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# Maryland Department of Transportation Fiscal 2015 Budget Overview

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

**January 2014**

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*Analysis of the FY 2015 Maryland Executive Budget, 2014*

## *Analysis in Brief*

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### **Issues**

***Federal Aid Outlook Uncertain:*** Current federal authorization for transportation spending expires September 30, 2014. The Federal Highway Trust Fund (FHTF) balance is projected to need a general fund infusion of \$15 billion in federal fiscal 2015 unless Congress acts to raise revenues or reduce spending. The manner in which the FHTF solvency is addressed could have a large impact, negative or positive, on the amount of federal aid the Maryland Department of Transportation (MDOT) receives. **MDOT should comment on the federal funding risks associated with both federal formula and discretionary funding assumptions contained in its forecast and how significant decreases in either type of federal funding would be addressed**

***Local and Regional Transportation Funding Task Force Recommends Consideration of Local-option Revenue Sources:*** As required by the Transportation Infrastructure Investment Act of 2013 (Chapter 429), a Local and Regional Transportation Funding Task Force was convened to evaluate and make recommendations pertaining to the feasibility of regional transit financing entities and local-option transportation revenues to help meet local and regional transportation system needs throughout the State. The task force recommends the enabling of certain local-option revenue sources to be used at the discretion of each local government. The task force also recommended that consideration be given to identifying an incremental strategy to provide local jurisdictions with an increase in the level of highway user revenues (HUR) they receive. **MDOT should comment on the findings and recommendations of the task force, particularly as it relates to possible adjustments to the distribution of HURs.**

### **Recommended Actions**

1. Add annual budget bill language requiring notification of the capital budget changes.
2. Add budget bill language establishing a position cap.
3. Add annual budget bill language on notification of nontransportation expenditures.

## ***2013 Actions in Review***

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After many years of discussion regarding the lack of transportation funding for new infrastructure, Chapter 429 (the Transportation Infrastructure Investment Act of 2013) was enacted. The legislation substantially increases the amount of revenue going into the Transportation Trust Fund (TTF) that may be used for capital projects. The additional revenue to the TTF is a result of increasing motor fuel taxes and requiring the Maryland Transit Administration (MTA) to increase base fare prices beginning in fiscal 2015. The bill also increases the vehicle registration fee surcharge that goes to the Maryland Emergency Medical Systems Operations Fund, requires the Governor to include in the operating or capital budget specified appropriations to the State Highway Administration (SHA) for the Watershed Implementation Plan, and places procedural restrictions on transfers from the TTF and use of TTF monies.

The bill specifically alters motor fuel taxes by:

- indexing motor fuel tax rates, except for aviation and turbine fuel, to inflation beginning in fiscal 2014;
- imposing a 1% sales and use tax equivalent rate on all motor fuel, except for aviation and turbine fuel, beginning in fiscal 2014, increasing to 2% beginning on January 1, 2015, and to 3% beginning in fiscal 2016;
- unless federal remote sales tax legislation is enacted by December 1, 2015, the sales and use tax equivalent rate increases from 3% to 4% beginning January 1, 2016, and then increases to 5% beginning in fiscal 2017; and
- if federal remote sales tax legislation is enacted and takes effect by December 1, 2015, the sales and use tax equivalent rate remains at 3%, and the Comptroller is then required to distribute 4% of total State sales and use tax revenues to TTF.

**Exhibit 1** provides updated revenue estimates for the actions taken last session.

Chapter 429 also prohibits transfers from the TTF unless legislation is approved by a three-fifths vote of the appropriate standing committees of the General Assembly and is enacted into law, or the Governor declares a state of emergency and declares that revenues are needed for defense or relief purposes. Any transfer must be repaid within five years.

Additional legislation was enacted to further limit transfers out of the TTF. Chapter 422 of 2013 proposes to amend the Maryland Constitution to (1) require TTF funds to be used only to pay the principal of and interest on transportation bonds and for any lawful purpose related to construction and maintenance of an adequate highway system or any other transportation-related purpose and (2) prevent TTF funds from being transferred to the general fund or a special fund. An exception to the prohibition on TTF transfers is authorized only if the Governor, by executive order,

**Exhibit 1**  
**2013 Session Transportation Trust Fund Revenue Actions**  
**Fiscal 2014-2018**  
**(\$ in Millions)**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b><u>Rate Increase*</u></b>					
Gasoline	3.5¢	6.8¢	10.6¢	11.6¢	12.5¢
Special Fuel	3.5¢	6.8¢	10.6¢	11.7¢	12.6¢
<b><u>Tax Revenues</u></b>					
Sales and Use Tax Equivalent Rate	\$97	\$146	\$303	\$323	\$336
Contingent Sales Tax Revenue	0	0	52	191	199
Consumer Price Index Indexing	13	22	39	56	76
Farebox Recovery	0	10	22	23	32
<b>Total Increase – MDOT</b>	<b>\$110</b>	<b>\$178</b>	<b>\$416</b>	<b>\$593</b>	<b>\$643</b>
GO Bonds/General Funds for Watershed Implementation Plan	\$0	\$45	\$65	\$85	\$100
<b>Total Transportation Funding</b>	<b>\$110</b>	<b>\$223</b>	<b>\$481</b>	<b>\$678</b>	<b>\$743</b>

GO: general obligation

MDOT: Maryland Department of Transportation

\* Assumes taxation of internet sales does not take effect

declares that a fiscal emergency exists and the General Assembly, by a three-fifths vote of both houses, approves legislation concurring with the use or transfer of the funds. The allocation of highway user funds to local governments and the allocation of TTF funds to the Maryland Transportation Authority are not affected. The proposed constitutional amendment must be submitted for a statewide vote at the November 2014 general election.

## ***Transportation Trust Fund Overview***

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The 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. MDOT issues bonds backed by TTF revenues and invests the TTF fund balance to generate investment income. MTA, Motor Vehicle Administration (MVA), the Maryland Port Administration, and the Maryland Aviation Administration (MAA) 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 2013 TTF Revenue Closeout**

The TTF ended fiscal 2013 with a fund balance of \$218 million, \$118 million higher than the \$100 million projected, as shown in **Exhibit 2**. The higher fund balance is attributable to spending being less than projected by \$135 million offset by revenues coming in less than anticipated by \$17 million.

Capital budget expenditures were \$122 million less than estimated due to cash flow changes in projects and the SHA spending federal funds before special funds. Minor changes in operating budget spending and debt service resulted in a net decrease of \$13 million.

Tax and fee revenues were \$5 million higher than expected. Motor fuel tax revenues were \$8 million higher than expected, and titling tax revenues were \$3 million higher than expected. These increases were offset by corporate income taxes being \$7 million less than estimated. The major change in revenues occurred in other receipts and adjustments, which increased by \$63 million. This is largely due to capital reimbursements coming in higher than expected. Due to the decline in capital spending, the department reduced the size of its bond sale by \$85 million.

**Exhibit 2**  
**Fiscal 2013 Transportation Trust Fund Closeout**  
**(\$ in Millions)**

	<u>Projected</u>	<u>Actual</u>	<u>Variance</u>
<b>Starting Fund Balance</b>	<b>\$187</b>	<b>\$187</b>	<b>\$0</b>
<b>Revenues</b>			
Titling Taxes	\$682	\$685	\$3
Motor Fuel Taxes	738	746	8
Sales Tax	24	25	1
Corporate Income, Registrations, and Misc.			
MVA Fees	718	711	-7
Other Receipts and Adjustments	509	572	63
Bond Proceeds and Premiums	265	180	-85
<b>Total Revenues</b>	<b>\$2,936</b>	<b>\$2,919</b>	<b>-\$17</b>
<b>Uses of Funds</b>			
MDOT Operating Expenditures	\$1,646	\$1,638	-\$8
MDOT Capital Expenditures	985	863	-122
MDOT Debt Service	180	174	-6
Highway User Revenues	160	161	1
Other Expenditures	52	52	0
<b>Total Expenditures</b>	<b>\$3,023</b>	<b>\$2,888</b>	<b>-\$135</b>
<b>Final Ending Fund Balance</b>	<b>\$100</b>	<b>\$218</b>	<b>\$118</b>

MDOT: Maryland Department of Transportation

MVA: Motor Vehicle Administration

Note: Totals may not sum due to rounding.

Source: Maryland Department of Transportation, January 2014

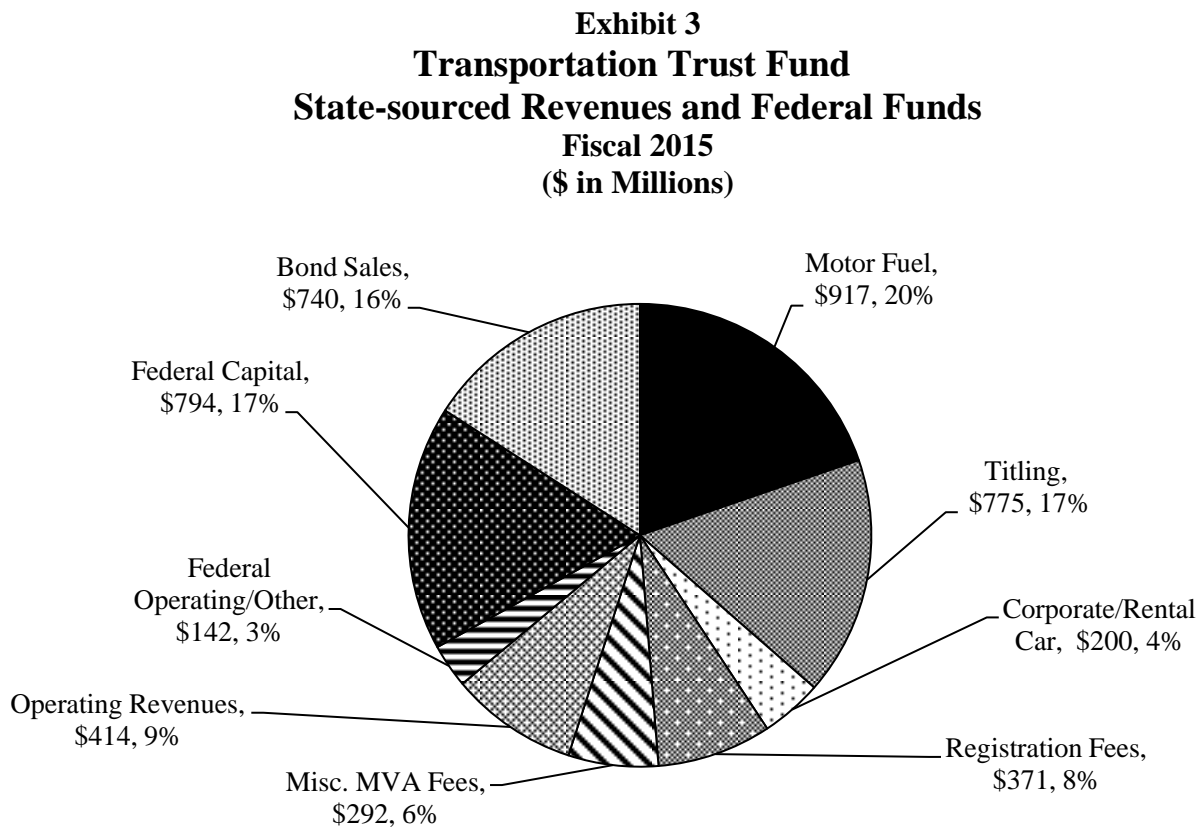
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## Fiscal 2014 Year-to-date Revenue Receipts

The State has revenue information through November 2013. Based upon the fiscal 2014 revenue estimate and historical attainment, the titling tax is underperforming relative to the estimate by approximately \$6 million. There is still revenue growth, just not as great as currently estimated. Vehicle sales are projected to increase in calendar 2014, so revenues could reach the estimate; however, for that to occur, vehicle sales will need to increase from the current level. Motor fuel tax revenues are a bit more difficult to determine at this point, due to the recent tax increase and a refund issue.

## Fiscal 2014 through 2019 Revenue Projections

**Exhibit 3** shows that the TTF's largest revenue sources in fiscal 2015 are federal capital aid, motor fuel tax, and the titling tax, which represent approximately 54% of all fund sources. MDOT is projecting \$740 million in bonds will be sold to support the capital program in fiscal 2015. It should be noted that bond sales will compromise 16% of the TTF revenues in fiscal 2015, meaning the department is relying heavily on bonds in the short-term for capital projects.

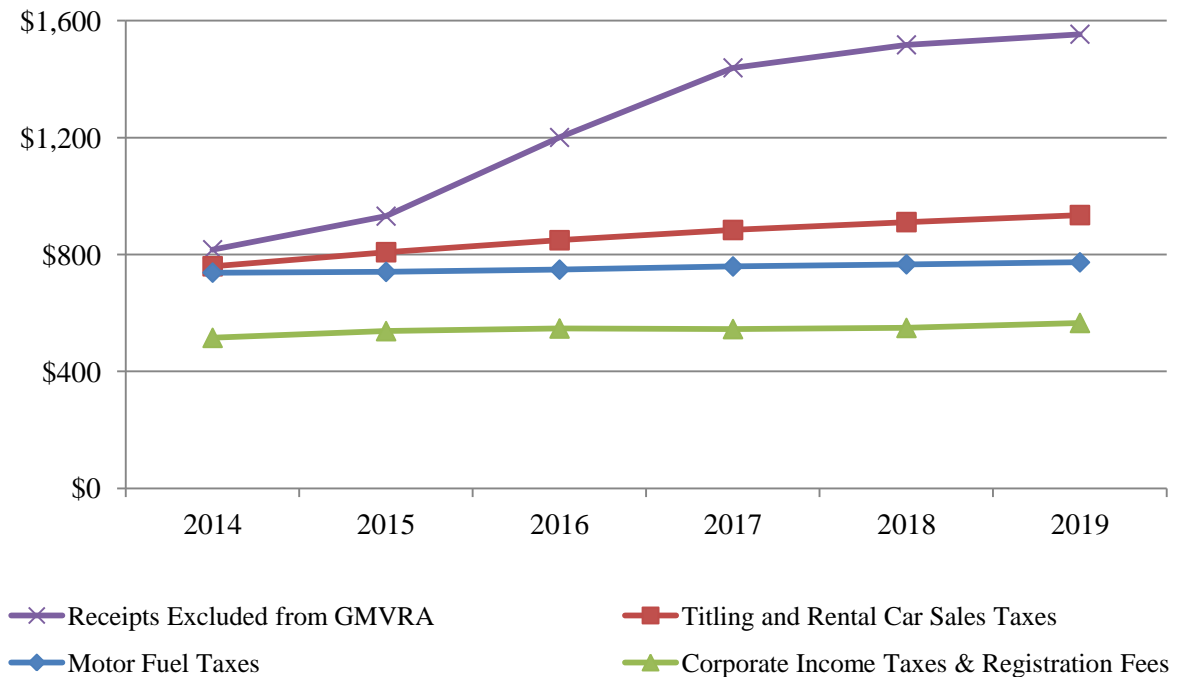


MVA: Motor Vehicle Administration

Source: Governor's Budget Books, Fiscal 2015, Volume I, pages 594-598

**Exhibit 4** shows that MDOT’s State-sourced revenues are expected to grow throughout the forecast period. Over the six-year period, GMVRA revenues, after deductions, are expected to increase from a total of approximately \$1.7 billion in fiscal 2014 to \$1.9 billion in fiscal 2019, an average annual increase of 2.2%. Average annual growth for the titling and rental car sales tax is estimated to be 4.2%, with higher growth in fiscal 2014 and 2015, as vehicle sales are expected to rebound with the economy before leveling off thereafter. Motor fuel tax revenues are estimated to grow throughout the forecast period due to increases in the tax rate; however, underlying growth for the GMVRA eligible portion motor fuel tax revenues (the portion tied to 23.5/24.25 cents) is estimated to be 0.9% annually over the six-year period. Registration fees and the corporation income tax are estimated to grow 1.9%. The growth in receipts excluded from the GMVRA is due to the phased-in increases from the sales and use equivalent rate tax and the indexing of the motor fuel tax. **Appendix 1** provides a summary of the financial forecast.

**Exhibit 4**  
**Transportation Trust Fund**  
**Forecasted State-sourced Revenues**  
**Fiscal 2014-2019**  
**(\$ in Millions)**



GMVRA: Gasoline and Motor Vehicle Revenue Account

Source: Maryland Department of Transportation, *Transportation Trust Fund Forecast*, January 2014

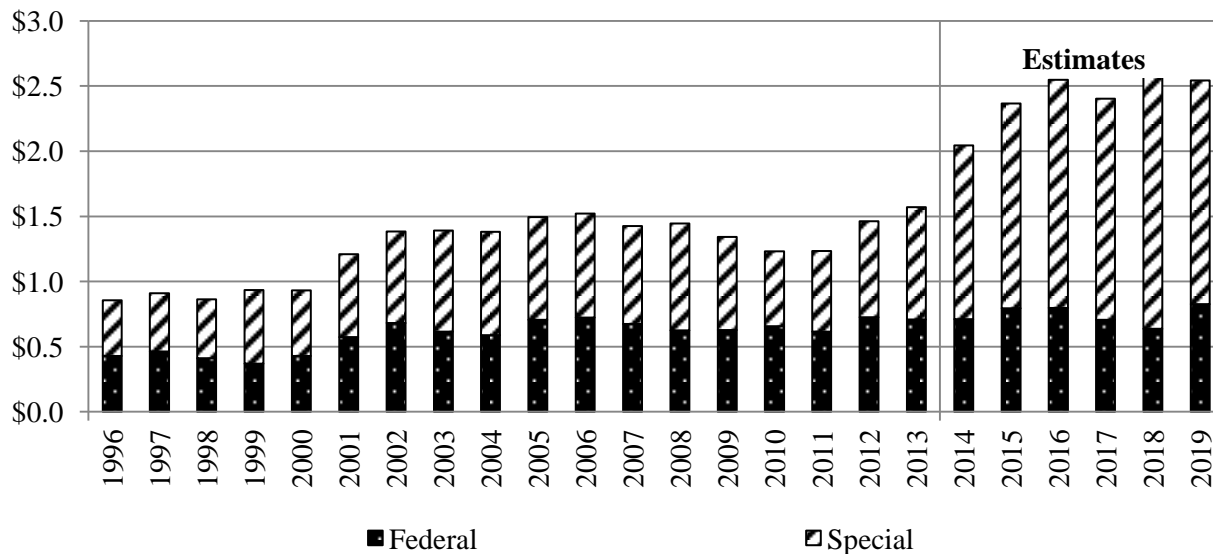


## Long-term Forecast Overview and Issues

The department’s financial forecast appears to be reasonable, within the department’s and State’s debt affordability limits, and provides for a substantial increase in capital spending. Similar to prior years, the risks to revenues, spending, and debt continue; however, the infusion of new revenue provides the department sufficient capacity and flexibility to manage these risks. In the past, these risks would have translated into a smaller capital program, and that may still be the case if the risks are realized. However, with the addition of the new revenue and an expanded capital program, the greater challenge confronting the capital program is whether or not MDOT can meet the annual spending amounts currently planned.

**Exhibit 5** shows that the department’s level of planned capital spending increases dramatically compared to prior year actual levels. Special fund spending for capital is expected to nearly double between fiscal 2013 and 2019. As was discussed earlier in the fiscal 2013 closeout, the department did not spend all of its fiscal 2013 appropriation due to a number of factors. This is illustrative of the fact that, in the past few years, the department has had difficulty spending the funds appropriated for capital. Now that the department has increased its planned capital spending, it will need to be even more vigilant in ensuring that funding is actually spent. Meeting the spending obligations that are planned may be somewhat easier given that spending is projected to occur on two large transit projects; however, there are factors that can never be controlled, (*e.g.*, extreme weather, environmental hazards, etc.). Furthermore, there are cost overrun risks tied to large construction projects that can pose challenges to adequately funding all proposed capital projects.

**Exhibit 5**  
**Capital Spending Trends**  
**Fiscal 1996-2019**  
**(\$ in Millions)**



Source: Department of Legislative Services

*J00 – MDOT – Fiscal 2015 Budget Overview*

Another risk for the department's capital program is that it has made several assumptions as it relates to the availability of federal funds. First, MDOT assumes that the State will continue to receive federal formula aid from the federal motor fuel tax despite there being no funding agreement after federal fiscal 2015. In the out-years, the department assumes a lower level of federal aid. If no agreement is reached, then the department would lose a significant amount of revenue; however, if a resolution is achieved, there could be more federal aid than currently assumed. Although FHTF balances were estimated to be sufficient to cover spending through the end of MAP-21 (September 30, 2014), the Federal Highway Administration has indicated that funds may be exhausted by the end of summer 2014 and that it may need to take actions to align spending with receipts, such as changing the timing of reimbursements to states and/or making proportional payments based on available trust fund cash.

The other important federal aid assumption relates to the availability of federal New Starts funding for the major transit lines. The department's financial forecast assumes that the State will receive federal aid for the construction of the Red and Purple Lines. Unlike the federal motor fuel tax, New Starts funding is a competitive grant program that is funded out of the federal general fund. Should the State not receive the anticipated funding, or receive a reduced level of New Starts funding, the State will need to reevaluate the proposed financing plans

**The Department of Legislative Services recommends that the agency discuss its ability to meet the spending anticipated in the capital program and what management steps it is taking to oversee this large expansion of capital spending.**

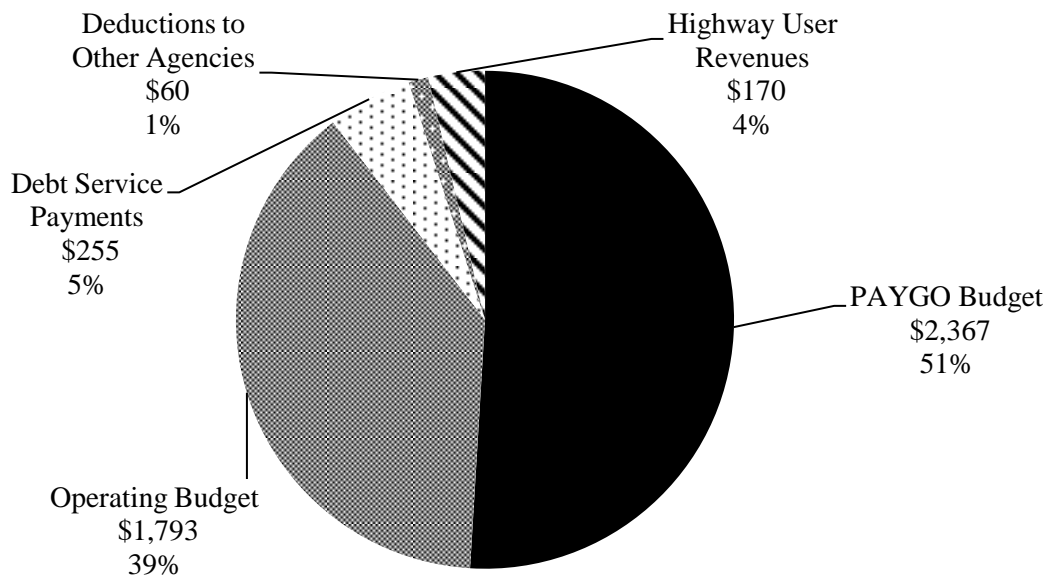
## Budget Overview

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**Exhibit 6** illustrates all expenditures from the TTF in fiscal 2015. 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 39% of total spending. The remainder of TTF expenditures go toward debt service on Consolidated Transportation Bonds (CTB), the share of HURs distributed to counties and municipalities, and deductions to other State agencies.

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**Exhibit 6**  
**Fiscal 2015 Transportation Trust Fund Uses**  
**Total Spending: \$4.6 Billion**  
**(\$ in Millions)**



PAYGO: pay-as-you-go

Note: The chart includes special funds from the Transportation Trust Fund and federal funds only. It excludes \$215 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.

Source: Maryland Department of Transportation, *Transportation Trust Fund Forecast*, January 2014

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## Proposed Budget

**Exhibit 7** shows the operating and PAYGO capital budget for the modal administrations along with amounts budgeted for debt service, and local highway user grants from the fiscal 2013 actuals through the 2015 allowance. MDOT’s total fiscal 2015 allowance increases \$408.3 million, or 9.7%, compared to the fiscal 2014 working appropriation. Just over 78% of the increase is attributable to increases in the capital budget (\$319.9 million). The remaining increases in descending order are debt service (\$43.1 million), the operating budget (\$43.1 million), and local aid (\$2.2 million). Total special fund spending increases \$332.7 million, or 10.0%, compared to the fiscal 2014 working appropriation, while federal funds increase by \$75.6 million, or 8.7%. It should be noted that the fiscal 2014 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 2015 allowance. For example, debt service is currently projected at \$203 million in fiscal 2014, a reduction due to lower bond sales. Likewise, local highway user grants are currently estimated at \$163.9 million, a reduction of \$3.6 million from the legislative appropriation which reflects lower estimated revenue attainment. Final numbers will be calculated in the budget closeout and reported as actuals with the submission of next year’s budget.

### Exhibit 7 Transportation Budget Overview Fiscal 2013-2015

	<u>Actuals</u> <u>2013</u>	<u>Working App.</u> <u>2014</u>	<u>Allowance</u> <u>2015</u>	<u>\$ Change</u> <u>2014-2015</u>	<u>%</u> <u>Change</u> <u>2014-15</u>
<b>Operating</b>					
Secretary’s Office	\$72,256,048	\$81,040,861	\$81,960,771	\$919,910	1.1%
WMATA	263,690,240	286,400,000	285,621,000	-779,000	-0.3%
State Highway					
Administration	251,993,574	229,123,066	249,175,736	20,052,670	8.8%
Port Administration	42,156,644	47,870,235	48,982,181	1,111,946	2.3%
Motor Vehicle					
Administration	171,344,179	190,048,293	197,358,891	7,310,598	3.8%
Maryland Transit					
Administration	665,843,981	697,713,475	710,675,090	12,961,615	1.9%
Aviation Administration	171,122,302	179,556,112	181,052,386	1,496,274	0.8%
<b>Subtotal</b>	<b>\$1,638,406,968</b>	<b>\$1,711,752,042</b>	<b>\$1,754,826,055</b>	<b>\$43,074,013</b>	<b>2.5%</b>
<b>Debt Service</b>	<b>\$174,277,690</b>	<b>\$212,223,613</b>	<b>\$255,369,913</b>	<b>\$43,146,300</b>	<b>20.3%</b>
<b>Local Highway User Grants</b>	<b>\$160,597,780</b>	<b>\$167,533,632</b>	<b>\$169,686,144</b>	<b>\$2,152,512</b>	<b>1.3%</b>
<b>Capital</b>					
Secretary’s Office	\$30,501,562	\$78,836,580	\$122,076,989	\$43,240,409	54.8%
WMATA	132,404,063	141,913,000	144,345,000	2,432,000	1.7%
State Highway					
Administration	915,934,985	1,086,392,000	1,229,003,000	142,611,000	13.1%

*J00 – MDOT – Fiscal 2015 Budget Overview*

	<b>Actuals 2013</b>	<b>Working App. 2014</b>	<b>Allowance 2015</b>	<b>\$ Change 2014-2015</b>	<b>% Change 2014-15</b>
Port Administration	86,216,831	96,048,655	153,177,754	57,129,099	59.5%
Motor Vehicle					
Administration	11,738,397	31,470,104	27,866,184	-3,603,920	-11.5%
Maryland Transit					
Administration	393,987,525	557,653,000	639,714,000	82,061,000	14.7%
Aviation Administration	71,880,534	109,201,000	105,266,000	-3,935,000	-3.6%
<b>Subtotal</b>	<b>\$1,642,663,897</b>	<b>\$2,101,514,339</b>	<b>\$2,421,448,927</b>	<b>\$319,934,588</b>	<b>15.2%</b>
<b>Total of All Funds</b>					
Special Fund	\$2,763,552,256	\$3,326,819,020	\$3,659,547,336	\$332,728,316	10.0%
Federal Fund	851,952,017	866,204,606	941,783,703	75,579,097	8.7%
Reimbursable Fund	442,062	0	0	0	--
<b>Grand Total</b>	<b>\$3,615,946,335</b>	<b>\$4,193,023,626</b>	<b>\$4,601,331,039</b>	<b>\$408,307,413</b>	<b>9.7%</b>

WMATA: Washington Metropolitan Area Transit Authority

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 HUR. The fiscal 2015 operating allowance totals approximately \$2.2 billion, an increase of \$88.4 million, or 4.2%, compared to the fiscal 2014 working appropriation. Approximately 80.5% of the operating allowance is used for the operating budgets of each of the modes.

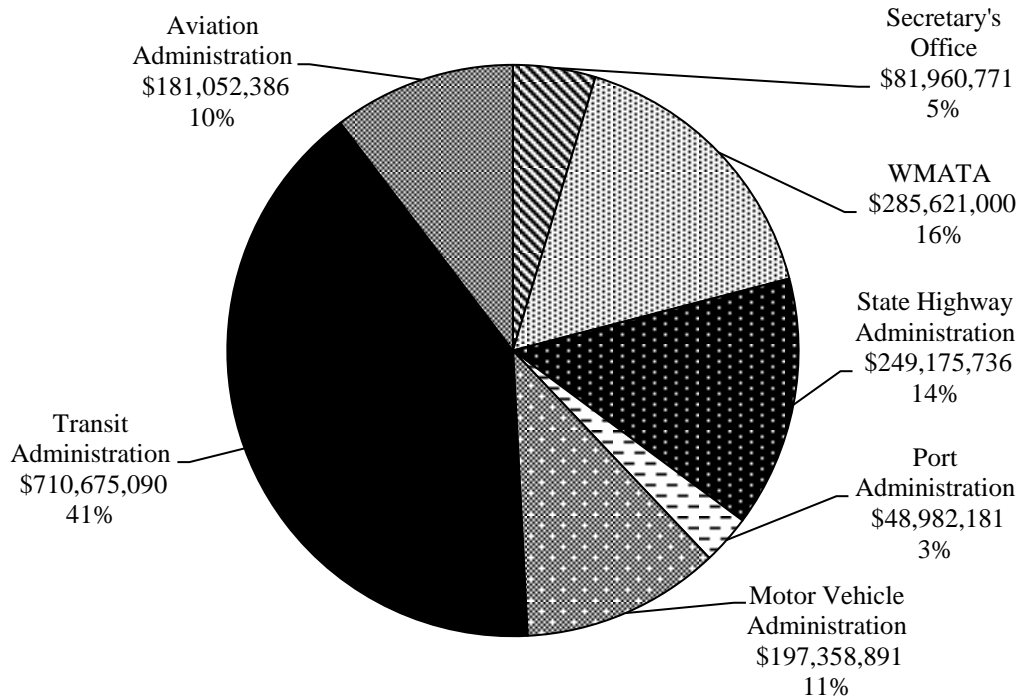
### **Fiscal 2015 Proposed Budget**

#### **Operating Programs**

The fiscal 2015 allowance for operating programs totals \$1.8 billion, an increase of \$43.1 million, or 2.5%, over the fiscal 2014 working appropriation. The largest increase is for SHA which increases \$20.1 million, or 8.8%, due largely to roadway maintenance that had been deferred in prior years due to cost containment. The MVA operating budget increases by \$7.3 million, or 3.8%, and the MTA allowance is \$13.0 million or 1.9%, higher than the current year working appropriation.

**Exhibit 8** shows fiscal 2015 operating budget allowances by mode and provides the percentage of spending on each mode. Combined MTA and Washington Metropolitan Area Transit Authority (WMATA) transit spending represents the largest share of the operating budget, at 57%.

**Exhibit 8**  
**Fiscal 2015 Operating Budget Allowance by Mode**



WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland State Budget Books, Fiscal 2014, Volume I

**Personnel**

As shown in **Exhibit 9**, the fiscal 2015 allowance contains 9,155.5 regular positions, an increase of 372.0 positions from the fiscal 2014 working appropriation.

**Exhibit 9**  
**Regular and Contractual Full-time Equivalents**  
**Operating and Capital Programs**  
**Fiscal 2013-2015**

	<u>2013</u>	<u>Working</u> <u>2014</u>	<u>Allowance</u> <u>2015</u>	<u>Change</u> <u>2014-15</u>	<u>% Change</u> <u>2014-15</u>
<b>Regular Positions</b>					
Secretary’s Office	309.0	309.0	310.5	1.5	0.5%
State Highway Administration	3,070.5	3,070.5	3,090.5	20.0	0.7%
Maryland Port Administration	225.0	225.0	225.0	0.0	0.0%
Motor Vehicle Administration	1,581.0	1,584.0	1,736.5	152.5	9.6%
Maryland Transit Administration	3,087.5	3,097.5	3,295.5	198.0	6.4%
Maryland Aviation Administration	497.5	497.5	497.5	0.0	0.0%
<b>Total</b>	<b>8,770.5</b>	<b>8,783.5</b>	<b>9,155.5</b>	<b>372.0</b>	<b>4.2%</b>
<b>Contractual Full-time Equivalents</b>					
Secretary’s Office	7.5	7.5	6.0	-1.5	-20.0%
State Highway Administration	22.0	22.0	17.0	-5.0	-22.7%
Maryland Port Administration	1.2	1.2	1.2	0.0	0.0%
Motor Vehicle Administration	76.3	84.2	0.0	-84.2	-100.0%
Maryland Transit Administration	16.0	16.0	16.0	0.0	0.0%
Maryland Aviation Administration	0.5	0.5	0.5	0.0	0.0%
<b>Total</b>	<b>123.5</b>	<b>131.4</b>	<b>40.7</b>	<b>-90.7</b>	<b>-69.0%</b>

Source: Maryland State Budget

New positions comprise:

- contractual conversions, 83;
- elimination of inappropriate use of temporary employment, 162;
- MVA wait time reduction initiative, 76;



- capital program support;
  - SHA, 15;
  - MTA, 2; and
- MTA – administration and bus operations, 34.

Contractual full-time equivalents (FTE) number 40.7 in the 2015 allowance, a decrease of 90.7 FTEs. Of the decrease, 83 FTEs were converted to regular positions, mostly in the MVA.

### **Health Insurance and Pension Savings**

There is one across-the-board reduction and one contingent reduction reflected in the Governor’s spending plan for the fiscal 2015 allowance. This affects funding for employee/retiree health insurance and retirement reinvestment. For MDOT, these provisions would decrease the fiscal 2015 appropriation by \$2.7 million for health insurance (\$2,675,352 special, \$390 federal) and \$3.6 million for pension contributions (\$3,207,910 special, \$388,528 federal). These actions are fully explained in the analyses of the Department of Budget and Management – Personnel and the State Retirement Agency.

### **Debt Service**

The budgeted fiscal 2015 allowance for debt service payments is \$255.4 million, an increase of \$43.1 million, or 20.3%, from the fiscal 2014 working appropriation. The increase is the result of established debt service schedules for previously issued bonds and the planned issuance of \$740.0 million in new debt in fiscal 2015.

At the end of fiscal 2015, CTB debt outstanding is expected to total \$2.5 billion, which remains below the statutory cap of \$4.5 billion. MDOT is forecasted to adequately maintain all bond coverage ratios throughout the forecast period.

### **Local HUR**

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 2014 is approximately \$163.9 million. This is a small reduction from the original estimate of \$167.5 million upon which the fiscal 2014 budget was originally based and reflects a decrease in the estimated revenue attainment. In fiscal 2015, the local share is projected to be \$169.7 million. The increase in the appropriation is due to revenue growth.

One-time transportation grants totaling \$15.4 million were provided to municipalities in fiscal 2014, and the 2015 allowance includes \$16.0 million for a second round of one-time

transportation grants to municipalities. These grants are distributed based upon the HUR allocation for municipalities.

**Exhibit 10** provides a summary of HUR and one-time grant funding for fiscal 2014 and 2015.

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**Exhibit 10**  
**Distribution of Highway User Revenues**  
**Fiscal 2014-2015**

	<u>Percent Share</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>
MDOT	90.4%	\$1,543,355,808	\$1,597,877,856
Local Share	9.6%	163,896,192	169,686,144
<b>Total</b>	<b>100.0%</b>	<b>\$1,707,252,000</b>	<b>\$1,767,564,000</b>
<b>Local Distribution</b>			
Baltimore City	7.7%	\$131,458,404	\$136,102,428
Counties	1.5%	25,608,780	26,513,460
Municipalities	0.4%	6,829,008	7,070,256
<b>Total</b>	<b>9.6%</b>	<b>\$163,896,192</b>	<b>\$169,686,144</b>
One-time Grants to Municipalities		\$15,379,979	\$16,000,000
<b>Adjusted Total – Municipalities</b>		<b>\$22,208,987</b>	<b>\$23,070,256</b>

MDOT: Maryland Department of Transportation

Source: Maryland Department of Transportation, *Transportation Trust Fund Forecast*, January 2014

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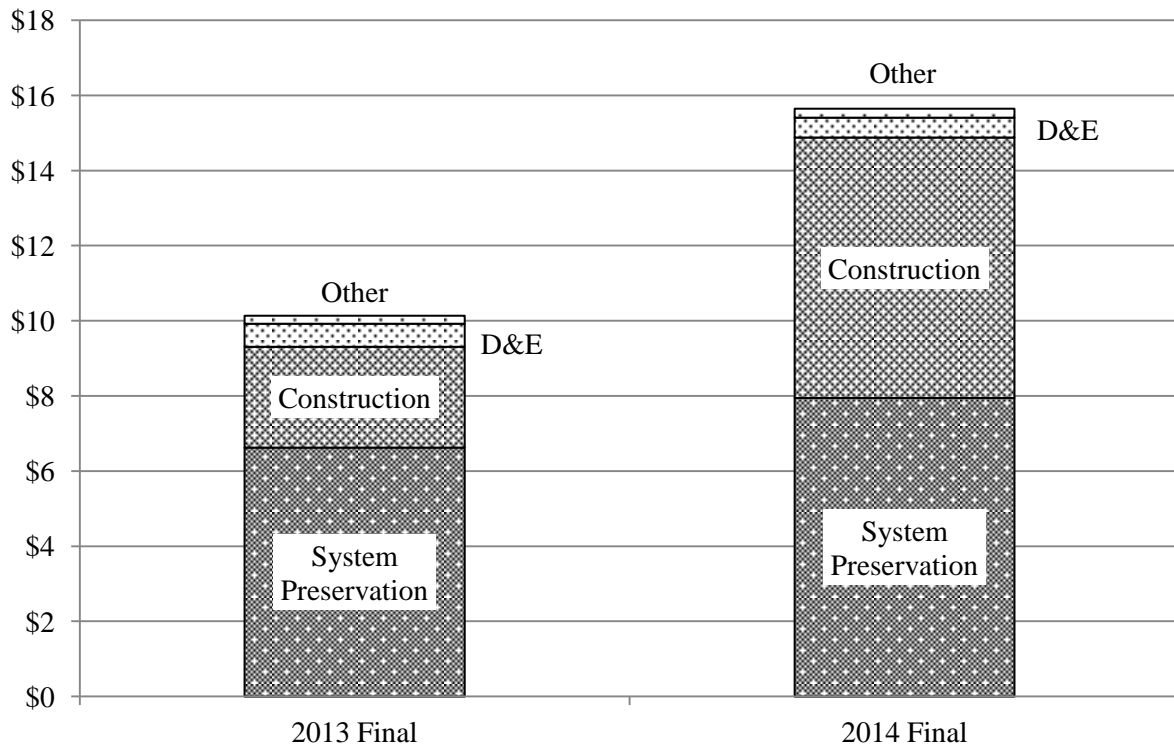
## ***PAYGO Capital Budget Analysis***

The *Consolidated Transportation Program* (CTP) is issued annually to the General Assembly, local elected officials, and interested citizens. The CTP provides a description of projects proposed by MDOT for development and evaluation or construction over the next six-year period.

### **Effect of the Revenue Increase on Capital Spending**

Enactment of the Transportation Infrastructure Investment Act of 2013 allows the addition of approximately \$4.4 billion in capital spending over the six-year CTP. As shown in **Exhibit 11**, the fiscal 2014 final CTP includes over \$5.5 billion in additional spending compared to the fiscal 2013 final CTP, with increased federal New Starts funding also contributing to the larger fiscal 2014 CTP.

**Exhibit 11**  
**Comparison of Six-year Capital Spending**  
**All Funds**  
**(\$ in Billions)**

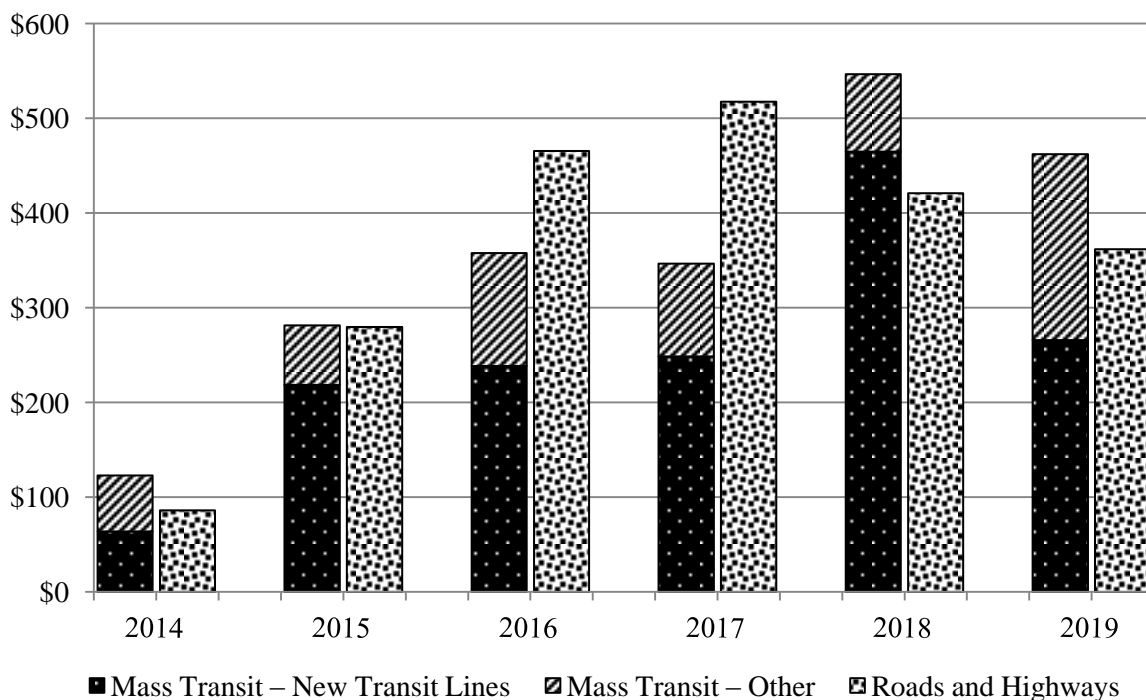


D&E: development and evaluation

Source: Maryland Department of Transportation, *Consolidated Transportation Programs, 2013-2018 and 2014-2019*

**Exhibit 12** shows the new revenue programmed spending devoted to roads and highways and mass transit. New revenue spending is split nearly evenly between roads and highways (\$2.13 billion, six-year total), and mass transit (\$2.12 billion, six-year total), but mass transit spending is more heavily programmed in the final years of the CTP, with spending on the new transit lines peaking in 2018.

**Exhibit 12**  
**New Revenue Programmed Spending**  
**Special Funds**  
**(\$ in Millions)**



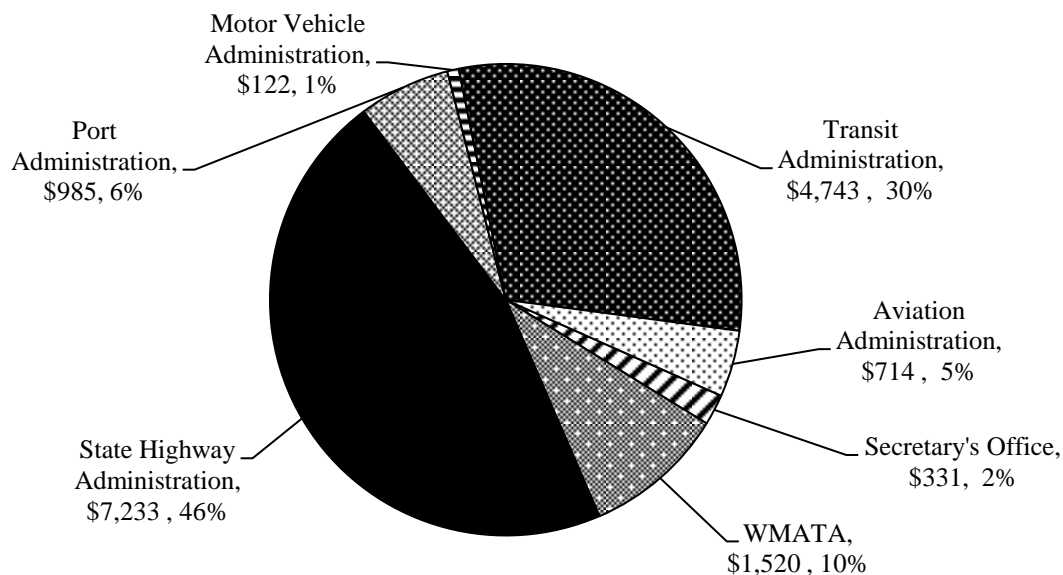
Note: Roads and highway amounts include spending for Watershed Implementation Plan projects.

Source: Maryland Department of Transportation, *2014-2019 Consolidated Transportation Program*

### **Fiscal 2014 through 2019 CTP**

The fiscal 2014 through 2019 CTP totals \$15.6 billion for projects supported by State, federal, and other funds. To date, other funding has primarily been used at Baltimore/Washington International Thurgood Marshall Airport. This type of funding has also been utilized for projects by WMATA and MTA. **Exhibit 13** shows the funding level for each mode over the current six-year period, including special, federal, and other funds. SHA accounts for the largest portion of the program at 46%. Transit funding, including WMATA and MTA, accounts for 40% of spending.

**Exhibit 13**  
**Proposed Capital Funding by Mode**  
**Fiscal 2014-2019**  
**(\$ in Millions)**



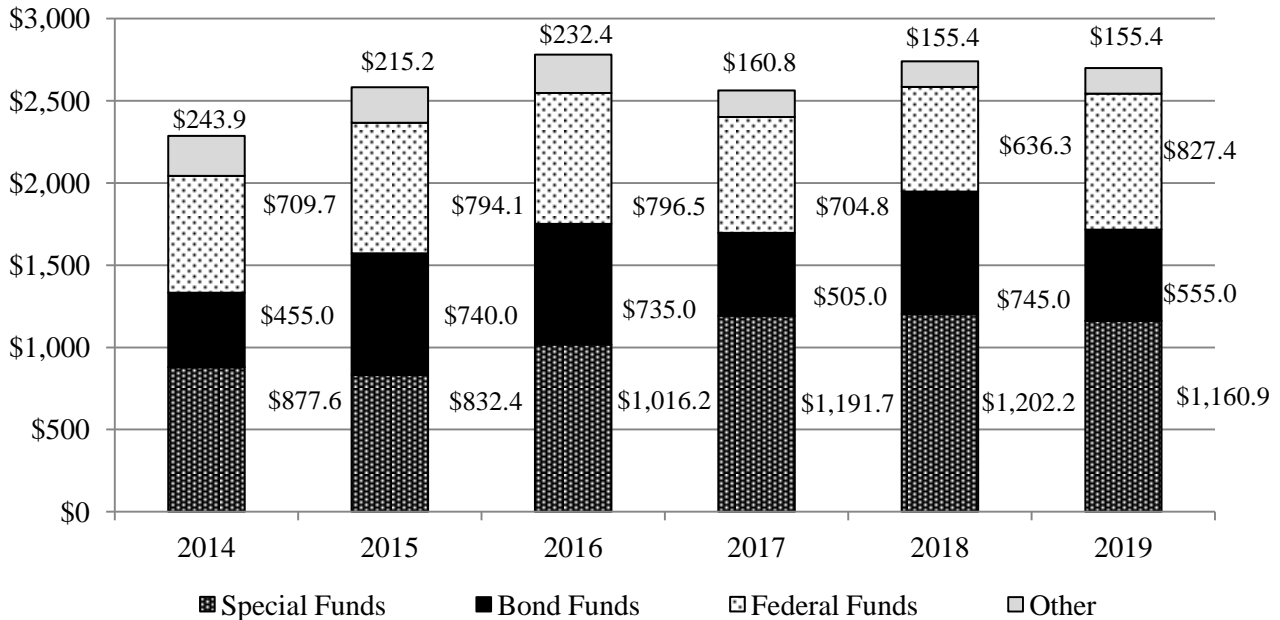
WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation, *2014-2019 Consolidated Transportation Program*

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**Exhibit 14** shows the level of special, federal, and other funds for each fiscal year of the capital program. Special funds, including bond funds, make up the largest share of the capital program, although federal funds also play a significant role.

**Exhibit 14**  
**Proposed Capital Funding by Year and by Source**  
**Fiscal 2014-2019**  
**(\$ in Millions)**



Source: Maryland Department of Transportation, *2014-2019 Consolidated Transportation Program*

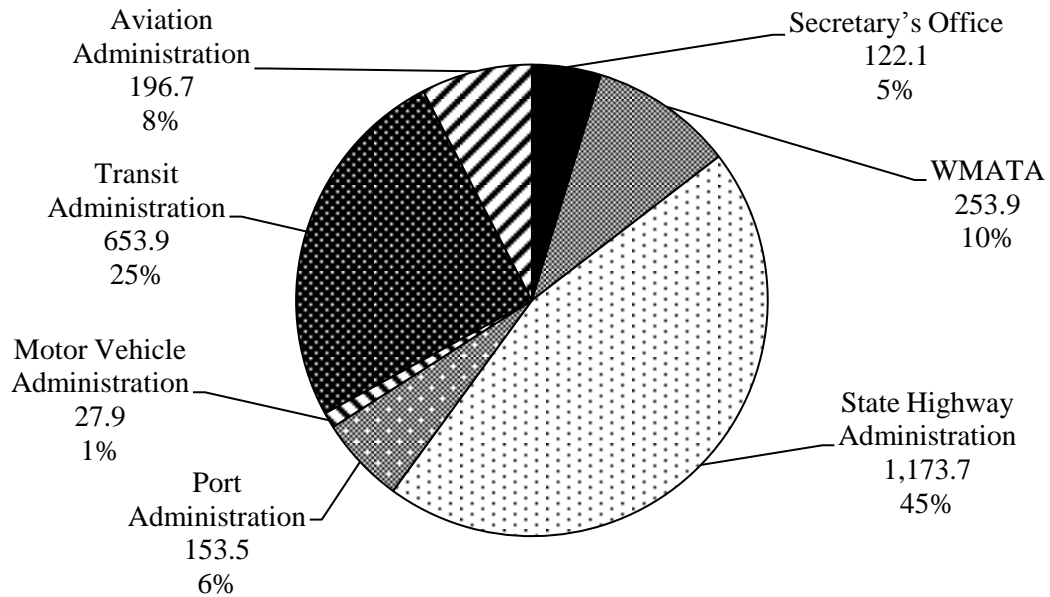
Capital spending in the 2014-2019 CTP totals \$15.6 billion, which is \$5.5 billion more than was included in the prior year CTP and reflects the programming of additional revenues derived from passage of the Transportation Infrastructure Investment Act. Capital spending is projected to vary between \$2.3 billion and \$2.8 billion during the six-year period with average annual spending of \$2.6 billion.

### Fiscal 2015 Capital Budget

**Exhibit 15** shows that, including other funding, the fiscal 2015 PAYGO capital budget totals \$2.6 billion, an increase of approximately \$295.5 million, or 12.9%, compared to fiscal 2014. Special funds increase \$239.8 million, federal funds increase approximately \$84.4 million, and other funds decrease \$28.7 million, due to cash flow needs of projects at MAA.

As shown, spending on highways and transit comprise the majority of capital spending in fiscal 2015. Approximately 45% of the capital program is for highway-related expenditures. Total transit spending (MTA and WMATA) accounts for 35% of capital spending.

**Exhibit 15**  
**Fiscal 2015 Transportation Capital Budget**  
**(\$ in Millions)**



WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation, *2014-2019 Consolidated Transportation Program*

**Other Funds**

The fiscal 2014-2019 CTP also includes \$215.2 million in other funds for fiscal 2015, as shown in **Exhibit 16**. The other funding is comprised of pass through federal money for WMATA, local county participation, passenger facility charges, and customer facility charges.

**Exhibit 16**  
**Fiscal 2015 Other Funds**  
**(\$ in Thousands)**

<u>Project</u>	<u>Other Source</u>	<u>2015 Funding</u>
Bethesda Metro Entrance D&E	Local	\$2,098
LOTS Elderly Handicapped Nonprofit Services	Local	1,491
Langley Park Transit Center	Local – WMATA	7,900
LOTS – Inter-City Bus Marketing Program	Local	6
LOTS Central Maryland Transit Facility	Local	2,657
<b>Total Other Funds MTA</b>		<b>\$14,152</b>
WMATA Capital Improvement Program	WMATA Federal	\$109,596
<b>Total Other Funds WMATA</b>		<b>\$109,596</b>
Concourse D/E Connector*	PFC	\$30,509
RSA/PMP Improvements	PFC	45,292
Loading Bridge Replacement Program	PFC	3,840
Consolidated Rental Car Facility Improvements	CFC	2,898
International Building Expansion	PFC	6,551
Snow Equipment	PFC	2,332
Concourse B/C Connector	PFC	5
<b>Total Other Funds MAA</b>		<b>\$91,427</b>
<b>Grand Total</b>		<b>\$215,175</b>

CFC: Customer Facility Charges  
D&E: development and evaluation  
LOTS: Locally Operated Transit Systems  
MAA: Maryland Aviation Administration  
MTA: Maryland Transit Administration  
PFC: Passenger Facility Charges  
PMP: Pavement Management Program  
RSA: Runway Safety Area  
WMATA: Washington Metropolitan Area Transit Authority

\* at Baltimore/Washington International Thurgood Marshall Airport

Source: Maryland Department of Transportation



## ***Issues***

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### **1. Federal Aid Outlook Uncertain**

Federal transportation funding aid to the states is currently provided through the two-year, \$105 billion authorization established through the passage of the Moving Ahead for Progress in the 21st Century Act (MAP-21) which was enacted in July 2012. MAP-21 authorizations continue through September 30, 2014. Under MAP-21, Maryland receives approximately \$780 million annually, comprising \$580 million in highway funding and \$200 million in transit funding.

#### **Federal Highway Trust Fund**

Most of the federal aid received by MDOT comes from the FHTF. The primary sources of revenue to the FHTF are excise taxes on gasoline and other motor fuels. These taxes have not been increased since 1993 and, similar to the situation faced by Maryland and other states, the federal fuel tax revenue collections have not kept pace with the rate of inflation. Since federal fiscal 2008, Congress has transferred approximately \$53 billion in general funds to the FHTF to support federal transportation aid spending. The Congressional Budget Office projects that an additional \$15 billion will need to be transferred to the FHTF in federal fiscal 2015 to prevent a shortfall unless revenues are increased, spending is reduced, or some combination of these two options is adopted.

#### **Maryland Transportation Trust Fund – Federal Aid Assumptions**

In recognition of the issues surrounding solvency of the FHTF, MDOT has incorporated conservative estimates of federal formula funding in its out-year forecast. Noting that, since federal fiscal 2004, obligation authority (the annual ceiling set by Congress on the amount of authorized money that can be obligated in a given year) has ranged from 84 to 95%, MDOT has assumed an obligation authority level of 85% for federal fiscal 2015, and 80% for federal fiscal 2016 through 2019.

In addition to formula funding, the CTP assumes significant federal discretionary aid through the Federal Transit Administration's New Starts program for construction of the Red and Purple Line transit projects. MDOT assumes that each project will receive \$900 million in New Starts funds, representing 34% of the Red Line estimated cost of construction and 38% of the Purple Line estimated cost of construction.

If Congress develops a permanent solution to FHTF funding which allows for spending levels to increase in future years, Maryland's transportation program will benefit vis-à-vis MDOT's current projections. Should Congress resort to spending cuts to restore FHTF solvency, the federal aid assumptions used by MDOT would need to be revised further downward. Likewise, failure to secure the \$1.8 billion assumed level of New Starts funding for the Red and Purple Line transit projects will require MDOT to reevaluate the timing and financing of these major initiatives.

**MDOT should comment on the federal funding risks associated with both federal formula and discretionary funding assumptions contained in its forecast and how significant decreases in either type of federal funding would be addressed.**

## **2. Local and Regional Transportation Funding Task Force Recommends Consideration of Local-option Revenue Sources**

The Transportation Infrastructure Investment Act (Chapter 429) required the creation of a Local and Regional Transportation Funding Task Force to evaluate and make recommendations pertaining to the feasibility of regional transit financing entities and local-option transportation revenues to help meet local and regional transportation system needs throughout the State. The legislation required the task force to report its findings and recommendations to the Governor and the General Assembly by December 15, 2013.

The task force met five times throughout the summer and fall of 2013 and heard presentations from a range of State and local representatives and national experts on current transportation funding in Maryland, local transportation funding levels and needs, local revenue and funding options, and examples of regional transportation financing entities around the country. The final report of the task force includes the following findings and recommendations:

- Maryland’s coordinated approach to transportation infrastructure funding, which is more centralized than peer states, has served the State well in terms of a multi-modal system focus, the extent of transportation investment, and the efficiency and effectiveness of that investment. This strength should be preserved moving forward;
- There is opportunity to expand the options available to counties and municipalities to facilitate increased investment in locally-owned transportation assets, but municipalities have very limited revenue-raising authority under current law;
- Regional Transportation/Transit Authorities should remain an option for future consideration for local governments, but many key characteristics, including governance and financing, should be detailed in any proposal for their use;
- The General Assembly should consider enabling the following local-option revenue sources for use at each local government’s discretion:
  - a newly enabled voluntary local-option vehicle registration fee (a \$20/year local-option rate would yield approximately \$96.0 million if imposed by all counties and municipalities);
  - an expansion of the local-option income tax increment specifically dedicated to transportation (a 0.06% local-option rate would yield approximately \$106.6 million if imposed by all counties and municipalities);

*J00 – MDOT – Fiscal 2015 Budget Overview*

- an expansion of local jurisdictions’ real estate transfer tax authority (a 0.35% local-option rate would yield approximately \$96.7 million); and
- the facilitation of the application of existing value capture techniques at the project level where market conditions and project dynamics allow; and
- Continued consideration should be given to identifying a reasonable, incremental strategy to provide local jurisdictions with an increase in the basic level of HUR in a method compatible with the appropriate expansion, preservation, and maintenance of the State transportation system.

**MDOT should comment on the findings and recommendations of the task force, particularly as it relates to possible adjustments to the distribution of HURs.**

## ***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 (CTP), 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 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 2014-2019 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 2014 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.

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<b>Information Request</b>	<b>Author</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) shall not expend funds on any job or position of employment approved in this budget in excess of xxx positions and xxx 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 2015. 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 2015 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>
Additional regular positions and contractual full-time equivalents	MDOT	As needed

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3. Add the following language:

It is the intent of the General Assembly that funds dedicated to the Transportation Trust Fund shall be applied to purposes bearing direct relation to the State transportation program, unless directed otherwise by legislation. To implement this intent for the Maryland Department of Transportation (MDOT) in fiscal 2015, no commitment of funds in excess of \$250,000 may be made nor such an amount may be transferred, by budget amendment or otherwise, for any project or purpose not normally arising in connection with the ordinary ongoing operation of MDOT and not contemplated in the approved budget or the last published Consolidated Transportation Program without 45 days of review and comment by the budget committees.

**Explanation:** This annual budget bill language prohibits MDOT from using transportation funds for uses other than for transportation-related purposes without review and comment by the budget committees.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Information on nontransportation expenditures exceeding \$250,000	MDOT	As needed

**Transportation Trust Fund Forecast**  
**Fiscal 2013-2019**  
**(\$ in Millions)**

	<u>Actual</u>							<u>Total</u>
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2014-2019</u>
<b>Opening Fund Balance</b>	<b>\$187</b>	<b>\$217</b>	<b>\$100</b>	<b>\$100</b>	<b>\$125</b>	<b>\$125</b>	<b>\$125</b>	
<b>Closing Fund Balance</b>	<b>\$217</b>	<b>\$100</b>	<b>\$100</b>	<b>\$125</b>	<b>\$125</b>	<b>\$125</b>	<b>\$150</b>	
<b>Revenues</b>								
Taxes and Fees	\$1,954	\$2,192	\$2,326	\$2,601	\$2,824	\$2,904	\$2,994	\$15,842
Operating and Misc.	571	514	556	602	656	689	678	3,695
Transfers between TTF and GF	0	0	0	0	0	0	0	0
MDTA Transfer	0	0	0	0	0	0	0	0
<b>Net Revenues Subtotal</b>	<b>\$2,525</b>	<b>\$2,706</b>	<b>\$2,882</b>	<b>\$3,203</b>	<b>\$3,480</b>	<b>\$3,593</b>	<b>\$3,672</b>	<b>\$19,537</b>
Bonds Sold	165	455	740	735	505	745	555	3,735
Bond Premiums	15	0	0	0	0	0	0	0
<b>Total Revenues</b>	<b>\$2,705</b>	<b>\$3,161</b>	<b>\$3,623</b>	<b>\$3,938</b>	<b>\$3,985</b>	<b>\$4,338</b>	<b>\$4,227</b>	<b>\$23,273</b>
<b>Expenditures</b>								
Debt Service	\$174	\$204	\$255	\$301	\$350	\$381	\$401	\$1,892
Operating Budget	1,638	1,740	1,793	1,868	1,941	2,015	2,089	11,446
State Capital	863	1,336	1,573	1,744	1,694	1,941	1,712	10,000
<b>Total Expenditures</b>	<b>\$2,675</b>	<b>\$3,280</b>	<b>\$3,623</b>	<b>\$3,912</b>	<b>\$3,984</b>	<b>\$4,337</b>	<b>\$4,202</b>	<b>\$23,339</b>
<b>Debt</b>								
Debt Outstanding	\$1,618	\$1,943	\$2,530	\$3,095	\$3,405	\$3,947	\$4,305	
Debt Coverage – Net Income	3.4	3.2	3.2	3.0	3.2	3.1	2.9	
<b>Local Highway User Revenues</b>	<b>\$160</b>	<b>\$164</b>	<b>\$169</b>	<b>\$173</b>	<b>\$176</b>	<b>\$179</b>	<b>\$183</b>	<b>\$1,044</b>
HUR Transfer to GF	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Capital Summary</b>								
State Capital	\$863	\$1,336	\$1,573	\$1,744	\$1,694	\$1,941	\$1,712	\$10,000
Net Federal Capital (Cash Flow)	707	710	794	796	705	637	827	4,469
<b>Subtotal Capital Expenditures</b>	<b>\$1,570</b>	<b>\$2,046</b>	<b>\$2,367</b>	<b>\$2,540</b>	<b>\$2,399</b>	<b>\$2,578</b>	<b>\$2,539</b>	<b>\$14,469</b>
GARVEE Debt Service	87	87	87	87	87	87	87	\$525

GARVEE: Grant Anticipation Revenue Vehicle  
 GF: general fund  
 HUR: Highway User Revenues  
 MDTA: Maryland Transportation Authority  
 TTF: Transportation Trust Fund

Source: Maryland Department of Transportation