
Maryland Department of Transportation Fiscal 2016 Budget Overview

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

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Analysis of the FY 2016 Maryland Executive Budget, 2015

J00 – MDOT – Fiscal 2016 Budget Overview

Analysis in Brief

Issues

Transportation Policy – Detours Ahead: The Transportation Trust Fund (TTF) forecast and the *Consolidated Transportation Program* (CTP) submitted as required with the Maryland operating budget were developed by the previous administration. Policy changes such as Highway User Revenue (HUR) funding levels and changes to the capital program (*e.g.*, the Red and Purple Lines) can have significant fiscal and budgetary impacts. **The Maryland Department of Transportation (MDOT) should brief the committees on the intended manner and timing of notifications to the legislature and the public of changes in policies or the capital program which will have significant fiscal or budgetary impacts. Language to restrict funding for local transportation aid and transit capital projects to the intended purposes is included in the Recommended Actions section of this analysis.**

Federal Aid Outlook Uncertain: Federal transportation funding aid to the states is currently provided through an extension of the Moving Ahead for Progress in the 21st Century Act (MAP-21), which will expire May 31, 2015. Most of the federal funding that MDOT receives comes from the Federal Highway Trust Fund (FHTF), which will have a shortfall in federal fiscal 2016 of \$17 billion unless Congress acts to raise revenues, reduce expenditures, or implement some combination of the two. State departments of transportation would like the budget certainty a long-term surface transportation authorization and an adequately funded FHTF would provide but continuation of the recent practices of short-term extensions and ad-hoc transfers to keep the FHTF solvent appears likely to continue. **MDOT should comment on the status of federal re-authorization efforts and the impact(s) to the capital program should Congress fail to pass a long-term re-authorization providing funding at, at least, the current level.**

Recommended Actions

1. Add annual budget bill language requiring notification of capital budget changes.
2. Add annual budget bill language establishing a position cap.
3. Add language restricting funds for local transportation aid and transit capital projects to those purposes.

Transportation Trust Fund Overview

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. The Maryland Transit Administration (MTA), the Motor Vehicle Administration (MVA), the Maryland Port Administration, and the Maryland Aviation Administration generate operating revenues that cover a portion of their operating expenditures.

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

Fiscal 2014 TTF Revenue Closeout

As shown in **Exhibit 1**, the TTF ended fiscal 2014 with a fund balance of \$255 million, an amount \$155 million higher than the \$100 million projected ending balance. The higher fund balance is the net effect of a lower than anticipated level of expenditures (\$239 million), which increases the fund balance, partially offset by a lower than expected level of revenue attainment (\$85 million), which decreases the balance.

Operating expenditures for MDOT were \$103 million higher than projected due primarily to winter maintenance and operations spending related to the large number of winter storm events. This increase was more than offset by decreases in planned capital spending of \$335 million. Of the decreased capital spending, \$106 million resulted from the Maryland State Highway Administration (SHA) spending federal funds before special funds. Delays in MTA projects accounted for the majority of the remaining decrease with some of the larger projects as follows:

- Maryland Area Regional Commuter rail car purchase delayed pending required federal review, and locomotive purchases delayed due to scope changes (\$75 million);
- Bus and Kirk main shops delayed by environmental issues (\$22 million);
- Purple Line right-of-way acquisition delayed (\$20 million); and
- Light rail car midlife overhaul delayed by subcontractor supplier (\$15 million).

Tax and fee revenues were \$15 million lower than expected. Motor fuel tax revenues were \$36 million under the estimate but revenues from the titling tax and corporate income tax each exceeded projections by \$13 million and \$10 million, respectively. The largest decrease in revenues was a reduction of \$110 million in planned bond sales made possible by the lower than projected spending.

Exhibit 1
Fiscal 2014 Transportation Trust Fund Closeout
(\$ in Millions)

	<u>Projected</u>	<u>Actual</u>	<u>Variance</u>
Starting Fund Balance	\$218	\$218	\$0
Revenues			
Motor Fuel Taxes	\$849	\$813	-\$36
Titling Taxes	728	741	13
Corporate Income Tax	153	163	10
Sales Tax – Rental Vehicles	32	30	-2
Registrations, and Miscellaneous MVA Fees	650	645	-5
MDOT Operating Revenues (MAA, MPA, MTA)	397	410	13
Other Receipts and Adjustments	117	149	32
Bond Proceeds and Premiums	455	345	-110
Total Revenues	\$3,381	\$3,296	-\$85
Uses of Funds			
MDOT Operating Expenditures	\$1,740	\$1,843	\$103
MDOT Capital Expenditures	1,336	1,001	-335
MDOT Debt Service	203	200	-3
Highway User Revenues	164	163	-1
Other Expenditures	56	53	-3
Total Expenditures	\$3,499	\$3,260	-\$239
Final Ending Fund Balance	\$100	\$255	\$155

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

Note: Totals may not sum due to rounding.

Source: Maryland Department of Transportation

Fiscal 2015 Year-to-date Revenue Receipts

Fiscal 2015 attainment for three of the TTF's largest revenue sources are lagging projections based on five-year average attainment rates. With collections recorded through November 2014, motor fuel tax revenues were \$15.4 million lower than expected, motor vehicle titling revenues were \$5.3 million lower, and motor vehicle registration revenues were off by \$3.0 million. Should attainment rates not improve, combined collections could fall short by approximately \$66.0 million for all of fiscal 2015 with motor fuel and titling tax revenues growing at lower than projected rates and registration revenues actually declining slightly from the fiscal 2014 level.

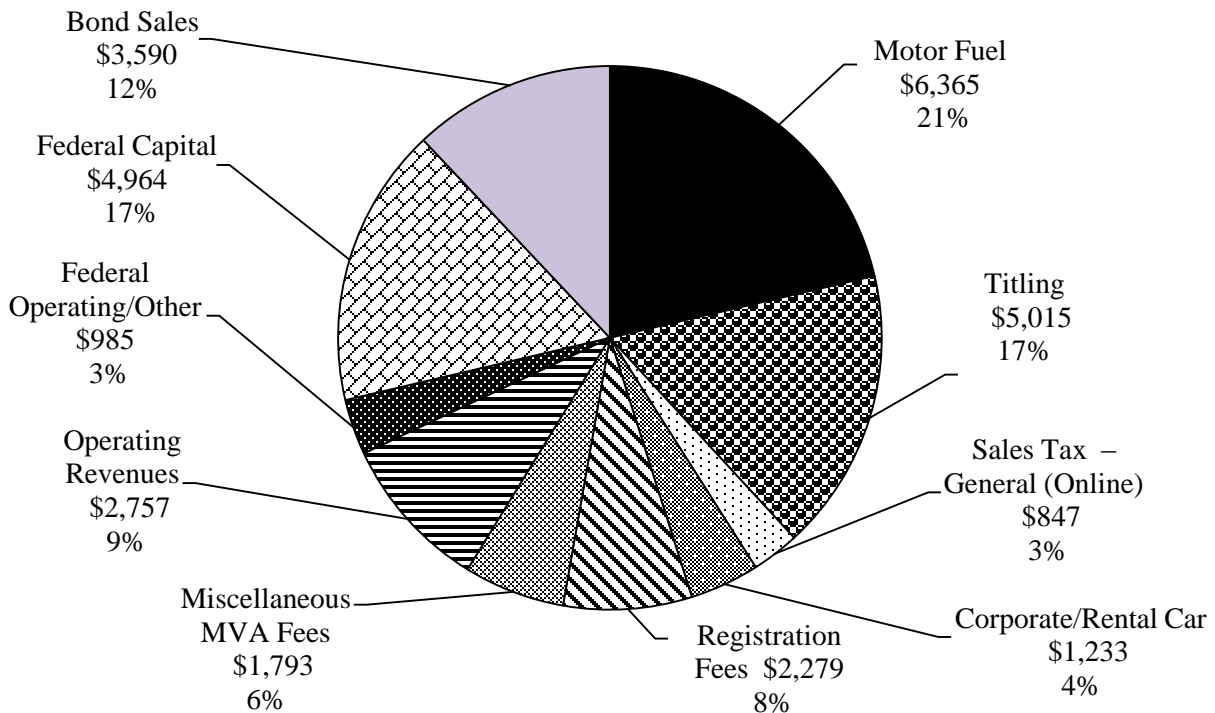
Fiscal 2015 through 2020 Revenues

Exhibit 2 shows that the TTF's largest revenue sources in the fiscal 2015 to 2020 forecast period are the motor fuel tax, titling tax, federal capital aid, and bond sale revenues, which collectively represent 67% of all projected revenues. MDOT is projecting that \$875 million in bonds will be sold to support the capital program in fiscal 2016 representing 17% of projected gross revenues. Over the six-year forecast period bond proceeds make up 12% of projected revenues.

The MDOT forecast assumes \$847 million in general sales tax revenues will be credited to the TTF under the provisions of Chapter 429 of 2013 (The Transportation Infrastructure Improvement Act). The TTF will share in the State's general sales tax, however, only if federal legislation (*e.g.*, Marketplace Fairness Act) allowing states to collect sales tax on online purchases is enacted by December 1, 2015. If such legislation is not enacted by December 1, however, contingent provisions of Chapter 429 provide for a phased increase of an additional 2 percentage points (for a final rate of 5%) in the motor fuel sales and use tax equivalent rate. The contingent increase in the motor fuel tax rate is projected to yield revenues roughly equal to the amounts the TTF would receive from the State's general sales tax if the required federal legislation is passed before the deadline.

Falling gasoline prices and lower than projected rates of inflation have lowered the projected amount of revenue that will be raised as a result of the revenue increases passed in fiscal 2013. The current TTF forecast projects \$279 million less revenue related to the fiscal 2013 changes than were estimated in the fiscal note for the fiscal 2014 to 2018 period (fiscal 2018 was the last year projected in the fiscal note.)

Exhibit 2
Transportation Trust Fund
State-sourced Revenues and Federal Funds
Fiscal 2015-2020
(\$ in Millions)



Total Revenues = \$29.8 Billion

MVA: Motor Vehicle Administration

Source: Governor’s Budget Books, Fiscal 2016, Volume I

Six-year Transportation Trust Fund Forecast Summary

Exhibit 3 shows the TTF forecast summary, including the fiscal 2014 actual and the fiscal 2015 to 2020 projections. It reflects MDOT’s decision to increase the target closing balance from the \$100 million level it used for many years to \$125 million for fiscal 2016 to 2018 and \$150 million thereafter. The increased fund balance will accommodate working cash-flow requirements during the year.

Exhibit 3
Transportation Trust Fund Forecast Summary
Fiscal 2014-2020
(\$ in Millions)

	Fiscal Year							Total <u>2015-2020</u>
	Actual <u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	
Opening Fund Balance	\$218	\$255	\$100	\$125	\$125	\$125	\$150	
Closing Fund Balance	\$255	\$100	\$125	\$125	\$125	\$150	\$150	
Net Revenues								
Taxes and Fees	\$2,177	\$2,290	\$2,511	\$2,711	\$2,788	\$2,875	\$2,941	\$16,117
Operating and Miscellaneous	559	557	544	659	688	685	609	\$3,742
Subtotal	\$2,737	\$2,847	\$3,055	\$3,370	\$3,476	\$3,560	\$3,550	\$19,859
Bond Proceeds	\$325	\$490	\$875	\$850	\$545	\$465	\$365	\$3,590
Bond Premiums	20	12	0	0	0	0	0	\$12
Fund Balance (Increase)/Use	-36	155	-25	0	0	-25	0	\$105
Total Net Revenues	\$3,045	\$3,504	\$3,905	\$4,220	\$4,021	\$4,000	\$3,915	\$23,566
Expenditures								
Debt Service	\$200	\$232	\$283	\$351	\$378	\$374	\$391	\$2,009
Operating Budget	1,843	1,805	1,896	1,961	2,050	2,114	2,200	\$12,026
State Capital	1,001	1,467	1,726	1,908	1,593	1,513	1,324	\$9,531
Total Expenditures	\$3,044	\$3,504	\$3,905	\$4,220	\$4,021	\$4,000	\$3,915	\$23,566
Debt								
Debt Outstanding	\$1,813	\$2,150	\$2,855	\$3,499	\$3,836	\$4,113	\$4,284	
Debt Coverage – Net Income	3.1	3.0	3.0	2.9	3.0	2.8	2.7	
Local Highway User Revenue	\$163	\$167	\$169	\$170	\$173	\$176	\$178	\$1,032
Capital Summary								
State Capital	\$1,001	\$1,467	\$1,726	\$1,908	\$1,593	\$1,513	\$1,324	\$9,531
Net Federal Capital (Cash Flow)	800	817	928	974	878	703	664	\$4,964
Total Capital Expenditures	\$1,801	\$2,284	\$2,654	\$2,882	\$2,471	\$2,216	\$1,988	\$14,495
GARVEE Debt Service	\$87	\$87	\$87	\$87	\$87	\$87	\$51	\$489

GARVEE: Grant Anticipation Revenue Vehicle

Source: Maryland Department of Transportation, *Transportation Trust Fund Forecast*, January 2015

J00 – MDOT – Fiscal 2016 Budget Overview

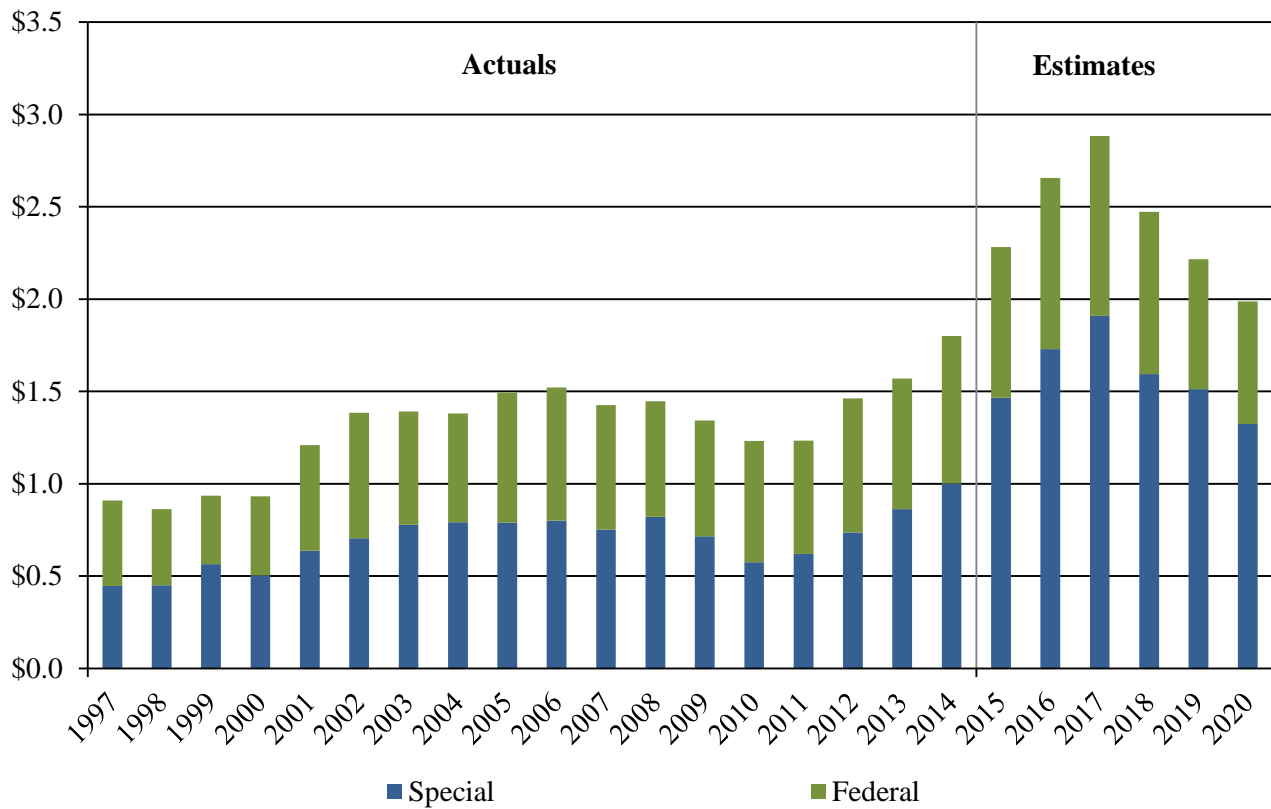
Revenues are used first to pay debt service on outstanding debt service and then to cover the department's operating expenses. Remaining revenues are used for the capital program, which is also funded through the sale of bonds and with federal capital aid. Over the six-year forecast period, debt funding through the sale of bonds is expected to cover nearly 25% of all capital expenditures. As a result, debt outstanding is projected to increase to nearly \$4.3 billion in fiscal 2020 from the \$1.8 billion level at the end of fiscal 2014. Bond covenants require the department to maintain a net income to debt service ratio of 2.0, but the department has an administrative policy to maintain a 2.5 ratio. As shown in Exhibit 3, the net income ratio steadily declines during the forecast period but remains above the minimum ratio, ending at 2.7 in fiscal 2020.

The Budget Reconciliation and Financing Act of 2015, as introduced, modifies the statutory requirement that the Governor include a total of \$395 million in the State operating or capital budgets between fiscal 2015 and 2019 for MDOT capital projects to comply with the Watershed Implementation Plan (WIP) to make MDOT responsible for providing the funds. The TTF forecast assumed that only the fiscal 2016 WIP funding requirement of \$65 million would not be provided through State general funds or general obligation bond authorizations. Should this provision remain in the bill as passed, MDOT will have \$285 million less over the six-year forecast period and will need to reduce its capital program by that amount. **MDOT should comment on the method(s) and timing it would use to adjust its six-year capital program in response to being required to provide the WIP funding required by statute.**

Capital Spending Trends

Exhibit 4 shows the increased level of planned capital spending compared with past years. Combined special and federal capital spending is expected to exceed \$2 billion for the first time in fiscal 2015 and remain above that level in all but the final year of the forecast period. As was mentioned in the fiscal 2014 closeout discussion earlier, for various reasons MDOT was unable to spend its entire capital appropriation in fiscal 2014 and ended up cancelling \$335 million in the budget closeout. The department's ability to achieve the projected levels of capital spending was raised in last year's budget overview in response to capital appropriation cancellations totaling \$122 million in the fiscal 2013 budget closeout. **The department should discuss the actions it has taken and plans to take to ensure it has the ability to manage the large increases in capital spending included in its six-year capital program.**

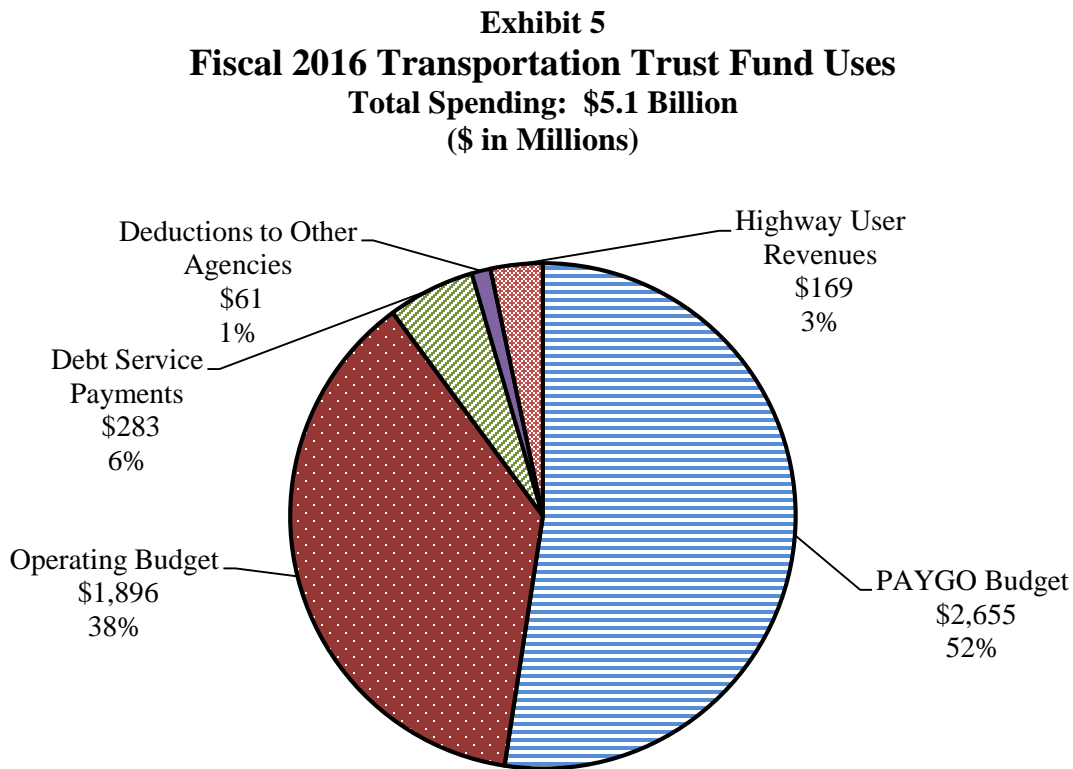
Exhibit 4
Capital Spending Trends
Fiscal 1997-2020
(\$ in Billions)



Source: Maryland Department of Transportation; Department of Legislative Services

Budget Overview

Exhibit 5 shows all expenditures from the TTF by category in fiscal 2016. 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 38% of total spending. The remainder of TTF expenditures go toward debt service on Consolidated Transportation Bonds (CTB), the share of the HUR distributed to counties and municipalities, and deductions to other State agencies.



PAYGO: pay-as-you-go

Note: The chart includes special funds from the Transportation Trust Fund and federal funds only. It excludes \$240 million in other funding for the capital program. For illustrative purposes, other funding can include the Maryland Transportation Authority, passenger facility charges, customer facility changes, 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 2015

Proposed Budget

Exhibit 6 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 2014 actuals through the 2016 allowance. The fiscal 2016 amounts have been adjusted to reflect back of the bill reductions totaling \$15.9 million (\$14.5 million special funds, \$1.4 million federal funds) which eliminate the general salary increase and salary increments. MDOT’s total fiscal 2016 allowance increases \$479.6 million, or 10.7%, compared to the fiscal 2015 working appropriation. Over 77.0% of the increase is attributable to increases in the capital budget (\$370.9 million). The remaining changes in descending order are the operating budget (\$81.7 million), debt service (\$27.3 million), and local aid (-\$0.4 million). Total special fund spending increases \$368.4 million, or 10.3%, compared to the fiscal 2015 working appropriation, while federal funds increase by \$111.2 million, or 12.2%. It should be noted that the fiscal 2015 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 2016 allowance. For example, debt service is currently projected at \$232.4 million in fiscal 2015, a reduction due to lower bond sales. Final numbers will be calculated in the budget closeout and reported as actuals with the submission of next year’s budget.

Exhibit 6 Transportation Budget Overview Fiscal 2014-2016

	<u>Actuals</u> <u>2014</u>	<u>Working App.</u> <u>2015</u>	<u>Allowance</u> <u>2016</u>	<u>\$ Change</u> <u>2015-2016</u>	<u>%</u> <u>Change</u> <u>2015-16</u>
Operating					
Secretary’s Office	\$76,141,565	\$84,070,883	\$83,014,617	-\$1,056,266	-1.3%
WMATA	268,339,937	285,621,000	320,422,000	34,801,000	12.2%
State Highway Administration	326,560,009	248,701,809	261,808,246	13,106,437	5.3%
Port Administration	45,504,592	48,741,126	50,907,847	2,166,721	4.4%
Motor Vehicle Administration	184,697,685	197,061,860	204,763,870	7,702,010	3.9%
Maryland Transit Administration	751,801,194	729,384,947	748,271,984	18,887,037	2.6%
Aviation Administration	189,739,630	180,757,230	186,814,449	6,057,219	3.4%
Subtotal	\$1,842,784,612	\$1,774,338,855	\$1,856,003,013	\$81,664,158	4.6%
Debt Service	\$200,455,245	\$255,369,913	\$282,666,738	\$27,296,825	10.7%
Local Highway User Grants	\$162,529,188	\$169,686,144	\$169,304,256	-\$381,888	-0.2%
Capital					
Secretary’s Office	60,832,125	82,615,000	87,282,582	4,667,582	5.6%
WMATA	136,654,906	169,345,000	132,091,000	-37,254,000	-22.0%
State Highway Administration	1,022,442,552	1,229,665,000	1,392,769,696	163,104,696	13.3%
Port Administration	76,838,826	97,289,000	159,416,917	62,127,917	63.9%
Motor Vehicle Administration	20,904,254	33,381,472	27,225,858	-6,155,614	-18.4%

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	Actuals	Working App.	Allowance	\$ Change	%
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2015-2016</u>	<u>2015-16</u>
Maryland Transit					
Administration	381,988,648	540,308,000	741,300,316	200,992,316	37.2%
Aviation Administration	101,203,915	129,747,000	113,127,104	-16,619,896	-12.8%
Subtotal	\$1,800,865,226	\$2,282,350,472	\$2,653,213,473	\$370,863,001	16.2%
Total of All Funds					
Special Fund	\$3,115,335,409	3,570,227,393	3,938,656,489	368,429,096	10.3%
Federal Fund	890,586,314	910,617,991	1,021,794,742	111,176,751	12.2%
Reimbursable Fund	712,548	900,000	900,000	0	0.0%
Grand Total	\$4,006,634,271	\$4,481,745,384	\$4,961,351,231	\$479,605,847	10.7%

WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland State Budget

Operating Budget Analysis

MDOT's operating allowance includes expenditures for each of the modes, as well as debt service and local HURs. The fiscal 2016 operating allowance totals just over \$2.3 billion, an increase of \$108.6 million, or 4.9%, compared to the fiscal 2015 working appropriation. Approximately 80.4% of the operating allowance is used for the operating budgets of each of the modes.

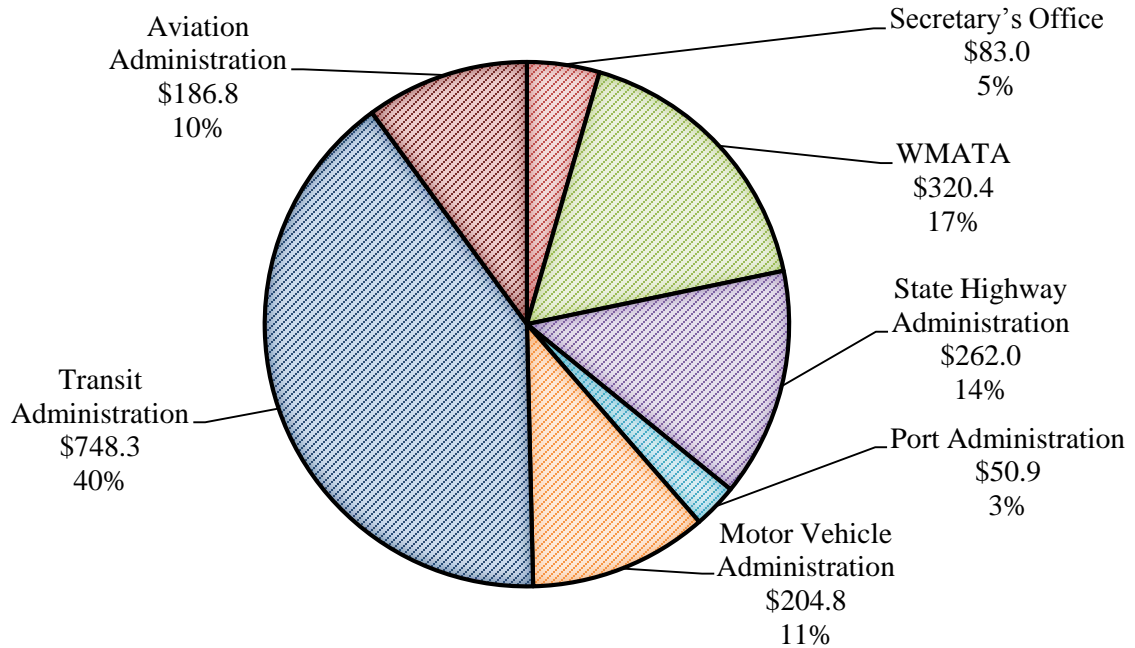
Fiscal 2016 Proposed Budget

Operating Programs

The fiscal 2016 allowance for operating programs adjusted to reflect the contingent reductions totals \$1.9 billion, an increase of \$81.7 million, or 4.6%, over the fiscal 2015 working appropriation. The largest increase, in both dollar terms and percentage, is for the Washington Metropolitan Area Transit Authority (WMATA) operating subsidy, which increases \$34.8 million, or 12.2%. Other dollar increases over \$10.0 million occur in the operating budgets for MTA (\$18.9 million or 2.6%), and SHA (\$13.1 million or 5.3%). The factors leading to these increases will be discussed in the budget analysis for each of the modes.

Exhibit 7 shows fiscal 2016 operating budget allowances by mode and provides the percentage of total operating spending that the budget for each mode represents. Combined MTA and WMATA transit spending represents the largest share of the operating budget, at 57%.

Exhibit 7
Fiscal 2016 Operating Budget Allowance by Mode
Total Spending = \$1.9 Billion
(\$ in Millions)



WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland State Budget Books, Fiscal 2016, Volume 1

Back of the Bill Reductions

Sections 20 and 21 of the fiscal 2016 of the budget bill eliminate the fiscal 2016 general salary increase and salary increment funds. These sections reduce the MDOT budget by \$8.8 million for the general salary increase and \$7.1 million for the salary increments for a total reduction for the department of \$15.9 million.

Personnel

As shown in **Exhibit 8**, the fiscal 2016 allowance contains 9,183.5 regular positions and 40.7 contractual full-time equivalents. There are no changes in the number of positions between the fiscal 2015 working appropriation and the fiscal 2016 allowance.

Exhibit 8
Regular and Contractual Full-time Equivalents
Operating and Capital Programs
Fiscal 2014-2016

	<u>2014</u>	<u>Working 2015</u>	<u>Allowance 2016</u>	<u>Change 2015-16</u>	<u>% Change 2015-16</u>
Regular Positions					
Secretary’s Office	308.0	308.5	308.5	0.0	0.0%
State Highway Administration	3,069.5	3,084.5	3,084.5	0.0	0.0%
Maryland Port Administration	225.0	224.0	224.0	0.0	0.0%
Motor Vehicle Administration	1,584.0	1,735.5	1,735.5	0.0	0.0%
Maryland Transit Administration	3,132.5	3,327.5	3,327.5	0.0	0.0%
Maryland Aviation Administration	499.5	503.5	503.5	0.0	0.0%
Total	8,818.5	9,183.5	9,183.5	0.0	0.0%
Contractual Full-time Equivalents					
Secretary’s Office	7.5	6.0	6.0	0.0	0.0%
State Highway Administration	22.0	17.0	17.0	0.0	0.0%
Maryland Port Administration	1.2	1.2	1.2	0.0	0.0%
Motor Vehicle Administration	84.2	0.0	0.0	0.0	n/a
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%
Total	131.4	40.7	40.7	0.0	0.0%

Source: Maryland State Budget

Debt Service

The budgeted fiscal 2016 allowance for debt service payments is \$282.7 million, an increase of \$27.3 million, or 10.7%, from the fiscal 2015 working appropriation. The increase is the result of established debt service schedules for previously issued bonds and the planned issuance of \$875.0 million in new debt in fiscal 2016.

At the end of fiscal 2016, CTB debt outstanding is expected to total \$2.9 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 Highway User Revenues

HUR are derived from a portion of tax and fee revenues that are deposited into the GMVRA and subsequently distributed among the TTF, Baltimore City, counties, and municipalities. The local share of HUR in fiscal 2016 is approximately \$169.3 million; a \$2.6 million increase over the current estimate for fiscal 2015 based on the downward revision of revenues reflected in the TTF forecast. The fiscal 2015 appropriation of \$169.7 million will be revised at the year-end closing of the budget to reflect the HUR distribution based on actual revenue attainment. One-time grants to municipalities which totaled \$16 million in fiscal 2015 are not continued in fiscal 2016.

Exhibit 9 provides a summary of HUR distribution for fiscal 2015 and 2016.

Exhibit 9 Distribution of Highway User Revenues Fiscal 2015-2016

	<u>Percent Share</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>
MDOT	90.4%	\$1,569,441,632	\$1,594,281,744
Local Share	9.6%	166,666,368	169,304,256
Total	100.0%	\$1,736,108,000	\$1,763,586,000
Local Distribution			
Baltimore City	7.7%	\$133,680,316	\$135,796,122
Counties	1.5%	26,041,620	26,453,790
Municipalities	0.4%	6,944,432	7,054,344
Total	9.6%	\$166,666,368	\$169,304,256
One-time Grants to Municipalities		\$16,000,000	\$0
Adjusted Total – Municipalities		\$22,944,432	\$7,054,344

MDOT: Maryland Department of Transportation

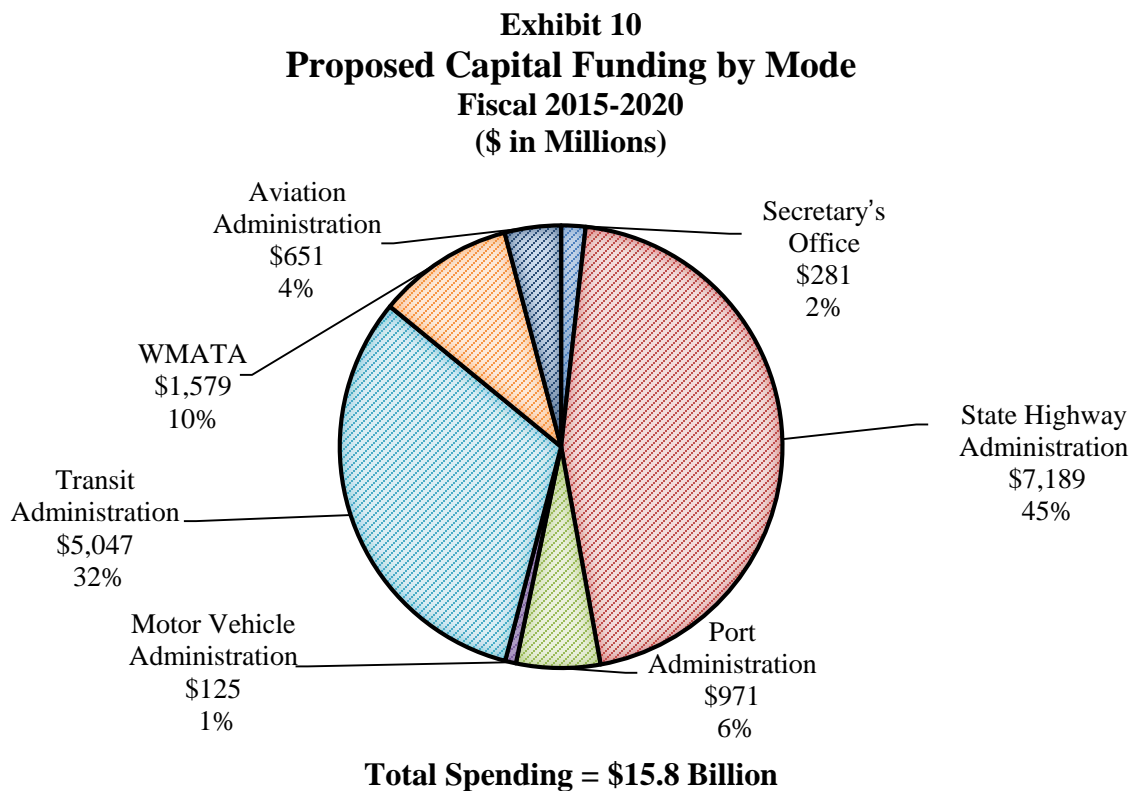
Source: Maryland Department of Transportation, *Transportation Trust Fund Forecast*, January 2015

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.

Fiscal 2015 through 2020 CTP

The fiscal 2015 through 2020 CTP totals \$15.8 billion for projects supported by State, federal, and other funds. This is an increase of approximately \$195 million over the fiscal 2014 through 2019 CTP. 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 10** 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 45%. Transit funding, including WMATA and MTA, accounts for 42% of spending.

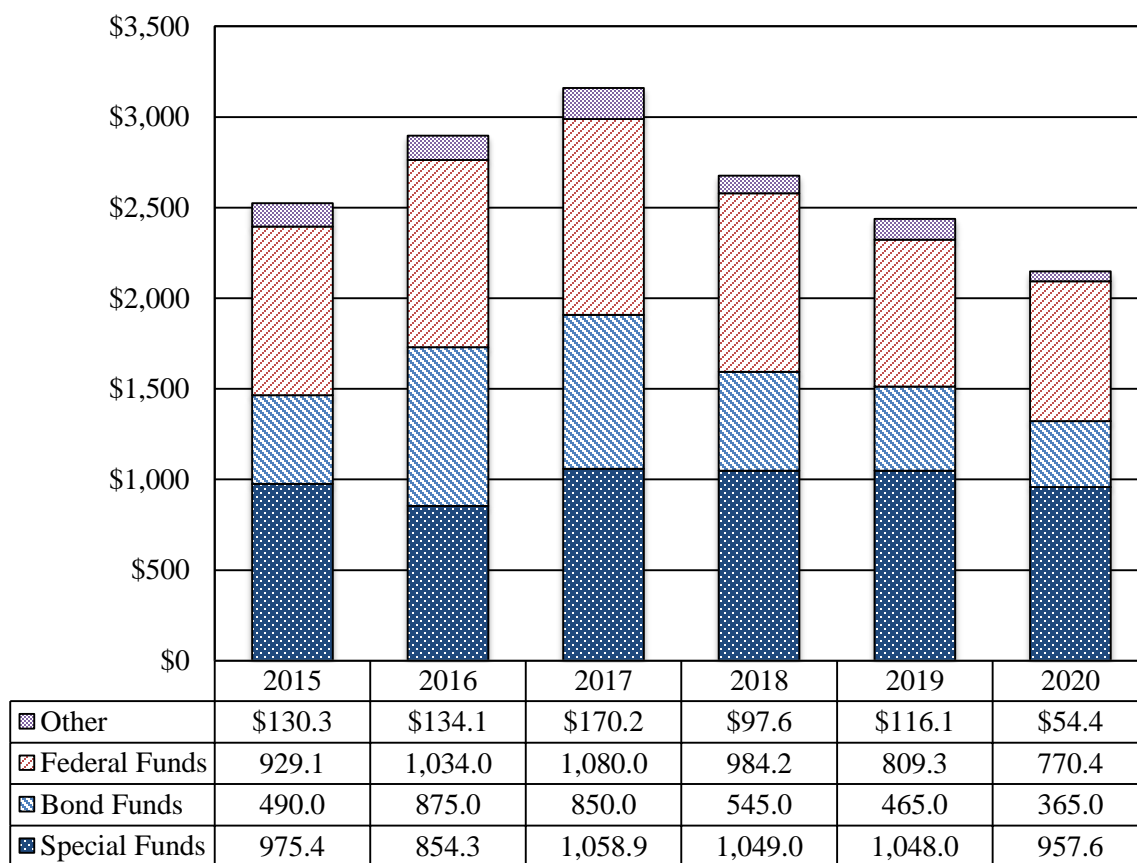


WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation, *2015-2020 Consolidated Transportation Program*

Exhibit 11 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 at just over 60%. Federal funds also play a significant role at just over 35% over the six-year program.

Exhibit 11
Proposed Capital Funding by Year and by Source
Fiscal 2015-2020
(\$ in Millions)

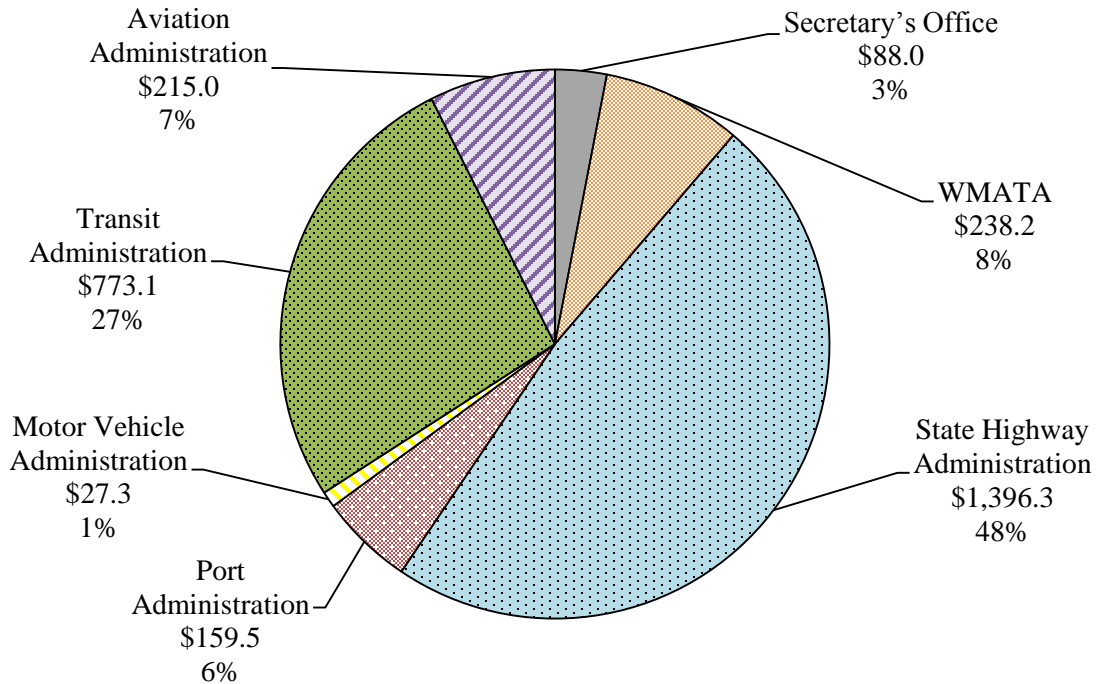


Source: Maryland Department of Transportation, *2015-2020 Consolidated Transportation Program*

Fiscal 2016 Capital Budget

Exhibit 12 shows that, including other funding, the fiscal 2016 PAYGO capital budget totals \$2.9 billion, an increase of almost \$373 million, or 14.8%, compared to fiscal 2015. Special funds increase \$263.9 million, federal funds, including federal funds received directly by WMATA, increase approximately \$104.9 million, and other funds increase by \$3.8 million.

Exhibit 12
Fiscal 2016 Transportation Capital Budget
Total Spending = \$2.9 Billion
(\$ in Millions)



WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation, 2015-2020 Consolidated Transportation Program

As shown, spending on highways and transit comprise the majority of capital spending in fiscal 2015. Approximately 48% of the capital program is for highway-related expenditures. Total transit spending (MTA and WMATA) accounts for 35% of capital spending.

Other Funds

The fiscal 2015 to 2020 CTP also includes \$134.1 million in other funds for fiscal 2016, as shown in **Exhibit 13**. The other funding is comprised of local county participation, passenger facility charges, and customer facility charges.

Exhibit 13
Fiscal 2016 Other Funds
(\$ in Thousands)

<u>Project</u>	<u>Other Source</u>	<u>2016 Funding</u>
Associated Purple Line Projects	Local – MO	\$30,569
LOTS Transportation Development Plan	Local	54
LOTS Elderly Handicapped Nonprofit Services	Local	911
LOTS Howard County Hybrid Vehicle Purchase	Local	41
LOTS Inter-City Bus Marketing Program	Local	3
Total Other Funds MTA		\$31,578
Canton Railroad Grant	Local – Canton Railroad Company	\$740
Total Other Funds TSO		\$740
D/E Connector	PFC	\$34,186
RSA/PMP Improvements	PFC	62,244
Loading Bridge Replacement Program	PFC	5,332
Total Other Funds MAA		\$101,762
Grand Total		\$134,080

LOTS: locally operated transit systems
 MAA: Maryland Aviation Administration
 MO: Montgomery County
 MTA: Maryland Transit Administration
 PFC: Passenger Facility Charges
 PMP: Pavement Management Program
 RSA: Runway Safety Area
 TSO: The Secretary's Office

Source: Maryland Department of Transportation

Issues

1. Transportation Policy – Detours Ahead

The TTF forecast and the CTP submitted as required with the Maryland operating budget were developed by the previous Administration. With submission deadlines leaving little time for meaningful changes to be made, the new Administration allowed MDOT to submit the documents “as is.” Consequently, the budget and the capital program about which the budget committees and subsequently the General Assembly will be making decisions do not reflect the new Administration’s priorities, which could have major effects on how funds are expended and which capital projects continue to move ahead. Policy positions stated during the gubernatorial campaign – restoration of HUR funding to local governments, the level and timing of spending on mass transit (specifically the Red and Purple Lines), *etc.*, – could have a significant impact on transportation spending if implemented during fiscal 2016. **MDOT should brief the committees on the intended manner and timing of notifications to the legislature and the public of changes in policies or in the capital program which will have significant fiscal or budgetary impacts. Language to restrict funding for local transportation aid and transit capital projects to the intended purposes is included in the Recommended Actions section of this analysis.**

2. Federal Aid Outlook Uncertain

Federal transportation funding aid to the states is currently provided through an extension of the two-year, \$105 billion authorization established through the passage of MAP-21, which, absent the extension, would have expired September 30, 2014. Under MAP-21, Maryland receives approximately \$780 million annually, comprising \$580 million in highway funding and \$200 million in transit funding. The current extension, which expires May 31, 2015, continues transportation funding to the states at the federal fiscal 2014 levels. State departments of transportation would like to see Congress pass a long-term surface transportation authorization bill to provide a level of certainty in planning capital projects, which often take years to plan and construct. A major impediment to passing a long-term authorization, however, is a lack of consensus on how to raise the necessary amount of revenues to support projected spending levels.

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 the federal fuel tax revenue collections have not kept pace with the rate of inflation. Since federal fiscal 2008, Congress has transferred approximately \$65 billion in general funds to the FHTF to support federal transportation aid spending. The August 2014 baseline calculations for the FHTF by the Congressional Budget Office projects a shortfall of \$2 billion in federal fiscal 2015, which will grow to \$17 billion for federal fiscal 2016 unless revenues are increased, spending is reduced, or some combination of these two options is adopted. Over the past year, numerous proposals have been discussed ranging from a straight increase in the current federal gas tax,

to development of a vehicle miles traveled tax, to use of increased revenues associated with corporate tax reforms. To date, no proposal appears to have gained sufficient traction to be considered likely to occur. Should Congress fail to agree on a long-term authorization and funding source, states could be faced with continued short-term extensions with associated ad hoc solutions to FHTF shortfalls.

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 84.0% to 95.0% and was 94.7% in federal fiscal 2014, MDOT has assumed an obligation authority level of 87.5% for federal fiscal 2016 and 80.0% for federal fiscal 2017 through 2020.

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. Each project has been recommended for \$900 million in New Starts funds, and the first \$100 million of this funding for each project would be available in federal fiscal 2015 if Full Funding Grant Agreements are signed during the fiscal year.

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.

MDOT should comment on the status of federal reauthorization efforts and the impact(s) to the capital program should Congress fail to pass a long-term reauthorization providing funding at, at least, the current level.

Recommended Actions

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 2015 through 2020 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 2015 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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Information Request	Author	Due Date
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 2016. 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 2016 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.

Information Request	Author	Due Date
Need for additional regular or contractual positions	MDOT	As needed

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3. Add the following language:

Further provided that no funds may be expended for any program of assistance to counties or municipalities for roads or other transportation purposes unless the funds were included in the budget as submitted or in a modification to that budget by a supplemental budget that is approved by the General Assembly and provides the specific intended distribution of funds.

Further provided that \$46,416,000 of the appropriation intended for the Red Line project and \$127,732,000 of the appropriation intended for the Purple Line Project, included in the appropriation for program J00H01.05 Facilities and Capital Equipment, may only be expended in those amounts for those purposes unless otherwise provided for in a supplemental budget as approved by the General Assembly.

Explanation: This language restricts funding for transportation aid to local governments and for major transit capital projects to the purposes intended unless the funding is modified in a supplemental budget approved by the general Assembly.

**Transportation Trust Fund
Transfers to/from State General Fund**

<u>Fiscal Year</u>	<u>Transfers from the Trust Fund to the General Fund</u>	<u>Transfers from the General Fund to the Trust Fund</u>
1984	\$29.0 million (Budget Shortfall) ⁽¹⁾	
1986	\$100.0 million Maryland Deposit Insurance Fund (Savings and Loan Crisis)	
1987		\$15.0 million (Partial payback of \$129.0 million)
1988		\$30.0 million (Partial payback of \$129.0 million)
1989		\$36.0 million (Partial payback of \$129.0 million)
1990		\$36.0 million (Partial payback of \$129.0 million)
1991	\$22.2 million (Budget Shortfall) ⁽³⁾	\$12.0 million (Final payback of \$129.0 million)
1992	\$48.0 million (Budget Shortfall) ⁽⁴⁾ Equal to biennial registration windfall	
1994	\$3.8 million (Early Retirement Veto – 111 PINs) ⁽⁵⁾	
1995	\$1.3 million (Early Retirement Veto – 46 PINs) ⁽⁶⁾	
1997		\$6.0 million (Failure of Fuel Efficiency Legislation) ⁽⁷⁾
1998		\$21.0 million (Failure of Fuel Efficiency Legislation) ⁽⁷⁾
1999		\$15.0 million (Failure of Fuel Efficiency Legislation) ⁽⁷⁾
2002		\$23.1 million (Share of rental car sales tax paid in fiscal 2002 as part of transit initiative). ⁽⁸⁾
2003	\$160.0 million (Budget shortfall) ⁽⁹⁾	
2004	\$154.9 million (Budget shortfall) ⁽⁹⁾	
2006		\$50.0 million partial payback of \$314.9 million ⁽¹⁰⁾
2012	\$100.0 million ⁽¹¹⁾	\$40.0 million ⁽¹¹⁾
2014		\$26.0 million ⁽¹¹⁾
2015		\$25.0 million ⁽¹¹⁾
2016		\$21.0 million ⁽¹¹⁾
Total Paid ICC Repayment	\$619.2 million	\$356.1 million \$264.9 million ⁽¹²⁾
Total with ICC	\$619.2 million	\$621.0 million

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BRFA: Budget Reconciliation and Financing Act

GF: general fund

GO: general obligation

HB: House Bill

ICC: InterCounty Connector

MDTA: Maryland Transportation Authority

PIN: position identification number

TTF: Transportation Trust Fund

¹Authorized by Chapter 62 of 1983. Preamble specified future GF repayment.

²Authorized by Chapter 1 of 1986. Preamble and body specify repayment of this transfer, and the \$29.0 million transfer from the 1983 session.

³Authorized by Chapter 470 of 1991. Funds were transferred to reduce GF shortfall. The statute contains no reference to GF repayment.

⁴Authorized by Chapter 62 of 1992. Funds transferred to balance the GF budget. The statute contains no reference to GF repayment.

⁵Authorized by Chapter 269 of 1992, and Chapter 64 of 1992 (Fiscal 1993 Budget Bill). All abolished positions from any special fund were transferred to the GF, without mention of GF repayment.

⁶Authorized by Chapter 204 of 1993, and Chapter 8 of 1993 (Fiscal 1994 Budget Bill). All abolished positions from any special fund were transferred to the GF, without mention of GF repayment.

⁷Payment outlined in Chapter 204 of 1993 to make up for the loss of \$72.0 million from failure of legislation relating to the fuel efficiency surcharge.

⁸Chapter 440 of 2002 (BRFA of 2002) altered provisions of the transit initiative. The TTF share of the rental car sales tax was returned to 45% and \$9.6 million from the uninsured motorist fee.

⁹Chapter 203 of 2003 (BRFA of 2003/HB 935) transferred a total of \$314.9 million to the GF and required that the Administration submit a plan by December 1, 2003, on the proposed repayment of funds.

¹⁰Chapter 430 of 2004 (BRFA of 2004) included a provision to repay the TTF the \$314.9 million borrowed in 2003 and 2004. It required that a general fund surplus in excess of \$10.0 million be appropriated to the TTF, not to exceed \$50.0 million per year and only until such time that \$314.9 million is repaid to the TTF. Only \$50.0 million was directly paid to the TTF, and GO/GF payments to the MDTA toward the cost of the ICC, are regarded as full repayment of the total \$314.9 million transfer.

¹¹HB 72 of 2011 (the BRFA of 2010) transferred \$100.0 million from the TTF with \$60.0 million going to the GF and \$40.0 million to the Rainy Day Fund. Unlike the Administration's proposal, the bill includes the repayment of the \$60.0 million from the GF from fiscal 2014 to 2016. The repayment schedule is \$26.0 million in fiscal 2014, \$25.0 million in fiscal 2015, and \$21.0 million in fiscal 2016 and is done through the reconciliation of corporate income tax revenues and is not an explicit repayment schedule. The \$40.0 million to the Rainy Day Fund is repaid through the additional revenue that was raised for transportation in fiscal 2012.

¹²This total reflects GF or GO bond funds received by MDTA for the ICC, as a contribution on behalf of the TTF. The \$264.9 million contribution is regarded as an offset to the prior transfer of \$314.9 million from the TTF in fiscal 2003 and 2004.

Note: In the past, different versions of this chart have been presented by both the Maryland Department of Transportation (MDOT) and the Department of Legislative Services (DLS). Over the 2014 interim, DLS and MDOT reviewed the information and agreed on the information presented above.

Source: Maryland Department of Transportation; Department of Legislative Services