

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 825 (Senator Pipkin, *et al.*)
Budget and Taxation

Maryland Transportation Authority - Audits - Statements Available Online

This bill requires the Maryland Transportation Authority (MDTA) or an independent entity engaged by MDTA to annually audit the finances of each transportation facilities project and make the audit statements publicly available on its Internet site, including audit statements related to each transportation facilities project throughout its existence. An “audit statement” is any document containing a formal examination of the financial statements or financial condition of MDTA or any transportation facilities project. Audit statements must be posted on MDTA’s website within 10 days of becoming available and in a specified manner.

The bill takes effect June 1, 2012.

Fiscal Summary

State Effect: MDTA nonbudgeted expenditures increase by *at least* \$1.5 million in FY 2013 to audit each transportation facilities project. Future year expenditures reflect inflation and elimination of one-time costs. Revenues are not affected. Even though the bill takes effect June 1, 2012, it is assumed that State finances are not affected in FY 2012.

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenues	\$0	\$0	\$0	\$0	\$0
NonBud Exp.	1,514,267	1,179,444	1,235,151	1,277,153	1,321,005
Net Effect	(\$1,514,267)	(\$1,179,444)	(\$1,235,151)	(\$1,277,153)	(\$1,321,005)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: 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; 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 the Transportation Trust Fund.

MDTA currently posts on its website the department's annual reports and combined audited financial statements dating back to fiscal 2001. These statements reflect the consolidated operations of MDTA and do not break out all operational and capital costs by transportation facilities project. The statements do contain supplemental schedules that show revenues and expenses for each transportation facilities project; however, the supplemental schedules are *not* audited.

State Expenditures: Because the bill requires MDTA to annually audit each transportation facilities project, significant changes must be made to MDTA's existing accounting practices, procedures, and infrastructure. Currently, MDTA does not account for indirect costs (*e.g.*, procurement, engineering, information technology, and human resources) on a per-transportation facilities project basis. Developing standalone financial statements for each transportation facilities project requires new financial tracking software and the development of criteria for allocating general and

administrative costs. In addition, significant additional ongoing resources are required to manage, monitor, and reconcile funding for each individual transportation facilities project instead of taking a consolidated accounting approach.

MDTA's nonbudgeted expenditures increase by *at least* \$1.5 million in fiscal 2013. While the bill takes effect June 1, 2012, this analysis assumes that identifying contractors and hiring new positions will take at least a month and that expenditures are not affected until fiscal 2013. This estimate reflects the cost of hiring eight accountants and two supervisors to gather, maintain, and record information for each individual transportation facilities project. It includes salaries, fringe benefits, one-time start-up costs, contractual costs, and ongoing operating expenses. Additional information and assumptions used in calculating the estimate for contractual services are stated below:

- significant enhancements are made to the accounting software in fiscal 2013 to allow preparation of audited financial statements for each transportation facilities project (at least \$200,000);
- consultants are hired in fiscal 2013 to develop financial methodologies for allocating all MDTA expenses among the eight transportation facilities projects (at least \$100,000); and
- annual contractual auditing services are expanded in fiscal 2013 and future years to include preparation of individual financial statements for each transportation facilities project (at least \$400,000 annually).

Positions	10
Salaries and Fringe Benefits	\$738,217
Contractual Services	700,000
Other Operating Expenses	<u>76,050</u>
Total FY 2013 State Expenditures	\$1,514,267

Future year expenditures reflect annual salary increases, elimination of one-time costs, and employee turnover as well as annual increases in ongoing operating expenses.

Additional Information

Prior Introductions: SB 20 and HB 12 of the 2011 special session, similar bills, were referred to the Senate Rules Committee and House Rules and Executive Nominations Committee, respectively, but no further action was taken on either bill.

Cross File: Although HB 1259 (Delegate Hershey, *et al.* - Appropriations) is designated as a cross file, it is different.

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

Fiscal Note History: First Reader - March 15, 2012
mc/lgc

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