2%	0.2%

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Where It Goes:

Personnel Expenses

Increments and other compensation	\$1,600
Pension contributions	1,300
Workers' compensation premium assessment.....	700
Turnover adjustments	700
Social Security contributions.....	200
Overtime costs.....	200
Other personnel changes.....	-104
Employee and retiree health insurance.....	-1,800

Other Changes

Road repairs and maintenance.....	1,300
E-ZPass service center.....	1,000
Management studies, including Bay Bridge environmental study	600
Additional environmental engineering services	600
Replacement and additional equipment.....	500
Insurance	200
Telecommunications and cell phones.....	200
Vehicle expense.....	-700
Other contractual services	-800
Information technology systems analysis and services	-2,000
Debt service.....	-2,500
Supplies	-100
Travel.....	-100
Department of Budget and Management statewide objects	-300
Other changes	58

Total **\$754**

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

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

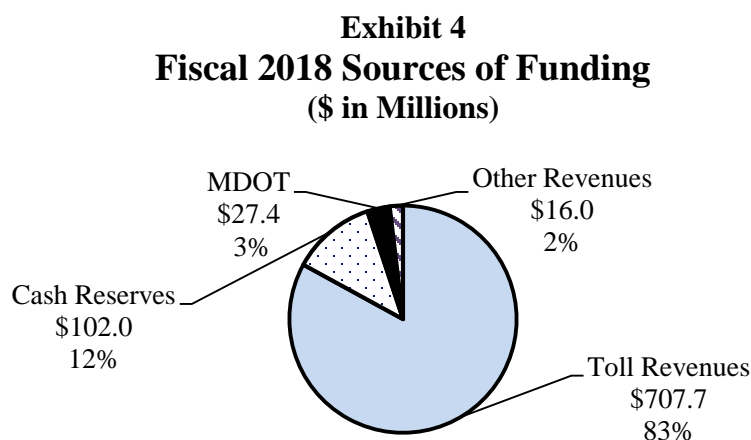
a trust agreement. MDTA revenues come primarily from tolls as well as from concession income from travel plazas that it owns along I-95, investment income, and payments from the Maryland Department of Transportation (MDOT). MDOT payments comprise reimbursement for services provided at BWI Marshall Airport and the Port of Baltimore.

To support its capital program, MDTA may issue toll revenue bonds with a maturity up to 40 years. Typically, MDTA issues its toll revenue bonds with a 30- to 33-year maturity. Chapters 471 and 472 of 2005 established a finance plan for the ICC that included MDTA revenue bonds and a number of alternative funding sources specific to the ICC. These funding sources include Grant Anticipation Revenue Vehicle (GARVEE) bonds, federal funds, a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan, transfers from the TTF, and funds from the State’s General Fund or proceeds from general obligation 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, the MDTA develops and maintains a six-year financial forecast. Section 4-210 of the Transportation Article requires the 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 2018 operating and capital budgets. As is typical, the primary source of fiscal 2018 funding is toll revenues, totaling \$707.7 million. MDTA will not issue revenue bonds in fiscal 2018 and will use \$102.0 million in cash reserves to make up the majority of the rest of its funding needs.

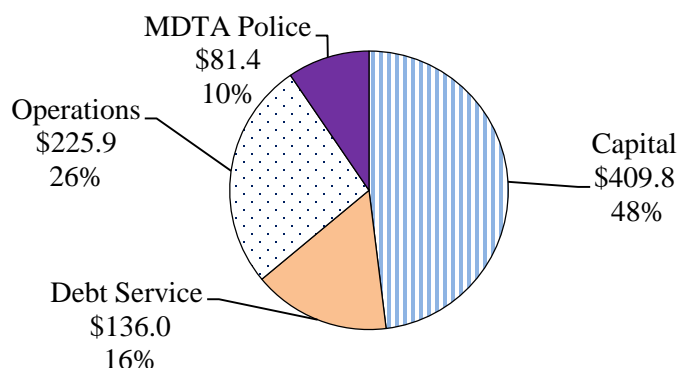


MDOT: Maryland Department of Transportation

Source: Maryland Transportation Authority, January 2017 *Financial Forecast*

Exhibit 5 provides a breakdown of fiscal 2018 spending by category. The capital program accounts for about 48% of all spending in fiscal 2018. The operating budget, including the operating budget for MDTA’s police but excluding debt service, accounts for about 36% of all spending. Debt service payments account for the remaining 16%.

Exhibit 5
Fiscal 2018 Uses of Funding
(\$ in Millions)



MDTA: Maryland Transportation Authority

Source: Maryland Transportation Authority, January 2017 *Financial Forecast*; Governor’s Budget Books Fiscal 2018

Toll Revenues

Toll revenues are the primary revenue source for MDTA. The current forecast does not foresee toll increases in the forecast period. Total toll revenue is expected to increase from \$686.5 million in fiscal 2016 to \$698.5.1 million in fiscal 2017, an increase of \$12.0 million. Toll revenues are expected to grow to \$729.1 million in fiscal 2022. Traffic growth is estimated to grow at an average annual rate of approximately 1.0% per year from fiscal 2017 through 2022.

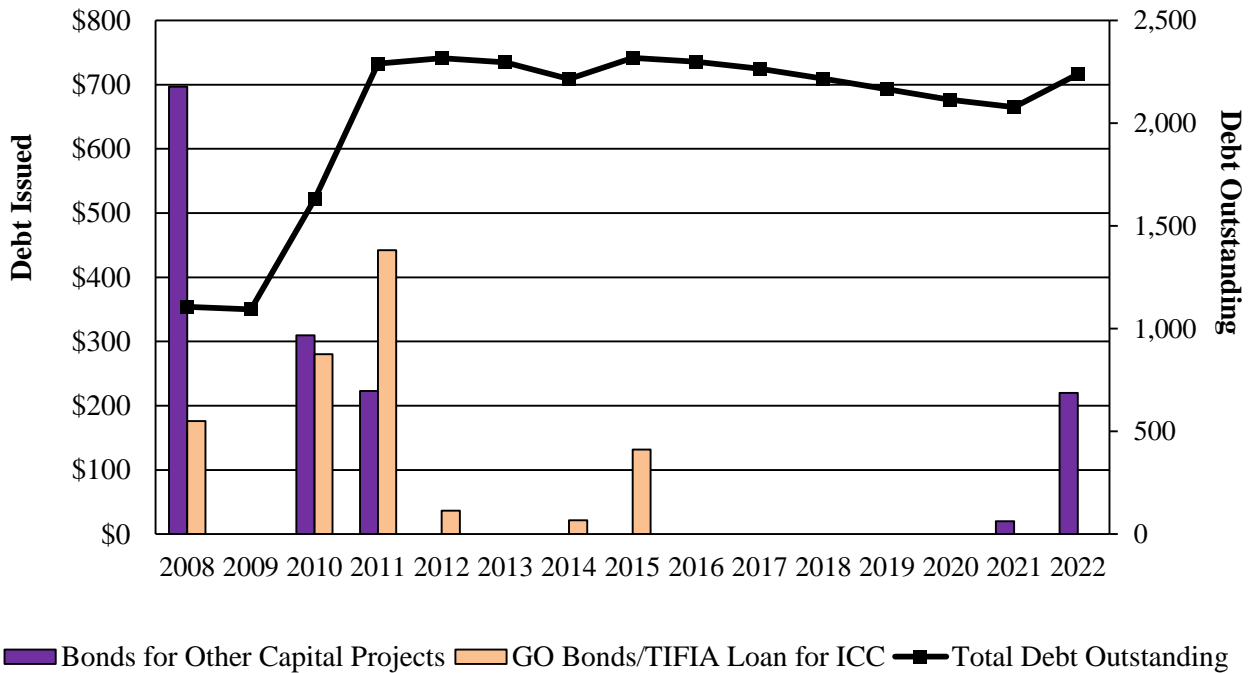
Debt Service

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 following 30 years. Debt service increased from a low of \$25.0 million in fiscal 2007 to annual debt service of \$136.0 million in fiscal 2018. MDTA plans to reduce debt service costs to \$129.9 million by fiscal 2019 by refinancing outstanding debt. Debt service for existing debt remains at about \$140.0 million annually until fiscal 2041.

Revenue Bonds

For the first time since drawing down \$132 million from the TIFIA loan in fiscal 2015, MDTA plans to take on debt in fiscal 2021 and 2022. The new debt is tied to the construction of the replacement for the Nice Bridge, discussed later in this analysis. **Exhibit 6** shows the total debt outstanding in each year from fiscal 2008 through 2022 and debt issued or TIFIA loan draws. 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 \$2.325 billion, which was implemented with Chapter 489 of 2015. That limit is in effect through fiscal 2020, after which it returns to \$3.0 billion.

Exhibit 6
Bond Sales and Debt Outstanding
Fiscal 2008-2022
(\$ in Millions)



GO: general obligation
 ICC: InterCounty Connector
 TIFIA: Transportation Infrastructure Finance and Innovation Act

Source: Maryland Transportation Authority’s January 2018 *Financial Forecast*

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 \$3.0 billion at the end of any fiscal year (or \$2.325 billion until June 30, 2020, as noted prior). 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 120.0% 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 2018 rate covenant compliance ratio is projected to be 2.62, 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 2018, the debt coverage ratio is 3.26. While the debt service coverage ratio is met throughout the forecast period, debt service as a percent of revenues totals 17.7% in fiscal 2022. By way of comparison, the State's debt limit is that debt service should not exceed 8.0% of revenues. With debt service accounting for so much of available revenues, less cash is available for capital expenditures in the future.
- Chapter 489 put into law MDTA's previously stated administrative policy of maintaining an unencumbered cash balance of \$350.0 million through June 30, 2020. 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. In fiscal 2018, operating expenses including debt service total \$443.2 million, and the unencumbered cash balance is expected to be \$657.7 million, or about 18 months of operating expenses. Minimum cash balance requirements are met throughout the forecast period, although in fiscal 2021, the unencumbered cash balance is expected to drop to \$352.4 million, which amounts to less than 9 months of operating expenses.

Conduit Financing

In addition to its own revenue bonds, MDTA also issues debt on behalf of other entities, called conduit financing. The following projects were financed by MDTA using conduit financing:

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- 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 2018, debt service on the conduit issuances will total \$134.9 million with debt outstanding of \$561.3 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 2016-2018
(\$ in Thousands)

	<u>2016</u>	<u>2017²</u>	<u>2018²</u>
<u>Debt Service Payments</u>			
2002 Series – BWI Marshall Airport Rental Car Facility	\$8,979	\$8,971	\$8,966
2005 Series – Calvert Street Parking Garage	1,132	0	0
2007 and 2008 Series – GARVEE Bonds	87,450	87,452	87,457
2012 A&B Series – BWI Marshall Airport Refunding Elm Rd	19,798	18,558	18,230
2012 A Series – Various BWI Marshall Airport Projects	4,044	4,008	3,970
2012 B Series – Various BWI Marshall Airport Projects	7,969	7,969	7,968
2012 C Series – Various BWI Marshall Airport Projects ¹	46	1,053	2,170
2014 Series – WMATA Refunding Parking Garages	2,708	2,442	2,445
2014 Series – Various BWI Marshall Airport Projects	2,957	2,956	2,953
2015 Series – Calvert Street Parking Garage Refunding	191	472	697
Total Debt Service Payments	\$135,274	\$133,881	\$134,856

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	<u>2016</u>	<u>2017⁽²⁾</u>	<u>2018⁽²⁾</u>
<u>Debt Outstanding</u>			
2002 Series – BWI Marshall Airport Rental Car Facility	\$90,900	\$87,830	\$84,560
2005 Series – Calvert Street Parking Garage	0	0	0
2007 and 2008 Series – GARVEE Bonds	279,780	206,590	129,680
2012 A&B Series – BWI Marshall Airport Refunding Elm Rd	148,055	136,900	125,515
2012 A Series – Various BWI Marshall Airport Projects	43,500	41,535	39,510
2012 B Series – Various BWI Marshall Airport Projects	75,360	69,510	63,485
2012 C Series – Various BWI Marshall Airport Projects	43,400	43,400	43,400
2014 Series – WMATA Refunding Parking Garages	25,440	23,905	22,320
2014 Series – Various BWI Marshall Airport Projects	37,985	36,535	35,030
2015 Series – Calvert Street Parking Garage Refunding	18,011	18,011	17,786
Total Debt Outstanding	\$762,431	\$664,216	\$561,286

BWI Marshall Airport: Baltimore/Washington International Thurgood Marshall Airport

GARVEE: Grant Anticipation Revenue Vehicle

WMATA: Washington Metropolitan Area Transit Authority

¹ 2012 Series C bonds are variable rate.

² The fiscal 2016 and 2017 debt service payments are estimates only for the variable rate passenger facility charge revenue bonds, series 2012C.

Source: Maryland Transportation Authority

Financial Outlook: Stable Short-term, With Long-term Questions

After completing the ICC and the I-95 ETLs, two massive and costly projects financed with large amounts of debt, MDTA shifted to funding its capital program on a pay-as-you-go (PAYGO) basis and paying off debt in order to create capacity for long-range needs. The agency had planned on an early debt repayment of \$193.6 million, or about 9.1%, of its outstanding debt, in fiscal 2016. However, the toll reductions of 2015 signaled a shift from prioritizing debt reduction to prioritizing revenue reduction. While toll revenue overattainment has created a stable financial outlook in the current forecast period and allows for the addition of construction of the Nice Bridge replacement to the capital program, MDTA will need to make long-term changes in order to remain financially stable beyond the forecast period.

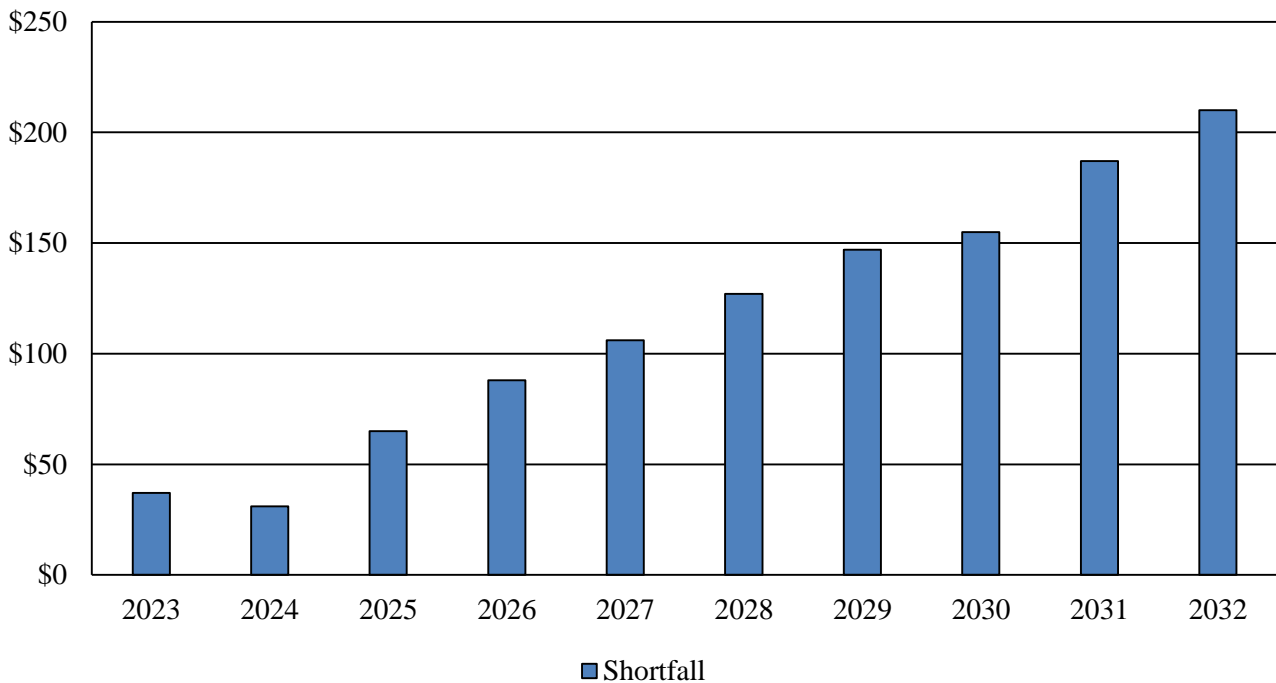
A Department of Legislative Services (DLS) model estimates that beginning in fiscal 2023, MDTA will face a small shortfall, based on the following assumptions:

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- 4.5% annual operating expense increase;
- 1.0% annual toll revenue increase; and
- a capital program (excluding the Nice Bridge) of \$298.4 million (the fiscal 2015 to 2022 average) in fiscal 2023, increasing by 2.75% annually.

As shown in **Exhibit 8**, MDTA will face a \$37.0 million shortfall in fiscal 2023, increasing to \$210.0 million in fiscal 2032. MDTA has several levers to pull to deal with a shortfall, including capital program reductions, increased debt issuance, toll increases, or some combination of the three.

Exhibit 8
MDTA Post Forecast Shortfall
Fiscal 2023-2032
(\$ in Millions)



MDTA: Maryland Transportation Authority

Source: Department of Legislative Services

The fiscal 2021 capital program, excluding the Nice Bridge, is \$219.7 million, or \$105.2 million lower than the average of the previous six years. While the Nice Bridge represents a significant

investment for MDTA, other system preservation projects on the rest of the system will continue to exert pressure on the capital program. After the Nice Bridge, the next oldest MDTA facility is the Hatem Bridge across the Susquehanna River. Additionally, the governor has announced long-term plans for a span across the Chesapeake Bay. A project of that magnitude would require significant long-term planning.

In order to maintain MDTA’s financial stability, DLS recommends the addition of provisions to the Budget Reconciliation and Financing Act of 2017. DLS recommends setting minimums for various financial measures, as shown in Exhibit 9.

Exhibit 9
DLS Recommended Financial Measures
Fiscal 2018-2022
(\$ in Millions)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Unencumbered Cash	\$625	\$501	\$441	\$350	\$350
Debt Service Coverage Ratio	3.16	3.25	3.2	3.16	3.02
Rate Covenant Compliance Ratio	2.52	2.59	2.55	2.44	2.35

DLS: Department of Legislative Services

Source: Department of Legislative Services

PAYGO Capital Program

Program Description

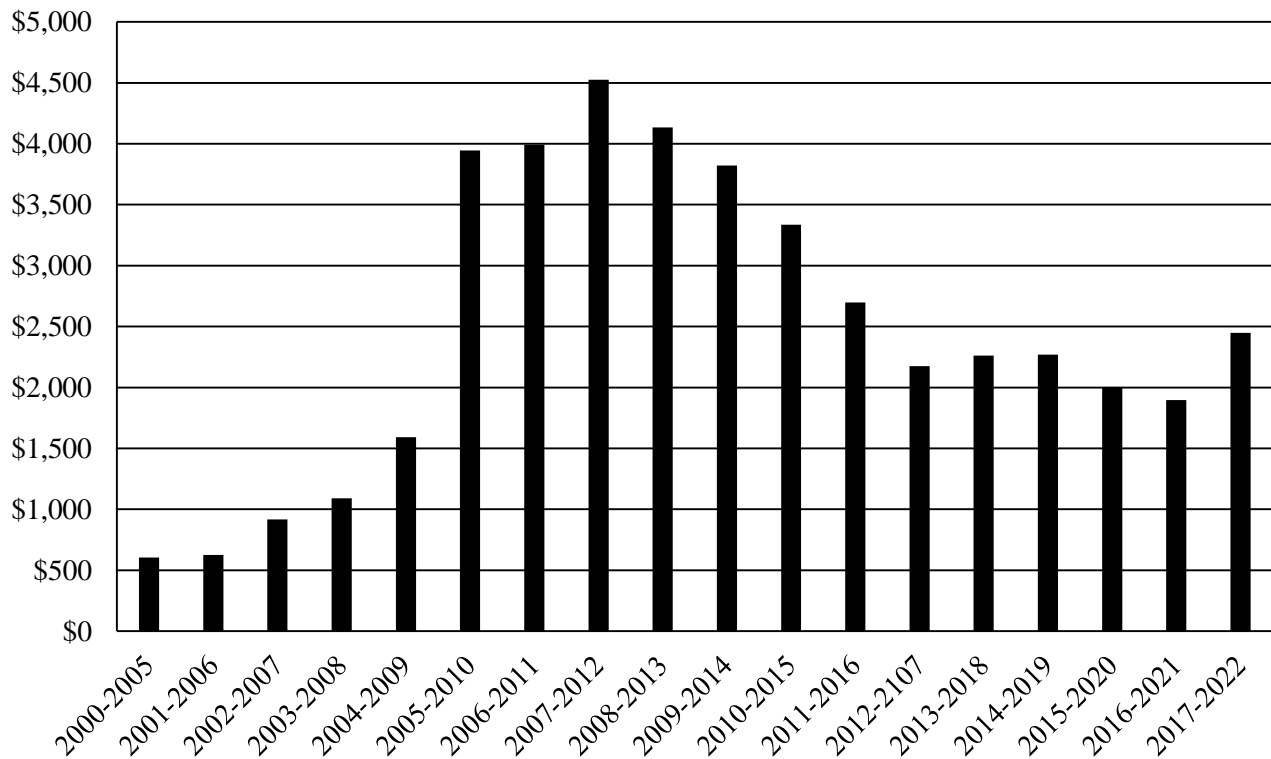
MDTA’s capital program involves the construction and maintenance of revenue-generating transportation facilities throughout the State. Currently, MDTA is not building any new facilities, and its capital program is focused on system preservation projects like the Nice Bridge replacement and the Canton Viaduct replacement.

Fiscal 2017 to 2022 Consolidated Transportation Program

The six-year capital program totals \$2.4 billion, an increase of \$551.6 million compared to the fiscal 2016 to 2021 *Consolidated Transportation Program (CTP)*, primarily due to the addition of funding for the construction of the Nice Bridge replacement.

Exhibit 10 shows the size of MDTA’s six-year capital program from fiscal 2000 through the present. Prior to the construction of the I-95 ETLs and ICC, MDTA’s had historically been around \$500 million. Construction of the two mega-projects ballooned the CTP to a peak of \$4.5 billion in the fiscal 2007 to 2012 CTP. The current program is the largest since the fiscal 2011 to 2016 CTP.

Exhibit 10
Size of the Six-year Consolidated Transportation Program
Fiscal 2000-2022
(\$ in Millions)



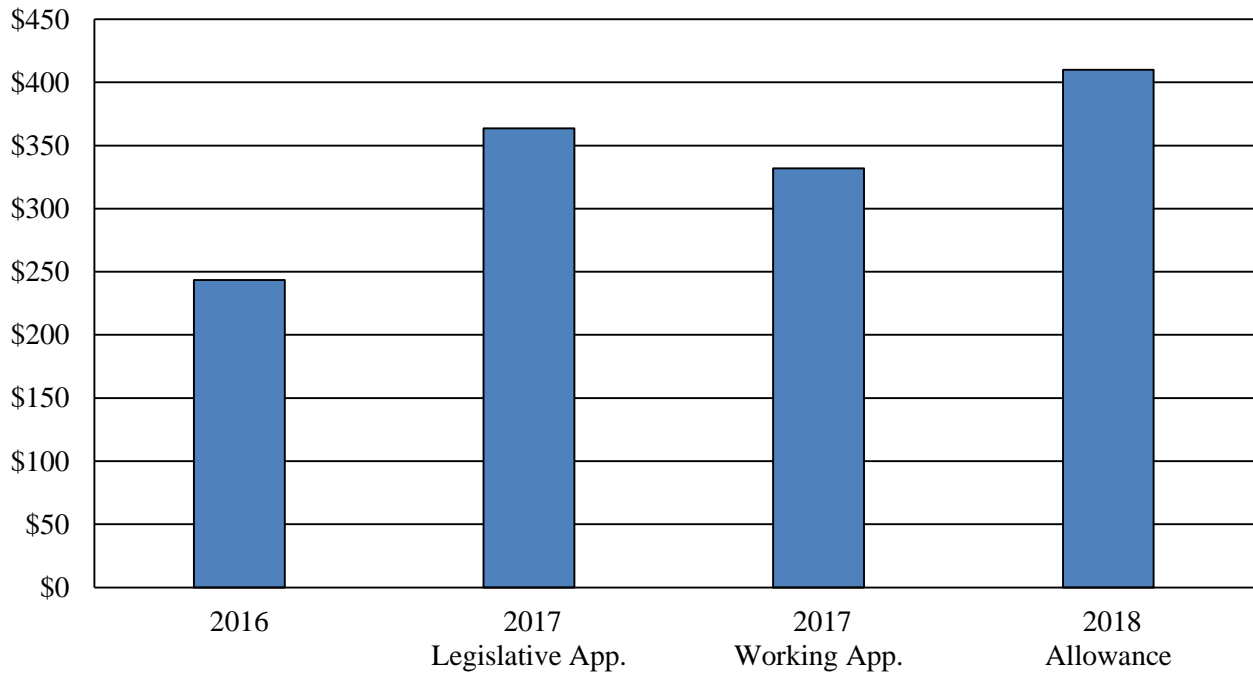
Source: Maryland Department of Transportation, 2017-2022 *Consolidated Transportation Program*

Fiscal 2017 and 2018 Cash Flow Analysis

The fiscal 2017 working appropriation is \$31.6 million less than the legislative appropriation, as shown in **Exhibit 11**. A decline of \$55.4 million in system preservation minor projects is partially offset by increases elsewhere, such as an \$18.3 million addition for the rehabilitation of vent fans at the Fort McHenry Tunnel.

The fiscal 2018 allowance increases by \$77.9 million compared to the fiscal 2017 working appropriation. System preservation minor projects increase by \$34.2 million, the replacement of the toll collection and operation system adds \$28.5 million, and Fort McHenry Tunnel improvements add \$25.6 million.

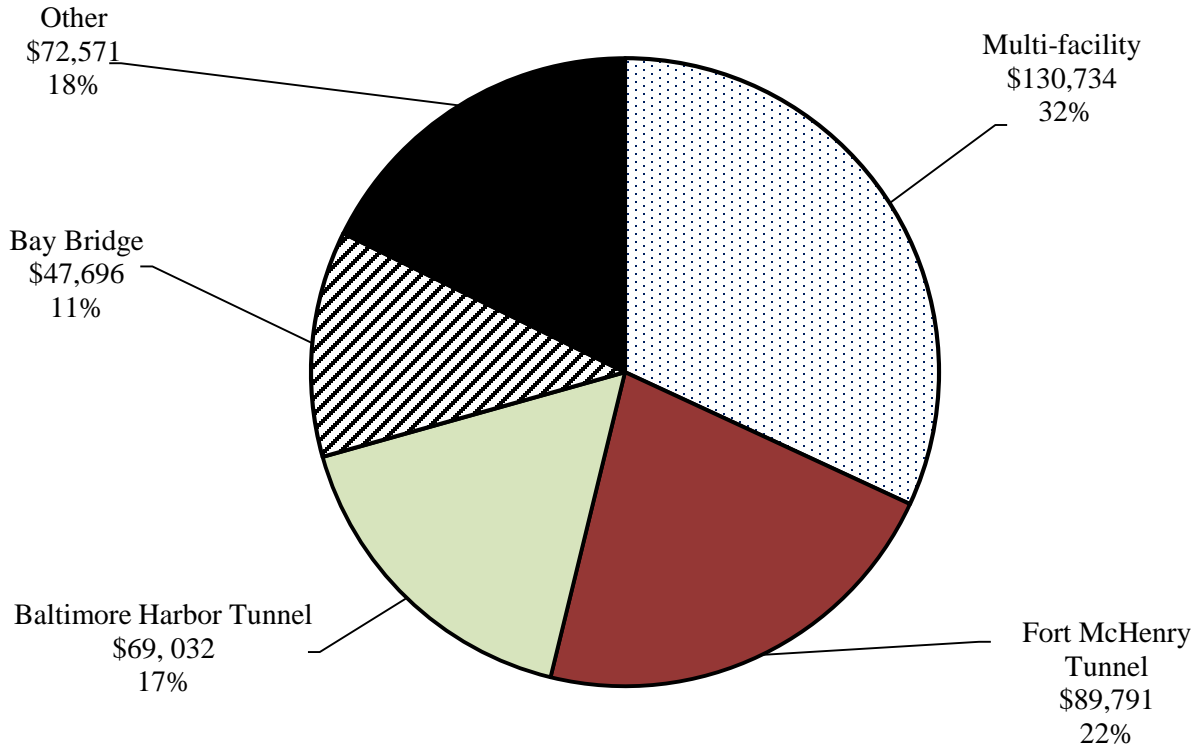
Exhibit 11
Cash Flow Changes
Fiscal 2016-2018
(\$ in Millions)



Source: Maryland Department of Transportation, 2017-2022 *Consolidated Transportation Program*

Exhibit 12 shows capital spending by facility in fiscal 2018. The largest share of spending is on multi-facility projects, such as the authoritywide replacement of the toll collection and operating system. Projects at the Fort McHenry Tunnel and Baltimore Harbor Tunnel account for 38.8% of planned fiscal 2018 capital spending.

Exhibit 12
Capital Expenditures by Facility
Fiscal 2018
(\$ in Thousands)



Bay Bridge: William Preston Lane, Jr. Memorial Bridge

Source: Department of Budget and Management

Projects in the Construction Program

Exhibit 13 shows the projects included in the 2017 to 2022 CTP. The largest project is the replacement of the Nice Bridge, which is discussed in the Issues section of this analysis. The replacement of the Canton Viaduct, which is the raised portion of I-895 from the Baltimore Harbor Tunnel to Holabird Avenue, accounts for \$254.4 million of the six-year program; together, these two projects account for more than one-third of the CTP.

**Exhibit 13
MDTA Capital Allowance
Fiscal 2018
(\$ in Thousands)**

<u>Facility</u>	<u>Project Description</u>	<u>2018</u>	<u>Total Cost</u>	<u>Six-year Total</u>
Nice Bridge	Replace Nice Bridge	\$11,925	\$768,600	\$590,363
Baltimore Harbor Tunnel	Replace Canton Viaduct	25,425	273,097	254,397
Baltimore Harbor Tunnel	Replace Vent Fans	10,366	70,351	67,811
Authoritywide	Replace Electronic Toll Collection and Operating System	29,506	78,500	64,663
Baltimore Harbor Tunnel	Replace Deck and Superstructure of Bridge over Patapsco Flats	19,600	61,273	58,759
Fort McHenry Tunnel	Moravia Road to Tunnel Improvements	26,753	66,184	49,164
Fort McHenry Tunnel	Replace Tunnel Lighting Systems	18,411	40,075	38,493
Bay Bridge	Rehabilitate Suspension Spans Westbound Bridge	15,380	38,039	37,098
JFK Memorial Highway	I-95 ETL Construction	0	1,097,719	36,492
Bay Bridge	Structural Repairs and Miscellaneous Modifications	11,089	50,836	36,094
Fort McHenry Tunnel	Rehabilitate Vent Fans	8,989	36,394	35,483
InterCounty Connector (ICC)	ICC Construction	15,608	2,386,588	35,286
Fort McHenry Tunnel	Port Covington I-95 Access	11,000	33,400	33,400
Bay Bridge	Clean and Paint Structural Steel Westbound Bridge	12,000	105,549	27,738
Baltimore Harbor Tunnel	Rehabilitate Various Bridges	10,300	28,997	25,376
Key Bridge	Rehabilitate Substructure and Superstructure of Various Bridges	8,000	18,056	17,191
JFK Memorial Highway	Repair Substructure and Superstructure	8,000	18,398	16,336
Fort McHenry Tunnel	Deck Sealing and Miscellaneous Rehabilitation	12,372	15,622	15,464

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<u>Facility</u>	<u>Project Description</u>	<u>2018</u>	<u>Total Cost</u>	<u>Six-year Total</u>
JFK, Hatem	Remove, Replace, and Upgrade Sign Structures	7,206	15,055	14,465
Baltimore Harbor Tunnel	Rehab Tunnel Standpipe and Sump Pump Systems	0	13,092	12,738
Point Breeze	Renovate Building 2330	8,495	13,287	12,495
Fort McHenry Tunnel	Replace Weathering Steel High Mast Light Poles	0	17,267	9,428
Bay Bridge	Rehabilitate Eastbound Bridge Deck	4,462	10,900	8,170
Fort McHenry Tunnel	Rehab Decks, Other Misc. Repairs	0	105,480	6,752
JFK Memorial Highway	Resurfacing	0	31,564	6,312
Bay Bridge	Tier I NEPA Study	1,000	5,000	5,000
JFK, Bay, Hatem Bridge	Upgrade Truck Weigh Facilities	0	15,125	2,484
JFK	Clean and Zone Paint the Tydings Bridge	0	11,210	1,979
Fort McHenry Tunnel	Rehabilitate Concrete Tunnel Deck	0	36,486	1,762
Bay Bridge	Cable Rewrapping and Dehumidification	0	61,946	1,714
Key Bridge	Clean and Paint Approach Spans on Bridges Over Curtis Creek	0	6,140	544
Authoritywide	Install Security Systems and Video Surveillance at Major Bridges	0	12,240	152
Nice Bridge	Clean and Paint Structural Steel and Miscellaneous Structural Repairs	0	13,186	88
<i>Subtotal – Projects</i>		<i>\$275,887</i>	<i>\$5,555,656</i>	<i>\$1,523,691</i>
Programs				
Authoritywide	System Preservation Minor Projects	\$134,900	n/a	\$928,800
<i>Subtotal – Programs</i>		<i>\$134,900</i>	<i>\$0</i>	<i>\$928,800</i>
Total – Projects and Programs		\$410,787	\$5,555,656	\$2,452,491

Bay Bridge: William Preston Lane, Jr. Memorial Bridge
 Hatem Bridge: Thomas J. Hatem Memorial Bridge
 JFK Memorial Highway: John F. Kennedy Memorial Highway
 Key Bridge: Francis Scott Key Bridge

MDTA: Maryland Transportation Authority
 NEPA: National Environmental Policy Act
 Nice Bridge: Harry W. Nice Memorial Bridge
 PAYGO: pay-as-you-go

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

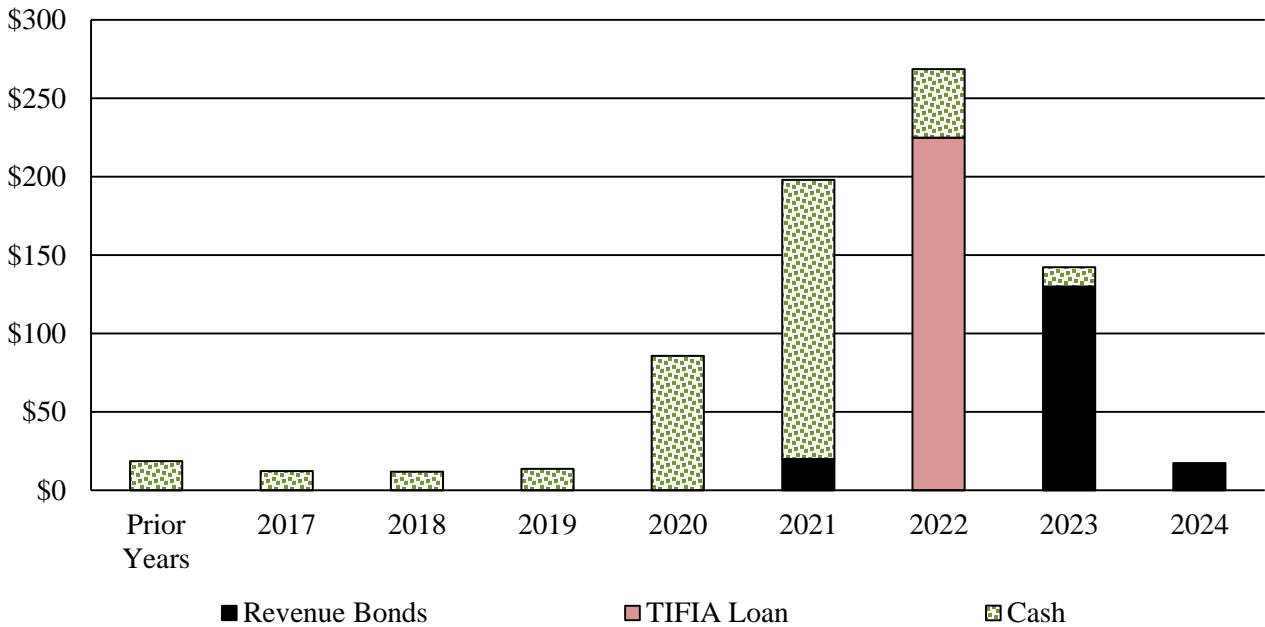
Source: Maryland Department of Transportation, 2017-2022 *Consolidated Transportation Program*

Issues

1. Nice Bridge Replacement Added to Construction Program

The 2017 to 2022 CTP includes the construction of a replacement for the Nice Bridge, a \$768.6 million project moved from the development and evaluation program to the construction program. It adds \$707 million in project costs to the CTP. MDTA’s plan to replace the bridge, which was originally opened to traffic in 1940, calls for construction to begin in 2020. The bulk of the project costs will come in fiscal 2020 through 2023, as shown in **Exhibit 14**. Some funds have already been expended for preliminary stages of the project.

Exhibit 14
Nice Bridge Replacement Financing Plan
Through Fiscal 2024
 (\$ in Millions)



TIFIA: Transportation Infrastructure Finance and Innovation Act

Source: Maryland Transportation Authority, January 2017 *Financial Forecast*

MDTA projects that the replacement bridge will be financed with a combination of TIFIA loans, traditional MDTA bonds, and PAYGO cash. MDTA also projects debt service savings realized by refinancing existing debt, which will improve its ability to finance the project. MDTA will also request

funding from the Virginia Department of Transportation (VDOT). There have been discussions with VDOT regarding a possible contribution to the project, but no commitments. Reflecting the uncertainty of a VDOT contribution, MDTA does not include any funding from VDOT in its *Financial Forecast*.

The agency anticipates reducing debt service costs by refinancing outstanding debt at lower rates. MDTA has several bonds with 10-year call dates in calendar 2017 and 2018, and MDTA will either refinance or do cash defeasances based on interest rates. (The financial forecast assumes refinancing.) Any differences in revenue attainment or debt service savings (positive or negative) would be offset in the financing plan for the Nice Bridge by issuing more or less debt.

There are several issues to be aware of regarding MDTA's plan for replacing the Nice Bridge.

- ***The Plan Could Change:*** First, as with any MDTA (or other transportation) project, announcement of a plan or even inclusion in the CTP does not ensure construction. Projects may be removed from the CTP at any time.
- ***Interest Rate Uncertainty:*** Second, the amount of savings from debt service costs due to refinancing are dependent on interest rates at the time of refinancing, which are unpredictable. Currently, interest rates are rising, and if they continue to do so, it makes it less likely that MDTA will be able to achieve its projected savings by refinancing existing debt. MDTA is assuming a 3.19% interest rate on refinancings.
- ***Toll Revenue Sustainability:*** Third, toll revenues may not maintain their higher than anticipated levels, leading to a larger amount of debt issuance.

Another issue to consider is how MDTA's plan interacts with SB 907, which was vetoed by the Governor after the 2016 session. The legislation would require a \$75 million annual contribution beginning in fiscal 2018 toward a fund dedicated to construction costs for a Nice Bridge replacement. The contributions in fiscal 2018 through 2020 would exceed the projected cash flow for those three years, but there would be no need to take on additional debt to maintain projected operating and capital expenditure levels, as MDTA anticipates having significant unencumbered cash balances in those years. In fiscal 2021 and beyond, construction spending would outpace the annual contribution requirement, making it moot.

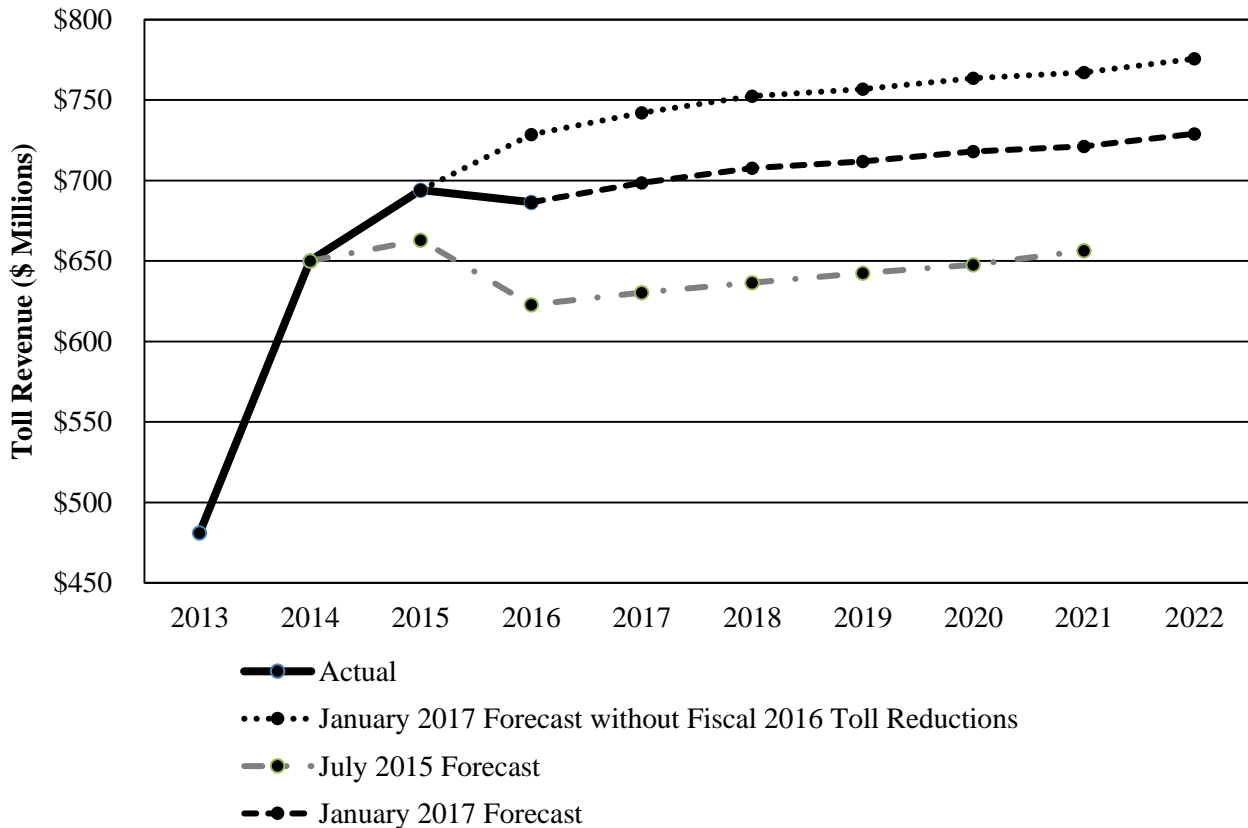
MDTA should comment on the uncertainties of the Nice Bridge financing plan, including the likelihood of a contribution from VDOT and the potential impact on the capital program if a contribution is not received.

2. Actual Toll Revenues Higher Than Estimated

The actual fiscal 2016 toll revenues, as well as projected future revenues, are significantly higher than what was projected by MDTA in its January 2016 *Financial Forecast*. From fiscal 2016 through 2021, MDTA's actual and projected revenues on legacy facilities is anticipated to be \$199.3 million higher than was projected one year ago due to higher than expected traffic levels. When all facilities are

included, actual fiscal 2016 revenue totaled \$63.7 million more than was anticipated in MDTA’s July 2015 *Financial Forecast*, as shown in **Exhibit 15**. The higher base in toll revenues carries through all future revenue projections, leading to higher available cash balances. Despite the consistent toll revenue overattainment in recent years, MDTA has maintained a fairly conservative outlook for future revenues. Anticipated revenue increases on legacy facilities range from 0.2% to 1.2% over the forecast period. An outside consultant performs traffic forecasting for MDTA.

Exhibit 15
Actual and Estimated MDTA Toll Revenue
Fiscal 2013-2022
(\$ in Millions)



MDTA: Maryland Transportation Authority

Source: Maryland Transportation Authority January 2017 *Financial Forecast*

Actual revenues declined in fiscal 2016 by \$7.6 million from fiscal 2015, a much smaller decline than expected with the July 2015 *Financial Forecast*. While toll revenues are at levels higher than what was anticipated after the toll reduction that does not mean the toll reduction had no impact. Without a toll reduction, revenues would have been \$42.1 million higher in fiscal 2016, and a

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total of \$313.6 million higher in fiscal 2016 to 2022 than what is projected in the January 2017 *Financial Forecast*. The additional revenue is driven by higher than anticipated traffic growth; normal growth and gas price reductions accounted for most of the growth in traffic in fiscal 2016, while the additional day in the leap year and the toll rate reduction had much smaller impacts. If tolls had not been reduced in fiscal 2016, the MDTA financing package for the replacement of the Nice Bridge could have consisted of approximately 10% debt, rather than the current estimate of 50%. **MDTA should comment on the impact of the toll revenue overattainment and possible reasons for recent overattainment.**

Operating Budget Recommended Actions

1. Nonbudgeted.

PAYGO Budget Recommended Actions

1. Nonbudgeted.

Appendix 1
Maryland Transportation Authority *Financial Forecast*
Fiscal 2016-2022
(\$ in Millions)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Revenues							
Toll Revenues	\$686.5	\$698.5	\$707.7	\$711.9	\$718.0	\$721.3	\$729.1
Concessions	6.2	5.7	5.7	5.8	5.9	6.0	6.1
Investment Income and Other	18.7	10.9	10.3	9.1	8.2	7.4	6.9
Maryland Department of Transportation	31.1	26.6	27.4	28.5	29.6	30.8	32.0
Total Revenues	\$742.6	\$741.6	\$751.1	\$755.3	\$761.7	\$765.4	\$774.1
Expenses							
Operations	\$277.5	\$304.0	\$307.3	\$319.6	\$332.4	\$345.7	\$359.6
Debt Service	126.9	138.5	136.0	129.9	130.0	133.0	137.1
Capital Program	240.4	331.9	409.8	438.7	362.8	417.6	486.5
Total Expenses	\$644.9	\$774.4	\$853.1	\$888.3	\$825.2	\$896.4	\$983.2
Capital Funding Sources							
Revenue Bond Proceeds	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$20.0	\$225.0
Seagirt/ICTF Proceeds	14.2	0.0	0.0	0.0	0.0	0.0	0.0
Accounting Reconciliation	-17.4	0.0	0.0	0.0	0.0	0.0	0.0
Annual Surplus/Deficit	\$94.5	-\$32.8	-\$101.9	-\$132.9	-\$63.5	-\$110.9	\$15.9
Total Cash Balance	\$917.9	\$885.1	\$783.1	\$650.2	\$586.7	\$475.8	\$491.7
Debt							
Debt Outstanding	\$2,299.6	\$2,264.2	\$2,216.0	\$2,165.7	\$2,113.2	\$2,078.4	\$2,243.7
Unencumbered Cash (Policy \$350.0 million minimum)	788.6	757.7	657.7	526.9	464.6	352.4	356.9
Debt Service Coverage (Policy 2.0)	3.62	3.16	3.26	3.35	3.30	3.16	3.02
Rate Covenant Compliance (Legal 1.0)	2.87	2.54	2.62	2.69	2.65	2.54	2.45

ICTF: Intermodal Container Transfer Facility

Appendix 2
Audit Findings

Audit Period for Last Audit:	March 27, 2013 – May 9, 2016
Issue Date:	January 2017
Number of Findings:	0
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

The audit did not disclose any findings.

**Appendix 3
Object/Fund Difference Report
MDOT – Maryland Transportation Authority**

<u>Object/Fund</u>	<u>FY 16 Actual</u>	<u>FY 17 Working Appropriation</u>	<u>FY 18 Allowance</u>	<u>FY 17 - FY 18 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,761.00	1,748.00	1,748.00	0.00	0%
Total Positions	1,761.00	1,748.00	1,748.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 157,909,243	\$ 167,595,721	\$ 170,391,403	\$ 2,795,682	1.7%
02 Technical and Spec. Fees	98,154	911,021	851,311	-59,710	-6.6%
03 Communication	1,220,026	1,076,907	1,252,906	175,999	16.3%
04 Travel	209,492	359,745	287,780	-71,965	-20.0%
06 Fuel and Utilities	4,332,795	4,975,181	4,635,278	-339,903	-6.8%
07 Motor Vehicles	6,633,311	9,147,271	8,463,833	-683,438	-7.5%
08 Contractual Services	92,780,526	103,930,492	104,821,140	890,648	0.9%
09 Supplies and Materials	7,203,695	9,079,853	8,948,151	-131,702	-1.5%
10 Equipment – Replacement	1,022,280	1,336,528	1,758,754	422,226	31.6%
11 Equipment – Additional	1,329,216	767,095	892,635	125,540	16.4%
13 Fixed Charges	131,733,121	143,311,007	140,941,286	-2,369,721	-1.7%
Total Objects	\$ 404,471,859	\$ 442,490,821	\$ 443,244,477	\$ 753,656	0.2%
Funds					
07 Nonbudgeted Fund	\$ 404,471,859	\$ 442,490,821	\$ 443,244,477	\$ 753,656	0.2%
Total Funds	\$ 404,471,859	\$ 442,490,821	\$ 443,244,477	\$ 753,656	0.2%

MDOT: Maryland Department of Transportation

Note: Does not include targeted reversions, deficiencies, and contingent reductions.

**Appendix 4
Fiscal Summary
MDOT – Maryland Transportation Authority**

<u>Program/Unit</u>	<u>FY 16 Actual</u>	<u>FY 17 Wrk Approp</u>	<u>FY 18 Allowance</u>	<u>Change</u>	<u>FY 17 - FY 18 % Change</u>
0041 Operating and Debt Service	\$ 404,471,859	\$ 442,490,821	\$ 443,244,477	\$ 753,656	0.2%
0000 Capital	243,570,470	331,940,000	409,824,000	77,884,000	23.5%
Total Expenditures	\$ 648,042,329	\$ 774,430,821	\$ 853,068,477	\$ 78,637,656	10.2%
Nonbudgeted Fund	\$ 648,042,329	\$ 774,430,821	\$ 853,068,477	\$ 78,637,656	10.2%
Total Appropriations	\$ 648,042,329	\$ 774,430,821	\$ 853,068,477	\$ 78,637,656	10.2%

MDOT: Maryland Department of Transportation

Note: Does not include targeted reversions, deficiencies, and contingent reductions.