

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 260 (Senator Glassman, *et al.*)
Budget and Taxation and Finance

Cecil-Harford Highway Impact Revenue Account

This bill establishes the Cecil-Harford Highway Impact Revenue Account in the Maryland Transportation Authority's (MDTA) Transportation Authority Fund to provide funding for the construction, reconstruction, and maintenance of highways in Harford and Cecil counties that are subject to accelerated deterioration due to increased traffic from motorists avoiding toll increases at the Thomas J. Hatem Memorial Bridge and the Millard E. Tydings Memorial Bridge. MDTA must credit toll revenue generated by the Hatem and Tydings bridges that is not required to pay specified MDTA debt repayment costs to the account in an amount sufficient to fund necessary highway projects in Cecil and Harford counties. The Maryland Department of Transportation (MDOT) must allocate funds from the account annually.

Fiscal Summary

State Effect: To the extent MDTA toll revenue remains after meeting payment obligations to bond holders, MDTA nonbudgeted revenues are redirected to the new account. Transportation Trust Fund (TTF) revenues decrease to the extent less nonbudgeted revenue is available for transfer to TTF.

Local Effect: The bill is not expected to materially affect local government finances, assuming MDOT takes full responsibility for any projects that receive account funding. To the extent any revenue from the account is allocated directly to Cecil or Harford counties for highway projects, local revenues increase.

Small Business Effect: None.

Analysis

Current Law: Since 1971, MDTA has been responsible for constructing, managing, operating, and improving the State's toll facilities and for financing new revenue-producing transportation projects. MDTA is governed by nine individuals appointed by the Governor, with the advice and consent of the Senate. The Secretary of Transportation serves as MDTA's chairman. MDTA transportation facilities projects include:

- bridges (*e.g.*, Susquehanna River Bridge (Thomas J. Hatem Memorial Bridge); Harry W. Nice Memorial Potomac River Bridge; William Preston Lane, Jr. Memorial Chesapeake Bay Bridge and parallel Chesapeake Bay Bridge; Baltimore Harbor Tunnel; Fort McHenry Tunnel; Francis Scott Key Bridge; and John F. Kennedy Memorial Highway);
- the InterCounty Connector roadway;
- vehicle parking facilities located in priority funding areas;
- other projects that MDTA authorizes to be acquired or constructed; and
- any authorized additions or improvements to MDTA projects.

MDTA has the authority to set tolls on transportation facilities projects under its supervision. Tolls must provide funds that, when combined with bond proceeds and other available revenues, are sufficient to pay maintenance, repair, and operating costs for transportation facilities projects that are not otherwise paid for; pay the interest and principal of any outstanding bond issues; create reasonable reserves for these purposes; and provide funds for the cost of replacements, renewals, and improvements. Toll revenues are deposited into the Transportation Authority Fund, which is wholly separate from TTF.

All rentals, rates, fees, tolls, and other charges and revenues derived from any transportation facilities project must be allocated to the Transportation Authority Fund, except to the extent that these funds are pledged under a trust agreement to secure specified revenue bonds.

Transportation Authority Fund revenue that is not needed to pay specified debt-related costs may be transferred, after being recommended by the Secretary of Transportation and after receiving Board Public Works approval, to TTF to be used as appropriated by the General Assembly unless otherwise prohibited.

Background: MDTA's trust agreement with its bondholders is the driving force in MDTA finances. MDTA manages all revenue adjustments and operating and capital expenditures to maintain its bond coverage ratios. Toll revenues are MDTA's primary revenue source and are used to meet payment obligations to bondholders.

MDTA currently has an Aa3 rating from Moody's Investors Service, AA- from Standard & Poors, and AA- from Fitch Ratings. These ratings are among the highest granted for tolling authorities. If toll revenues slip below expectations and tolls are not sufficient to meet the standards included in the trust agreement, MDTA increases tolls to avoid defaulting on the trust agreement to the bondholders and to sustain its bond ratings. Credit rating agencies cite a toll entity's independent ability to set toll rates, free of political consideration or approval from an outside source, as a key factor in achieving an optimal credit rating.

In September 2011, the MDTA Board approved a revised tolling plan that is projected to generate approximately \$90 million in its first full year to pay debt for rehabilitating MDTA's aging bridges, tunnels, and highways and for constructing additional highway capacity in the Baltimore and Washington regions. The approved plan phases in toll increases at MDTA facilities on November 1, 2011; January 1, 2012; and July 1, 2013.

The Tydings Bridge is one of the 63 bridge structures that make up the John F. Kennedy Memorial Highway (I-95) that runs for approximately 50 miles from northern Baltimore City to Delaware. More than 29 million vehicles use the highway annually. The Hatem Bridge is approximately 1.5 miles long and crosses the Susquehanna River on US 40 between Havre de Grace and Perryville in northeast Maryland. Approximately 11.1 million vehicles cross the Hatem Bridge annually. The Hatem Bridge does not generate revenues sufficient to cover its operating expenditures.

State Fiscal Effect: MDTA advises that the bill's intent violates MDTA's trust agreement with bondholders by dictating how and where revenues must be allocated. The trust agreement pledges all gross revenues generated by MDTA facilities to the trustee for the benefit of the bondholders. MDTA notes that all toll revenues from the Hatem and Tydings bridges are pledged under the trust agreement and cannot be transferred to the proposed account. However, Legislative Services advises that it is possible that *some* toll revenue may be available for transfer into the account after MDTA pays debt service and other obligatory costs.

To the extent MDTA toll revenue remains after meeting payment obligations to bond holders, MDTA nonbudgeted revenues are redirected to the new account. TTF revenues decrease in fiscal 2013 and future years to the extent less nonbudgeted revenue is available for transfer to TTF pursuant to current law. The effect of the bill on TTF revenues is potentially significant but cannot be reliably estimated at this time and would depend on whether, and to what extent, revenue is available and transferred to the account.

MDTA has a large capital program that is largely funded through the issuance of toll revenue bonds. Bond rating agencies look favorably upon its ability to independently fix or revise tolls, and limits to this authority may result in an increased cost to borrow. If MDTA's revenues are redirected to other purposes, it will likely have a negative impact on MDTA's bond credit rating.

Additional Comments: It is unclear how MDTA will determine what highways in Cecil and Harford counties are subject to accelerated deterioration due to increased traffic from motorists avoiding MDTA toll increases. In addition, because "necessary" is not defined in the bill, it is unclear what highway projects would be eligible for funding from the account.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Harford County, Maryland Department of Transportation, Maryland Transportation Authority, Department of Legislative Services

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