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# Maryland Department of Transportation Fiscal 2011 Budget Overview

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

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*Analysis of the FY 2011 Maryland Executive Budget, 2010*

*J00 – MDOT – Fiscal 2011 Budget Overview*

## ***Budget Overview***

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The Maryland Department of Transportation (MDOT) is responsible for statewide transportation planning and the development, operation, and maintenance of key elements of the transportation system. It is involved in all modes of transportation within the State, including the construction and maintenance of State roads, regulation and licensing of drivers and vehicles, and operation of bus and rail transit services. In addition, MDOT owns and operates Martin State Airport, Baltimore/Washington International Thurgood Marshall Airport, and terminals in the Helen Delich Bentley Port of Baltimore.

Transportation in Maryland is funded through the Transportation Trust Fund (TTF), a nonlapsing special fund revenue account whose revenue sources include motor fuel tax receipts, titling tax receipts, vehicle registration fees, a portion of the corporate income and sales taxes, revenues generated by the individual modes, proceeds from the sale of bonds, and federal highway and transit aid.

## ***Analysis in Brief***

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### **Issues**

***Update on Stimulus Spending:*** As part of the American Recovery and Reinvestment Act of 2009 (ARRA), Maryland received additional federal formula funding for highways and transit. To date, a large portion of that funding has been advertised with construction beginning on many projects. The ARRA also included two large competitive grant programs through which the department has applied for funding. While the department continues to work on spending the first round of stimulus funding, there is also the potential for a second round of stimulus funding. **The Department of Legislative Services (DLS) recommends that MDOT discuss its progress in spending the stimulus funds and any issues associated with the first or potential second round of stimulus funds.**

***Federal Aid Issues:*** Federal aid for transportation is derived from the federal gas tax which is deposited in the federal Highway Trust Fund. In recent years, the level of aid distributed to states has exceeded the level of revenues received, which has created a funding shortfall in the Highway Trust Fund requiring general fund transfers for aid to continue to states. In addition, a provision in the last reauthorization has reduced the current level of federal aid available to states. Further complicating federal aid is that the current authorization for transportation funding has expired and the debate as to how to pay for future aid, as well as broader policy concerns, has resulted in little legislative activity on the next authorization. **DLS recommends that the department discuss the current state of federal aid to Maryland and the uncertainty with federal aid at the moment. In addition, the department should discuss what the important issues are in the upcoming reauthorization policy debate.**

## *J00 – MDOT – Fiscal 2011 Budget Overview*

***Altering the Sales Tax Distribution:*** Currently, the TTF receives 5.3% of sales tax revenues and that rate is set to increase to 6.5% in fiscal 2014. **DLS recommends that a provision be included in the Budget Reconciliation and Financing Act of 2010 that would cap the distribution of the sales tax to the TTF at 5.3% to provide additional revenue to the general fund. By making a change now, the department has sufficient time to make changes to the capital program to account for the loss of revenue.**

***Homeland Security Costly, Yet Vital:*** In December 2009, the Governor’s Office of Homeland Security, with assistance from MDOT and a number of other agencies, submitted its first annual report on homeland security spending. The report found that while Maryland is making significant progress toward its 12 core goals for a prepared Maryland, more work remains to be done. Furthermore, given that the goal of homeland security is often a moving target, projects will continue to arise and funding sources will need to be identified. **DLS recommends that the Secretary discuss homeland security initiatives currently underway and how the department will fund future projects given the current economic situation.**

### **Recommended Actions**

1. Add annual budget bill language pertaining to capital budget changes.
2. Add annual budget language on non-transportation expenditures.
3. Add annual budget language to establish an annual position ceiling.
4. Add budget bill language requiring an updated financial forecast with the March 2011 revenue estimate.

### **Updates**

***Maryland’s First Statewide Freight Plan Released:*** In September 2009, MDOT issued its first statewide freight plan, which provides a comprehensive overview of the State’s current and long-term freight system performance and outlines the investments and policies needed to ensure the efficient movement of freight. It identifies more than 100 port, highway, and rail projects totaling about \$35 billion to keep freight moving. To fund these projects, MDOT intends to seek federal funding, increase State funding, or pursue public-private partnerships.

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

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The Transportation Trust Fund (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. The Maryland Department of Transportation (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 (MPA), 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 and sales taxes, and other miscellaneous motor vehicle fees. A portion of these revenues are credited to the Gasoline and Motor Vehicle Revenue Account (GMVRA). Thirty percent of the GMVRA revenues are distributed to local jurisdictions, and the remainder is retained by the TTF. The funds retained by the TTF support the capital program, debt service, and operating costs.

### **Fiscal 2009 Transportation Trust Fund Revenue Closeout**

The TTF ended fiscal 2009 with a fund balance of \$245 million, \$145 million higher than originally estimated. As shown in **Exhibit 1**, revenues totaled \$3,087 million, a decrease of \$41 million compared to the January 2009 estimate. Tax and fee revenue declined \$60 million with the titling tax experiencing the largest decline at \$36 million, or 6.5%. Motor fuel tax revenues declined \$5 million and vehicle registration fees declined \$10 million. Overall, revenues did not meet January estimates due to the recession, tight credit markets, and high unemployment which impacted vehicle sales and vehicle miles traveled. Other major changes to revenues include higher than estimated miscellaneous revenues, in particular capital reimbursements, and a reduced bond sale.

On the expenditure side of the ledger, capital budget expenditures were \$121 million less than the January estimate. Declining revenues resulted in capital reductions (\$75 million) that were identified in March 2009, and a wet spring delayed construction. Operating budget expenditures were \$50 million less than expected due to a larger than normal level of cancellations at the end of the fiscal year as part of the department's cost containment efforts. Highway user revenues were \$11 million less than estimated due to revenue underattainment.

**Exhibit 1**  
**Transportation Trust Fund Closeout**  
**Fiscal 2009**  
**(\$ in Millions)**

	<b>Projected FY 2009</b>	<b>Actual FY 2009</b>	<b>Variance</b>
<b>Starting Fund Balance</b>	<b>\$53</b>	<b>\$53</b>	<b>\$0</b>
<b>Revenues</b>			
Titling Taxes	\$550	\$514	-\$36
Motor Fuel Taxes	741	736	-5
Sales Tax	207	202	-5
Corporate Income, Registrations, and Misc. MVA Fees	726	712	-14
Other Receipts and Adjustments	484	521	37
Bond Proceeds and Premiums	420	402	-18
<b>Total Revenues</b>	<b>\$3,128</b>	<b>\$3,087</b>	<b>-\$41</b>
<b>Uses of Funds</b>			
MDOT Operating Expenditures	\$1,576	\$1,526	-\$50
MDOT Capital Expenditures	837	716	-121
MDOT Debt Service	142	142	0
Highway User Revenues	478	467	-11
Other Expenditures	48	44	-4
<b>Total Expenditures</b>	<b>\$3,081</b>	<b>\$2,895</b>	<b>-\$186</b>
<b>Ending Fund Balance</b>	<b>\$100</b>	<b>\$245</b>	<b>\$145</b>

MDOT: Maryland Department of Transportation  
MVA: Motor Vehicle Administration

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

Source: Maryland Department of Transportation, Transportation Trust Fund Forecast, January 2010

**Fiscal 2010 Year-to-date Revenue Receipts**

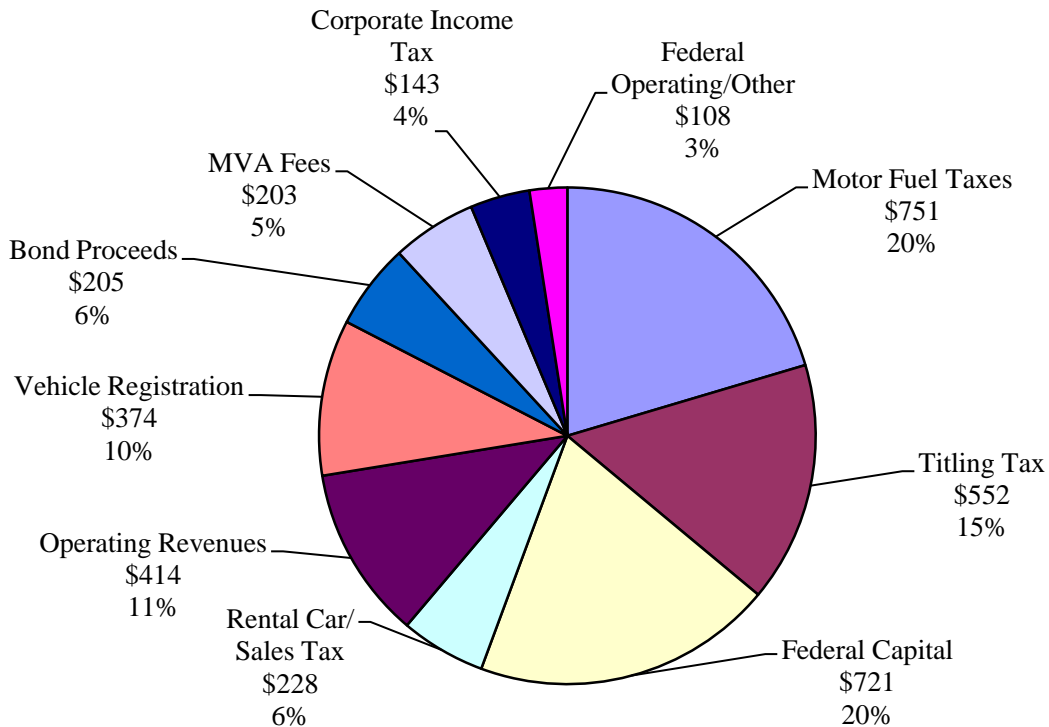
The largest tax and fee revenues are motor fuel taxes, titling taxes, and registration fees. Fiscal 2010 revenues have been revised downward since January 2009; however, similar to the general fund, revenues appear to have stabilized in recent months. Through December 2009, revenue collection for the major revenue sources is largely in line with fiscal 2010 revenue estimates. The titling tax is ahead of the fiscal 2010 estimate; however, the fiscal 2010 revenue estimate for the titling tax is even with actual fiscal 2009 collections. It is expected that “Cash for Clunkers” provided a temporary boost to sales but merely pulled vehicle sales forward that would have otherwise occurred during fiscal 2010. Preliminary

motor fuel tax revenue estimates show that November and December were weak revenue months and that revenues are approximately \$5 million less than the estimate. Registrations are largely in line with the revenue estimate. Risks persist for revenues as continued high unemployment and rising gas prices could still adversely impact motor fuel tax and titling tax revenues.

### Fiscal 2010 through 2015 Revenue Projections

Exhibit 2 shows that the TTF’s largest revenue sources in fiscal 2011 are the motor fuel and titling taxes and federal aid for the capital program, which represent almost \$2 billion (56%) of all fund sources. MDOT is projecting that \$205 million in bonds will be sold to supplement the transportation capital program in fiscal 2011.

**Exhibit 2**  
**Transportation Trust Fund**  
**State-sourced Revenues and Federal Funds**  
**Fiscal 2011**  
**Total \$3,699 Million**  
**(\$ in Millions)**



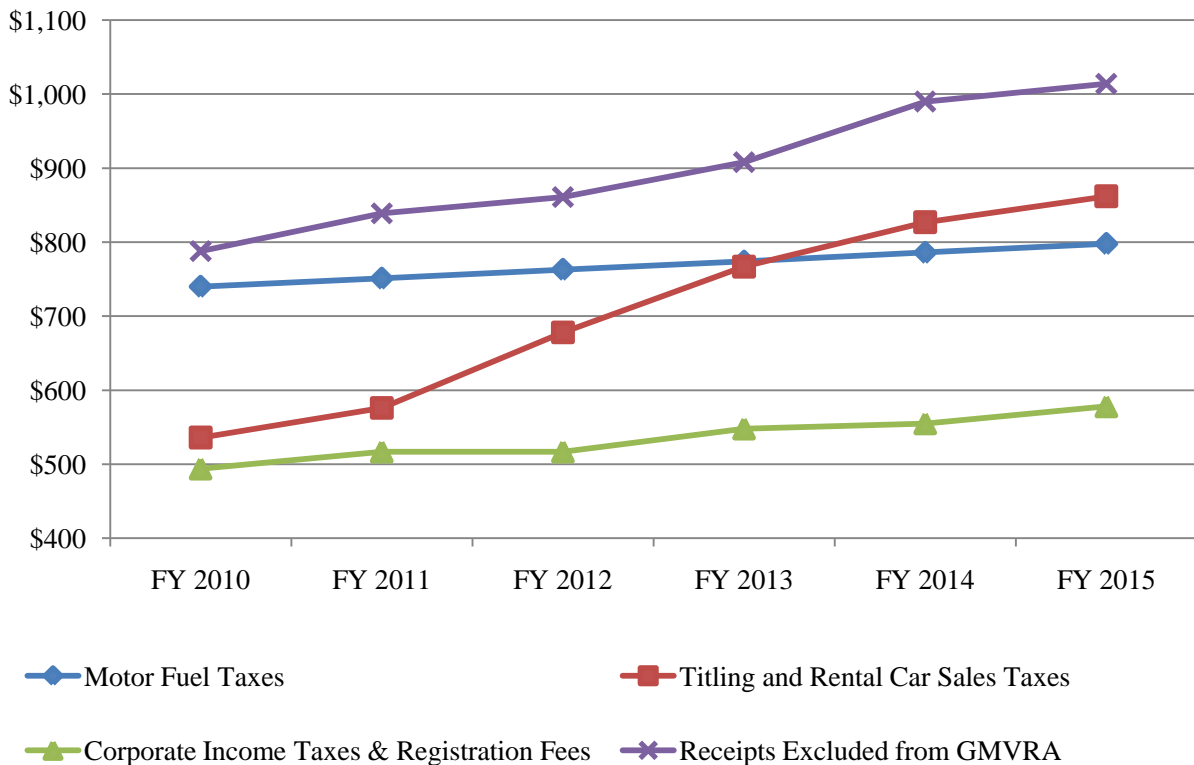
MVA: Motor Vehicle Administration

Source: Governor’s Budget Books, Fiscal 2011, Volume I, pages 594-598

**Exhibit 3** shows that MDOT’s State-sourced revenues are expected to grow throughout the financial forecast period. Over the six-year period, GMVRA revenues, after deductions, are expected to increase from a total of \$1.5 billion in fiscal 2010 to \$1.9 billion in fiscal 2015, an average annual growth rate of 4.2%. Average annual growth for the titling tax is estimated to be 10.2% with higher levels of growth in fiscal 2012 and 2013 as the economy is expected to recover. Motor fuel tax receipts are expected to grow approximately 1.5% annually with registration fees and corporate income taxes growing at 3.4% annually. The growth from fiscal 2013 to 2014 in receipts excluded from GMVRA is due to the sales tax distribution rate to the TTF changing from 5.3 to 6.5%. It should also be noted that beginning in fiscal 2012, MDOT’s share of GMVRA revenues will increase to 71.5%, and the local share will decrease to 28.5%.

A summary of the total financial forecast may be found in **Appendix 1**.

**Exhibit 3**  
**Transportation Trust Fund**  
**Forecasted State-sourced Revenues**  
**Fiscal 2010-2015**  
**(\$ in Millions)**



GMVRA: Gasoline and Motor Vehicle Revenue Account

Source: Maryland Department of Transportation, Transportation Trust Fund Forecast, January 2010

## **Fund Transfers between the TTF and Other Funds**

In fiscal 2010, the TTF will transfer the final \$30 million special fund contribution to the Maryland Transportation Authority (MDTA) for the InterCounty Connector (ICC). This is required by Chapters 471 and 472 of 2005, which established a finance plan for the ICC.

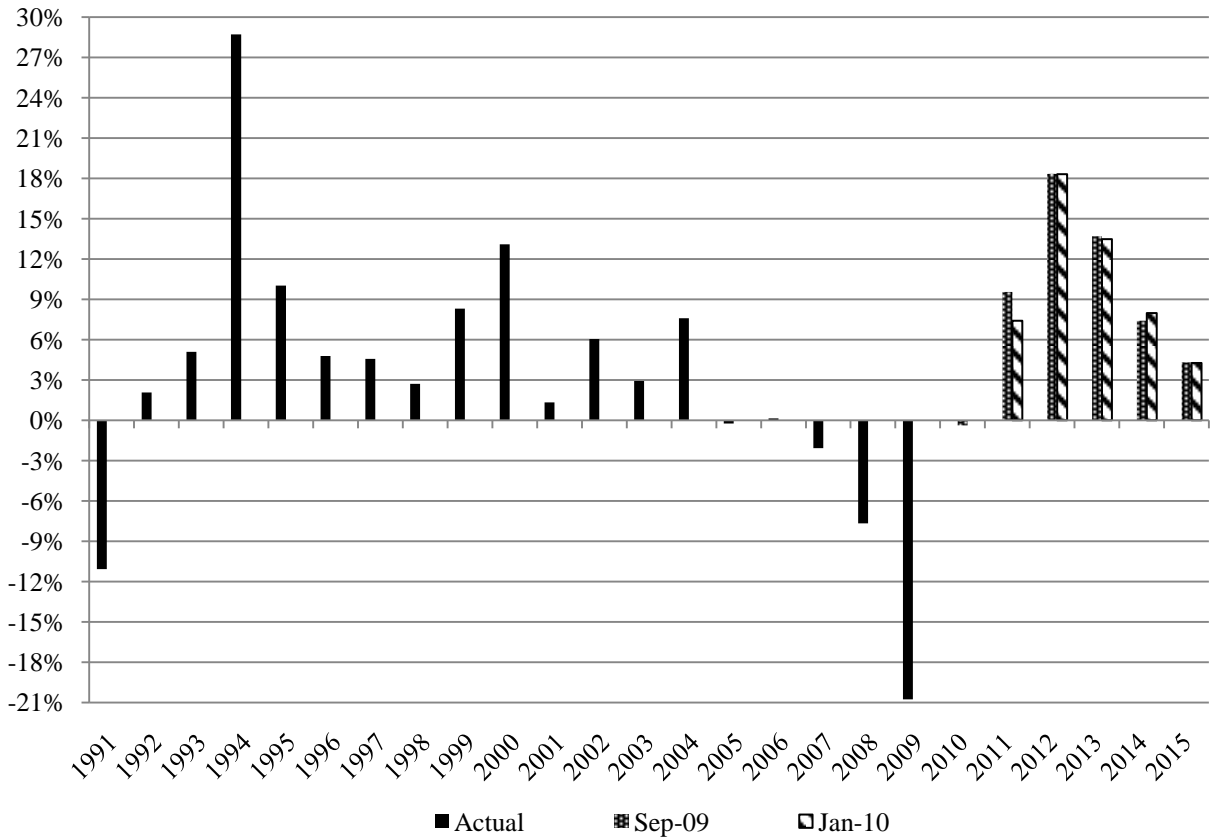
## **Risks in MDOT’s Forecast Assumptions**

The department’s financial forecast includes several short- and long-term risks. Should the risks be realized, the department may have difficulty maintaining a fiscally prudent financial plan and delivering on the commitments contained in the capital program. Following are specific areas of concern.

### **Strong Rebound in Titling Tax Revenues**

Fiscal 2009 was a particularly bad year for the auto industry and the titling tax. Vehicle sales in Maryland declined 14.8%, and revenues declined 21.0% partially due to high unemployment and tight credit markets. **Exhibit 4** shows that the department is estimating that the economy will begin to recover in fiscal 2011, and revenue growth will be strong in fiscal 2012 and 2013, with estimates of titling tax revenue growth at 18.3 and 13.8% in fiscal 2012 and 2013, respectively.

**Exhibit 4**  
**Titling Tax Growth Rate**  
**Fiscal 1991-2009 Actual, Fiscal 2010-2015 Estimated**



Source: Maryland Department of Transportation

As shown in Exhibit 4, these growth rates are historically high, but not implausible given the large increase in revenues after the recession in the early 1990s. Vehicle sales and revenues have been flat in Maryland since fiscal 2004, and the average age of a vehicle in Maryland has been increasing and is currently 8.8 years old. Flat sales and an aging vehicle fleet would indicate that there may be pent-up demand that will drive future vehicle sales once the economy rebounds. While there is evidence that there will be robust revenue growth in the future, risks do exist with the department’s estimates. Specifically:

- **When will job growth occur?** Economists have expressed varying opinions as to when the economy will begin to grow jobs and to what extent. As long as unemployment continues to be high, it is unlikely that businesses and individuals will be willing or able to purchase vehicles. This uncertainty makes revenue estimating, already a difficult task, even more

difficult in terms of determining when and to what extent revenues will grow. For example, in its January 2009 financial plan, MDOT forecasted an economic recovery in fiscal 2011 with titling tax revenue growing 17.0%. The January 2010 financial forecast now assumes moderate growth in fiscal 2011 (7.3%) with 18.3% growth in fiscal 2012, essentially pushing the recovery out a fiscal year compared to the prior forecast. It is likely that if fiscal 2011 revenues do not meet estimates, next year the department will push out its estimates of robust growth in the titling tax one more year until that growth does occur.

- **Have vehicle purchasing trends fundamentally changed?** Revenue growth in the late 1990s and early 2000s was driven by individuals buying larger, less fuel-efficient vehicles, by using home equity loans to finance the purchase of expensive vehicles, or by dealer incentives. Larger vehicle purchases translated into more titling tax revenues and less fuel efficient vehicles increased motor fuel tax revenues. With the recent spike in fuel prices, tight credit, the weak financial condition of automakers, and consumers' interested in saving, future vehicle purchasing patterns may be fundamentally different than the past. MDOT notes this trend in its *Consolidated Transportation Program (CTP)* by stating, "consumers are continuing to shift away from the purchase of SUVs toward smaller, less expensive and more fuel-efficient vehicles." Furthermore, MDOT indicates that "the trend to smaller vehicles will result in significant decreases in revenue."

#### **Impacts Not Accounted for in Forecast**

There are several anticipated revenue and expenditure impacts that are not reflected in the budget. These include the following:

- The Budget Reconciliation and Financing Act of 2010 includes a provision that transfers the interest earnings totaling \$3.4 million annually from the TTF to the general fund in fiscal 2010 and 2011; however, the forecast still assumes this revenue.
- In addition, the current financial forecast still includes the costs and revenues associated with operating the Seagirt Marine Terminal throughout the six-year period, even though a long-term lease of the facility was approved in December 2009. Although revenues and expenditures for Seagirt typically offset one another, MDOT removed \$8.6 million of Seagirt expenditures from the Maryland Port Administration operating budget in fiscal 2011 but did not make a corresponding reduction to revenues. Therefore, in fiscal 2011 and beyond, DLS estimates that after accounting for the revenue and expenditure changes resulting from the Seagirt agreement, there will be an annual revenue loss of approximately \$10.0 million. This revenue loss will need to be accounted for in the financial forecast and will lower the net income test.
- As part of the State Center development, a parking garage will be built. It is expected that the TTF will pay the future debt service payments beginning in fiscal 2012 out of the Secretary's Office.

### **Short- and Long-term Operating Underbudgeting**

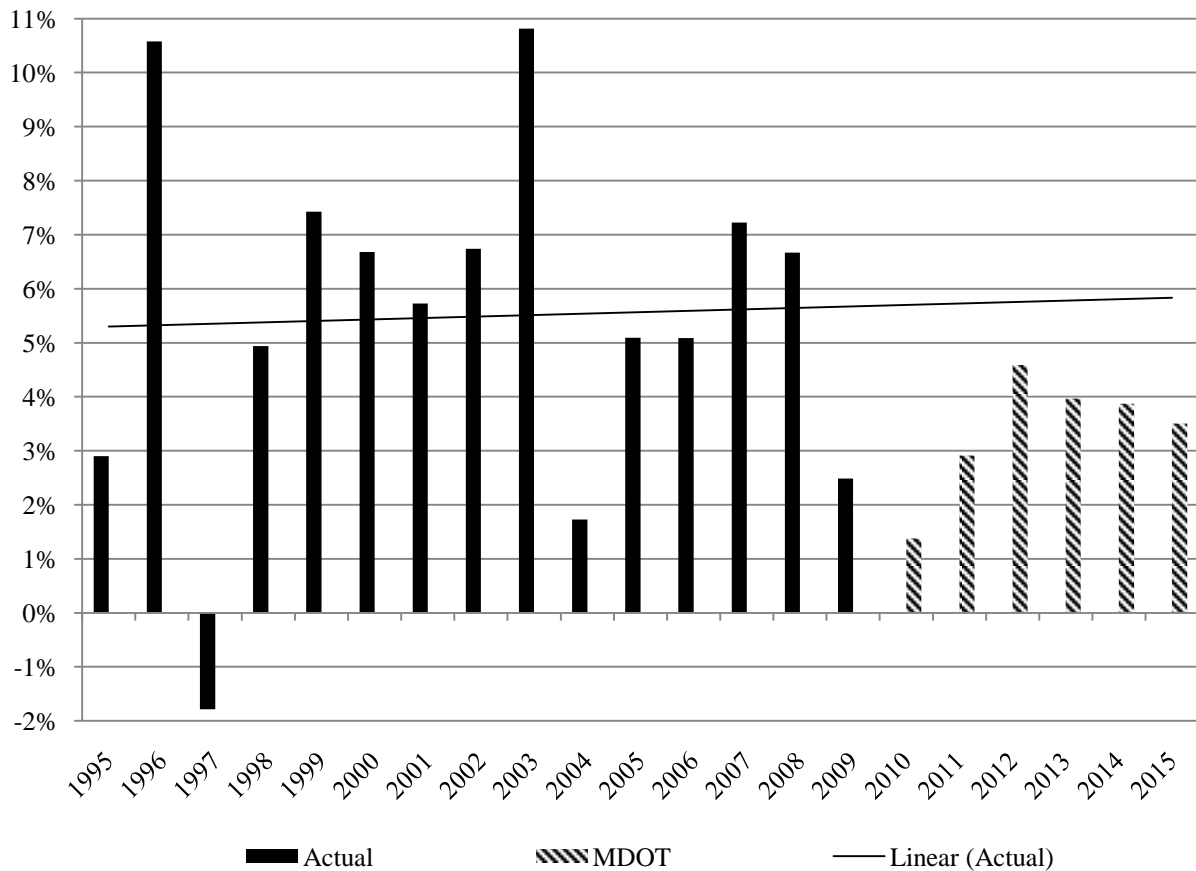
The department made significant reductions to the capital budget as revenues were revised downward. More recently the department has focused its efforts on constraining operating budget expenditures. At the end of fiscal 2009, the department cancelled \$42.0 million in spending, and in fiscal 2010, the department made reductions through the Board of Public Works (BPW) totaling \$37.6 million (excluding furlough savings and regular position abolitions). While the department has made attempts to reduce spending, it appears that the department's financial forecast underbudgets expenditures in the short-term, and constrains budget growth below the historical trend in the out-years.

- **Short-term:** In the short-term, there are two major spending issues:
  - **Snow Removal Budget Exceeded in Fiscal 2010:** The snow removal budget has already been exceeded by \$9 million in fiscal 2010 with more expenditures expected. MDOT has indicated that snow removal will need to be funded out of existing budgets; however, the cost containment that has already been taken may preclude the department from making additional operating budget reductions. The department can draw down the fund balance to pay for snow removal, but, as discussed later, this will have repercussions for the department's ability to issue debt. The department could also take funding out of the capital budget to pay for snow removal; however, this too would increase operating budget spending and reduce the coverage ratio.
  - **MTA Appears Underbudgeted in Fiscal 2011:** MTA is expected to grow \$10 million in fiscal 2011; however, the department's forecast shows MTA's budget growing \$30 million annually from fiscal 2012-2015. By a way of comparison, DLS estimated that the MTA budget would grow \$40 million in fiscal 2011 as part of its baseline budget process. DLS projected an increase of approximately \$10 million in the Maryland Area Regional Commuter (MARC) operating contract consistent with prior years, as well as increases for paratransit mobility costs, fuel prices, and commuter bus contract costs. Another potential looming expense is the outcome of the binding arbitration process MTA is in with the unions regarding salaries and benefits which could result in back salary payments being made for fiscal 2009 and moving forward.

There are other areas in the operating budget that may be underfunded, including salary and wages due to higher turnover rates, summer maintenance activities at the State Highway Administration (SHA), and information technology expenditures, that were deferred in fiscal 2009. To a certain extent, these expenditures, as well as the previously listed items, may be offset because the department's financial forecast did not account for the across-the-board actions taken in the fiscal 2011 allowance like the furlough. If the Administration's actions are adopted, this would provide additional cash and capacity for the net revenues test.

- Long-term:** Over the six-year forecast period, the average annual growth rate for the operating budget is 3.8% compared to the historical rate from fiscal 1995 of 5.8%, as shown in **Exhibit 5**. It is generally agreed upon by economists that inflation will begin to increase as the economy recovers, adding further budgetary pressures. By depressing the out-year estimate for budget growth, the department has freed up additional cash and created additional bonding capacity for the capital program; however, if it exceeds its budget, then the coverage ratio would be adversely impacted and less cash would be available for the capital program.

**Exhibit 5**  
**Operating Budget Growth**  
**Fiscal 1995-2015**



Source: Department of Legislative Services

### **Ability to Deliver Capital Budget and Meet Needs**

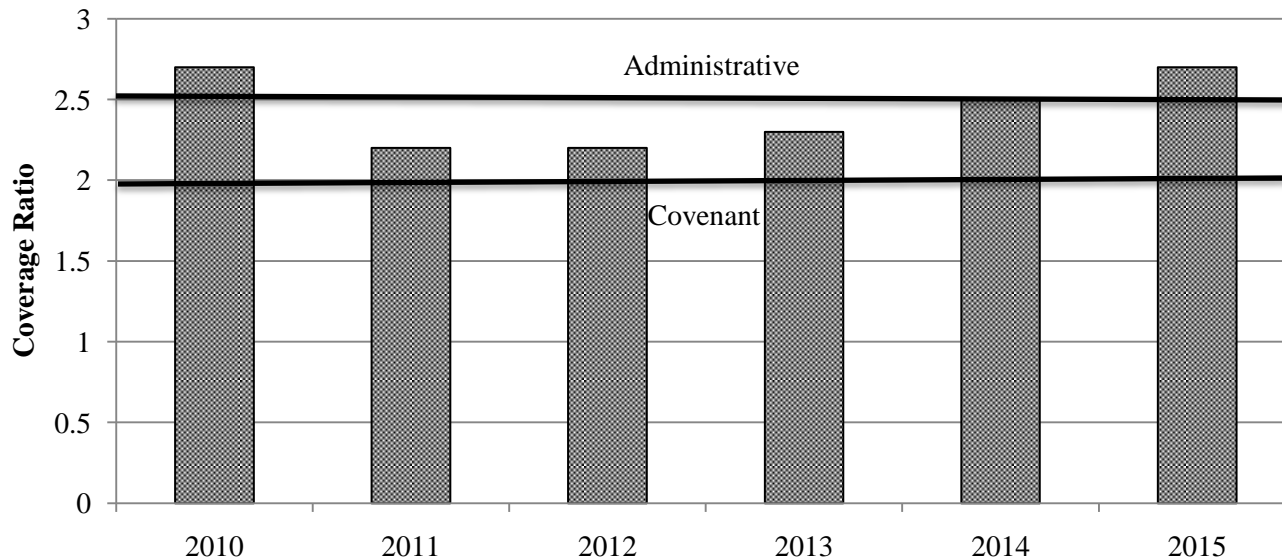
Due to the concerns previously outlined regarding revenue and spending estimates and the impact on coverage ratios, the department may not be able to deliver the current capital program in the out-years. The first call on transportation revenues is for debt service followed by operating budget expenditures with the capital budget last. Should the current estimates of spending and revenue not be met, less cash would be available for the capital budget.

If the department does meet its estimates of revenue and spending, the capital program moving forward is unlikely to include many new projects unless there is a revenue increase. The department's current financial forecast already assumes a financial recovery, meaning there is enough revenue just to maintain the capital program. Revenues may come in higher than the estimates allowing for more capital spending, but it is unlikely to be enough to add a number of new projects or allow the department to fund a capital program that was envisioned after the revenue increase in the 2007 special session. Furthermore, there are a number of large projects that may need to be funded in the coming years. Specifically, the department continues to move forward on the Red and Purple Line as well as the Corridor Cities Transitway projects with each one requiring a significant State contribution. The State Highway Administration has also indicated that as part of its bridge rehabilitation program there are a number of expensive bridge projects that will need to be addressed in the coming years. Other large capital expenditures being discussed include Homeland Security projects and projects discussed in the 2009 Freight Summit.

### **Status of Administrative Levels for Debt Service Coverage**

In its agreements with bondholders, MDOT has agreed to maintain a coverage ratio of prior year net income and pledged taxes at 2.0 times greater than the maximum annual debt service in a given fiscal year. If the department falls below the 2.0 times coverage ratio, it has agreed not to issue additional bonds until it exceeds 2.0 times coverage. To ensure fiscal prudence, historically, MDOT has maintained an administrative coverage ratio of 2.5. The higher administrative level has been in place as a prudent hedge against large unexpected changes in revenue or operating spending. As shown in **Exhibit 6**, due to the decline in revenues, the department has elected to fall below the 2.5 times coverage ratio to maintain as much of the capital program as possible. MDOT indicates that the rating agencies may be satisfied knowing that the financial forecast returns to past practice by fiscal 2015.

**Exhibit 6  
Net Income Coverage Ratio  
Fiscal 2010-2015**



Source: Department of Legislative Services

Moving below the administrative ratio of 2.5 in the short-term to maintain the capital program and jobs is not necessarily problematic; however, coming so close to the 2.0 threshold based upon the department’s revenue and operating budget estimates is a risk. Specific to the fiscal 2011 and 2012 coverage ratios, should revenues come in less than currently estimated and/or operating expenditures exceed projected levels, MDOT could fall below the 2.0 coverage ratio. DLS estimates that the department has approximately \$65 million in fiscal 2010 and \$90 million in fiscal 2011 in revenue losses, higher expenditures, or a combination thereof, before it falls below the 2.0 coverage. If increased bond sales are used to offset increased operating budget expenditures or revenue losses, the department has additional capacity of approximately \$35 million in fiscal 2010 and \$53 million in fiscal 2011 before it would fall below the 2.0 times coverage. Long-term, it is not clear that the deapartment will return to the 2.5 administrative level based upon current estimates of revenue and spending as well as the demands on the capital budget.

**Big Picture**

As previously highlighted, downside risks exist in MDOT’s current TTF forecast. Titling revenue estimates may be ambitious, federal authorizations are likely to decrease significantly absent federal tax increases, there is no additional State debt capacity, and debt service coverage levels remain below administrative levels and close to the minimum required in bond covenants. The operating budget appears understated relative to actual experience, particularly for snow removal and transit operating costs. Furthermore, the forecast does not appear to account for potentially higher

costs due to inflation, eventual employee cost-of-living raises, or the effects of higher interest expense that are likely to accompany an economic expansion.

It is becoming increasingly likely that planned capital spending currently outstrip available revenues in the six-year forecast. In addition, the department continues to pursue three transit lines that would require several billion in State and federal dollars to construct and tens of millions in State funds to then operate. Other major funding needs exist for dredging, chromium ore remediation, bridge rehabilitation, homeland security, MARC Growth and Investment Plan, freight funding enhancements, as well as continued investments in highways and transit to mitigate congestion.

In sum, this forecast calls into question MDOT's ability to meet its current operating and capital commitments, much less its ability to respond to other unmet needs even if a robust economic recovery provides the level of revenue already estimated. The department, and General Assembly, in the future could be confronted with having to pick one transit line to construct, increasing pressure for a major revenue increase as the department cannot continue to constrain operating costs and meet debt service coverage levels as planned and the demand for capital projects continues to increase, and debt issuances are constrained by overall State debt limits.

**DLS recommends that the department discuss the following:**

- **its revenue forecast, and in particular the titling tax, given the change in vehicle purchases that is occurring as mentioned in the CTP;**
- **the likelihood of constraining operating costs as envisioned based on the potential underfunding of transit expenses, snow removal, and historical experience;**
- **its strategies to return to the 2.5 administrative debt service coverage levels if projections of revenue growth and spending restraint are not realized;**
- **its ability to deliver current capital commitments based on MDOT and statewide debt limitations, federal reauthorization issues, insufficient revenues to pursue three major transit lines, and the multitude of needs; and**
- **how it will be able to meet any unfunded capital needs over the next six-year period.**

MDOT is currently required to submit an updated TTF forecast in March 2010. DLS suggests that the agency should properly account for the loss of Seagirt revenues and interest revenue and provide up-to-date expenditure estimates to account for snow removal and transit collective bargaining expenses and other unaccounted expenses.

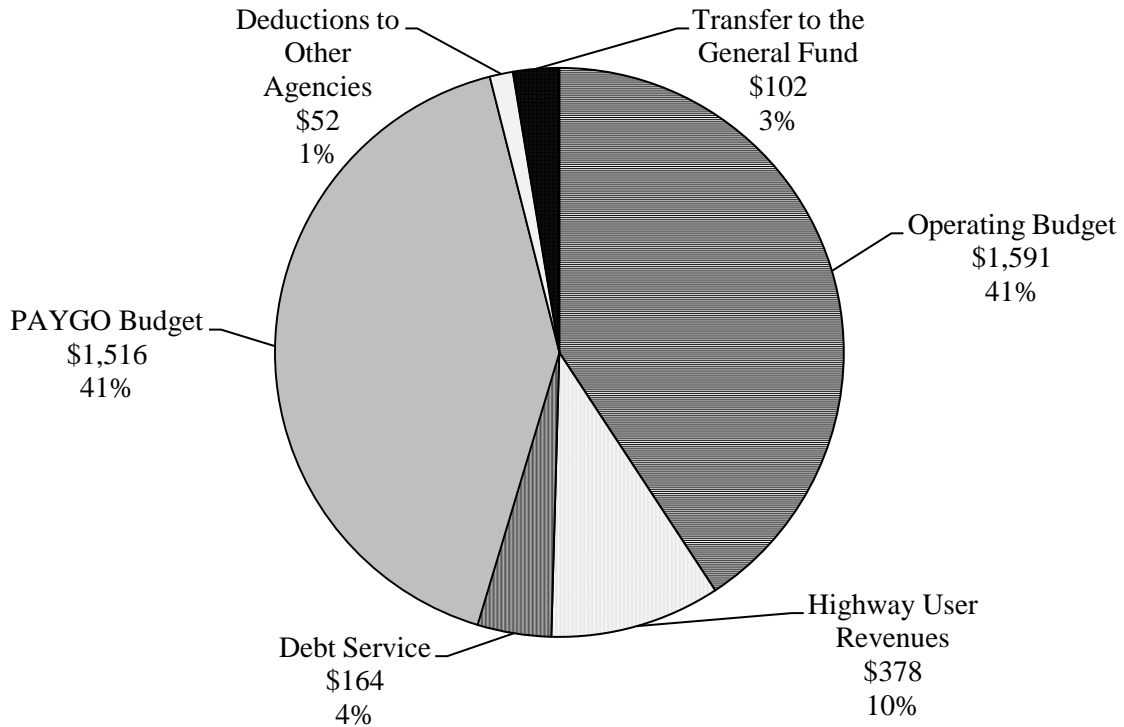
## Budget Overview

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**Exhibit 7** illustrates fiscal 2011 spending for MDOT. The pay-as-you-go (PAYGO) capital program, at \$1.5 billion, represents 41% of MDOT’s budget. Another 41% of the budget is allocated for the operations of the various modal administrations. Highway user revenues (HUR), representing a portion of tax and fee revenue that is divided among local jurisdictions, comprise 12% of the budget. The remainder of revenue is allocated for debt service on Consolidated Transportation Bonds (CTB) and deductions to other State agencies.

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**Exhibit 7**  
**Fiscal 2011 Transportation Trust Fund Uses**  
**Total Spending: \$3.9 Billion**  
**(\$ in Millions)**



Note: Chapter 487 of 2009 authorized a reduction of fiscal 2011 Highway User Revenues (HUR) by \$101.9 million and this same amount will be transferred to the general fund to relieve pressure on the general fund. The Budget Reconciliation and Financing Act of 2010 proposes an additional transfer of \$238.3 million in connection with a contingent reduction in the fiscal 2011 budget bill. If adopted, highway user revenues will total \$140.0 million

Source: Maryland Department of Transportation, Transportation Trust Fund Forecast, January 2010

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## **Proposed Budget**

**Exhibit 8** categorizes the fiscal 2011 proposed budget by operating and PAYGO capital budgets for each modal administration, debt service, and local highway user grants. MDOT's total fiscal 2011 allowance increases \$149.9 million (4.3%) compared to the fiscal 2010 working appropriation. Increases in the operating budget of the modes (\$35.0 million), debt service (\$4.3 million), and HUR (\$229.9 million) is offset by a reduction in the capital program (-\$119.2 million). The large increase in HUR is attributable to a partial restoration of cost containment actions made to the program in fiscal 2010. Special funds in the fiscal 2011 allowance increase by \$240.2 million from the fiscal 2010 working appropriation, and federal funds decrease by \$90.3 million. The increase in special funds reflects the reduction in highway user revenues in fiscal 2010 and an increase in forecasted revenues.

The fiscal 2011 budget reflects several across-the-board actions to be allocated by the Administration. This includes a combination of employee furloughs and government shut-down days similar to the plan adopted in fiscal 2010; a reduction in overtime based on accident leave management; streamlining of State operations; hiring freeze and attrition savings; a change in the injured workers' settlement policy and administrative costs; and a savings in health insurance to reflect a balance in that account. For purposes of illustration, DLS has estimated the distribution of selected actions relating to employee furloughs, health insurance, and the Injured Workers' Insurance Fund cost savings. The estimated allocation for MDOT totals \$14.2 million, including both the operating and capital programs. Estimated allocations are not shown in Exhibit 8 but will be reflected in the budget analysis of each of the modes.

**Exhibit 8  
Transportation Budget Overview  
Fiscal 2009-2011**

	<b><u>2009 Actual</u></b>	<b><u>2010 Work. Approp.</u></b>	<b><u>2011 Allowance</u></b>	<b><u>2010-11 Change</u></b>	<b><u>2010-11 % Change</u></b>
<b>Operating</b>					
Secretary’s Office	\$67,648,898	\$72,949,633	\$74,006,704	\$1,057,071	1.4%
WMATA	210,393,988	215,776,000	224,450,000	8,674,000	4.0%
State Highway Administration	239,347,070	211,425,214	220,562,016	9,136,802	4.3%
Port Administration	97,900,455	100,612,506	92,235,613	-8,376,893	-8.3%
Motor Vehicle Administration	148,105,879	149,240,891	163,733,596	14,492,705	9.7%
Transit Administration	591,720,288	606,935,558	616,667,467	9,731,909	1.6%
Aviation Administration	170,452,928	174,541,156	174,845,450	304,294	0.2%
<b>Subtotal</b>	<b>\$1,525,569,506</b>	<b>\$1,531,480,958</b>	<b>\$1,566,500,846</b>	<b>\$35,019,888</b>	<b>2.3%</b>
<b>Debt Service</b>	<b>\$136,729,519</b>	<b>\$159,698,275</b>	<b>\$163,984,750</b>	<b>\$4,286,475</b>	<b>2.7%</b>
<b>Local Highway User Grants</b>	<b>\$465,078,612</b>	<b>\$148,977,610</b>	<b>\$378,845,000</b>	<b>\$229,867,390</b>	<b>154.3%</b>
<b>Capital</b>					
Secretary's Office	\$29,396,388	\$48,428,580	\$27,271,052	-\$21,157,528	-43.7%
WMATA	74,915,400	52,041,000	102,041,000	50,000,000	96.1%
State Highway Administration	863,912,348	931,643,000	818,150,000	-113,493,000	-12.2%
Port Administration	102,338,151	82,679,645	86,034,476	3,354,831	4.1%
Motor Vehicle Administration	17,632,529	29,612,873	23,248,116	-6,364,757	-21.5%
Transit Administration	268,523,645	451,714,001	433,346,305	-18,367,696	-4.1%
Aviation Administration	28,557,742	38,866,000	25,667,000	-13,199,000	-34.0%
<b>Subtotal</b>	<b>\$1,385,276,203</b>	<b>\$1,634,985,099</b>	<b>\$1,515,757,949</b>	<b>-\$119,227,150</b>	<b>-7.3%</b>
<b>Total of All Funds</b>					
Special Fund	\$2,749,233,428	\$2,468,413,255	\$2,708,574,882	\$240,161,627	9.7%
Federal Fund	762,171,171	1,006,728,687	916,445,993	-90,282,694	-9.0%
Reimbursable Fund	1,249,241	0	67,670	67,670	100.0%
<b>Grand Total</b>	<b>\$3,512,653,840</b>	<b>\$3,475,141,942</b>	<b>\$3,625,088,545</b>	<b>\$149,946,603</b>	<b>4.3%</b>

WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland State Budget

## ***Operating Budget Analysis***

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MDOT’s operating allowance includes operating expenditures for each of the modes, debt service, and local HUR. The fiscal 2011 operating allowance totals \$2.1 billion, a 14.6% increase over the fiscal 2010 working appropriation. Nearly three-quarters of the operating allowance is used for the operating budgets of each of the modes.

### **Fiscal 2010 Actions**

#### **Impact of Cost Containment**

In fiscal 2010, a number of cost containment actions were taken to reflect declining revenues. As part of budget deliberations during the 2009 session, 55 vacant positions and \$4.0 million in associated funding was reduced from the department’s fiscal 2010 position allowance with a requirement in the Fiscal 2010 Budget Bill that MDOT abolish 55 vacant positions across the modes and provide a report on the position abolitions. In July 2009, MDOT submitted a report stating that the bulk of the positions (40) were abolished from SHA, 6 from MVA, 5 from MAA, and 2 each from the Secretary’s Office and MPA. MTA had no positions abolished.

In addition to these cost containment actions, the Board of Public Works implemented a number of rounds of reductions to offset declining revenues. In total, \$212.6 million and 132.5 positions (22.5 of which were filled) were reduced from MDOT’s budget through these cost containment actions. **Exhibit 9** provides a breakdown by mode of all of the total cost containment actions in fiscal 2010.

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#### **Exhibit 9 Cost Containment Actions Fiscal 2010**

	<u>Reductions</u>	<u>Vacant Regular Position Abolitions</u>	<u>Filled Regular Position Abolitions</u>
The Secretary’s Office	3,628,901	11.0	0
State Highway Administration	20,637,002	53.0	0
Highway User Revenues	159,502,391	n/a	n/a
Maryland Port Administration	8,950,040	6.0	1
Motor Vehicle Administration	7,733,019	18.0	0
Maryland Transit Administration	2,887,927	7.0	15
Maryland Aviation Administration	9,227,643	15.0 *	6.5
<b>Total</b>	<b>212,566,923</b>	<b>110.0 *</b>	<b>22.5</b>

\* This total includes 10 positions that were transferred from the Maryland Aviation Administration to the Secretary’s Office (TSO) as part of cost containment efforts. These 10 positions have not yet been abolished but are included in TSO’s allowance without funding.

Source: Department of Legislative Services

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## *J00 – MDOT – Fiscal 2011 Budget Overview*

The largest cost containment action reduced \$159.5 million from the local share of HUR, which is proposed to be transferred to the general fund in the Budget Reconciliation and Financing Act (BRFA) of 2010. Other large reductions to the department include:

- \$10.0 million to reflect statewide furloughs of up to 10 days for employees;
- \$7.4 million reduction to the operation and maintenance of State roads, including mowing, line striping, litter pick-up, and reducing or closing some highway rest stops;
- \$5.5 million in funding associated with abolished regular positions;
- \$5.1 million for the stevedoring contract based on reduced business;
- \$3.7 million for information technology;
- \$3.2 million for security, including removing Maryland State Police troopers from some MVA locations and requiring the Transportation Security Administration to guard posts at Baltimore/Washington International Thurgood Marshall Airport (BWI Marshall Airport) previously manned by security contractors;
- \$2.9 million for overbudgeted electricity costs;
- \$2.9 million in other personnel costs; and
- \$2.4 million cost savings realized from the delay in MVA's Central Issuance program.

Many of these actions produce one-time savings; however, some savings will be ongoing. One notable ongoing cost saving measure relates to canceling leases for private office space and moving employees to State-owned space. MAA moved employees from privately leased space to the airport terminal, and MPA moved employees to the World Trade Center. Further discussion of cost containment actions in each of the modes will be discussed in their respective budget analysis.

## **Fiscal 2011 Proposed Budget**

### **Operating Programs**

The fiscal 2011 allowance for operating programs increases by \$35.0 million (2.3%) over the fiscal 2010 working appropriation. The largest increase is at MVA, which increases by \$14.5 million (9.7%) due to an accounting change in how expenditures for the Vehicle Emissions Inspection Program are reflected. The Washington Metropolitan Area Transit Authority (WMATA), SHA, and MTA all increase by approximately \$9.0 million. These increases are offset by an \$8.4 million (-8.3%) decrease at MPA.

*J00 – MDOT – Fiscal 2011 Budget Overview*

The decrease at MPA is primarily the result of an \$8.6 million decrease in payments to MDTA. These annual payments were an annual operating payment to MDTA for use of the Seagirt Marine Terminal; however, a public-private partnership approved in December 2009 transferred ownership of Seagirt Marine Terminal to MPA, and MDTA's investment was repaid in full by Ports America Chesapeake.

## **Personnel**

As **Exhibit 10** shows, the fiscal 2011 allowance contains 9,012.0 regular positions, the same as the fiscal 2010 working appropriation. Contractual full-time equivalents (FTE) decrease in the fiscal 2011 allowance by 26.0 FTE (15.9%), for a total of 137.9 contractual FTEs.

The decrease in contractual FTEs is largely the result of a decrease of 24.0 contractual FTEs at MVA. The decrease primarily involved customer service agents and is part of the department's cost containment efforts in fiscal 2011.

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**Exhibit 10**  
**Regular and Contractual FTEs**  
**Operating and Capital Programs**  
**Fiscal 2009-2011**

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2010-11</b>	<b>2010-11</b>
	<b>Actual</b>	<b>Working</b>	<b>Allowance</b>	<b>Change</b>	<b>% Change</b>
<b>Regular Positions</b>					
Secretary's Office	334.0	333.0	333.0	0.0	0.0%
State Highway Administration	3,228.5	3,175.5	3,175.5	0.0	0.0%
Maryland Port Administration	291.0	284.0	284.0	0.0	0.0%
Motor Vehicle Administration	1,611.5	1,593.5	1,593.5	0.0	0.0%
Maryland Transit Administration	3,136.5	3,114.5	3,114.5	0.0	0.0%
Maryland Aviation Administration	533.0	511.5	511.5	0.0	0.0%
<b>Total</b>	<b>9,134.5</b>	<b>9,012.0</b>	<b>9,012.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Contractual FTEs</b>					
Secretary's Office	5.8	6.5	6.5	0.0	0.0%
State Highway Administration	13.3	22.0	22.0	0.0	0.0%
Maryland Port Administration	1.4	1.7	1.2	-0.5	-29.4%
Motor Vehicle Administration	88.6	116.7	92.7	-24.0	-20.6%
Maryland Transit Administration	15.2	16.0	15.0	-1.0	-6.3%
Maryland Aviation Administration	0.6	1.0	0.5	-0.5	-50.0%
<b>Total</b>	<b>124.8</b>	<b>163.9</b>	<b>137.9</b>	<b>-26.0</b>	<b>-15.9%</b>

FTE: full-time equivalent

Source: Maryland State Budget

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## **Debt Service**

The budgeted fiscal 2011 debt service payment is \$164.0 million, an increase of \$4.3 million over the fiscal 2010 working appropriation. The fiscal 2010 working appropriation is overstated due to the fiscal 2010 bond sale being reduced and delayed. When adjusting for this in fiscal 2010, the fiscal 2011 allowance increases \$13.0 million, or 8.6%, due to a full year of interest payments on the fiscal 2010 and 2011 bond sales.

At the end of fiscal 2011, CTB debt outstanding is expected to total \$1.8 billion, which remains below the statutory cap of \$2.6 billion. Additional discussion of debt service trends and issues may be found in the MDOT Debt Service Requirements analysis, budget code J00A04.

## **Local Highway User Revenues**

HUR are derived from a portion of tax and fee revenues that are deposited in GMVRA and subsequently distributed among the TTF, Baltimore City, counties, and municipalities. Local distributions are based on vehicle registrations and road mileage. As shown in **Exhibit 11**, during the 2009 legislative session, a total of \$161.9 million was reduced from the fiscal 2010 HUR appropriation and transferred to the general fund to relieve pressure on the general fund. In August 2009, an additional reduction of \$159.5 million was withdrawn through BPW and is proposed to be transferred to the general fund in the BRFA of 2010. The total reduction to HUR was \$321.4 million, leaving \$140.5 million. Of this amount, \$130.9 million was allocated to Baltimore City, and the remaining \$9.6 million was distributed to the counties.

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**Exhibit 11**  
**Distribution of Highway User Revenues<sup>1</sup>**  
**Fiscal 2009-2012**  
**(\$ in Millions)**

	<u>2009</u>	Estimated <u>2010</u>	Estimated <u>2011</u>	Estimated <sup>2</sup> <u>2012</u>
Maryland Department of Transportation	1,090	1,078	1,121	1,201
Counties and Municipalities	467	141	140	140
General Fund	0	321	340	340
<b>Total</b>	<b>1,557</b>	<b>1,540</b>	<b>1,601</b>	<b>1,681</b>

<sup>1</sup>Estimated distribution for fiscal 2011 and 2012 reflects proposed actions included in the Budget Reconciliation and Financing Act of 2010.

<sup>2</sup>The increase in the Maryland Department of Transportation's (MDOT) share in fiscal 2012 is partially attributed to MDOT's share increasing to 71.5% and the local share decreasing to 28.5%.

Source: Department of Legislative Services

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*J00 – MDOT – Fiscal 2011 Budget Overview*

Chapter 487 of 2009, the Budget Reconciliation and Financing Act of 2009, also reduced the amount of HUR in fiscal 2011 by \$101.9 million.

Senate Bill 141 (Budget Reconciliation and Financing Act of 2010) maintains the county share of HUR funding at the fiscal 2010 level in fiscal 2011 and 2012 and transfers the remaining revenue to the general fund. Unlike in fiscal 2010 where municipalities did not fully participate in all of the reductions, SB 141 provides that the municipalities will share equally in the HUR reductions. It is estimated that the total transfer to the general fund will total \$340.3 million in fiscal 2011. If revenues exceed estimates, then the counties and municipalities will receive 88.5% of the revenue growth while Baltimore City will receive 11.5%.

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

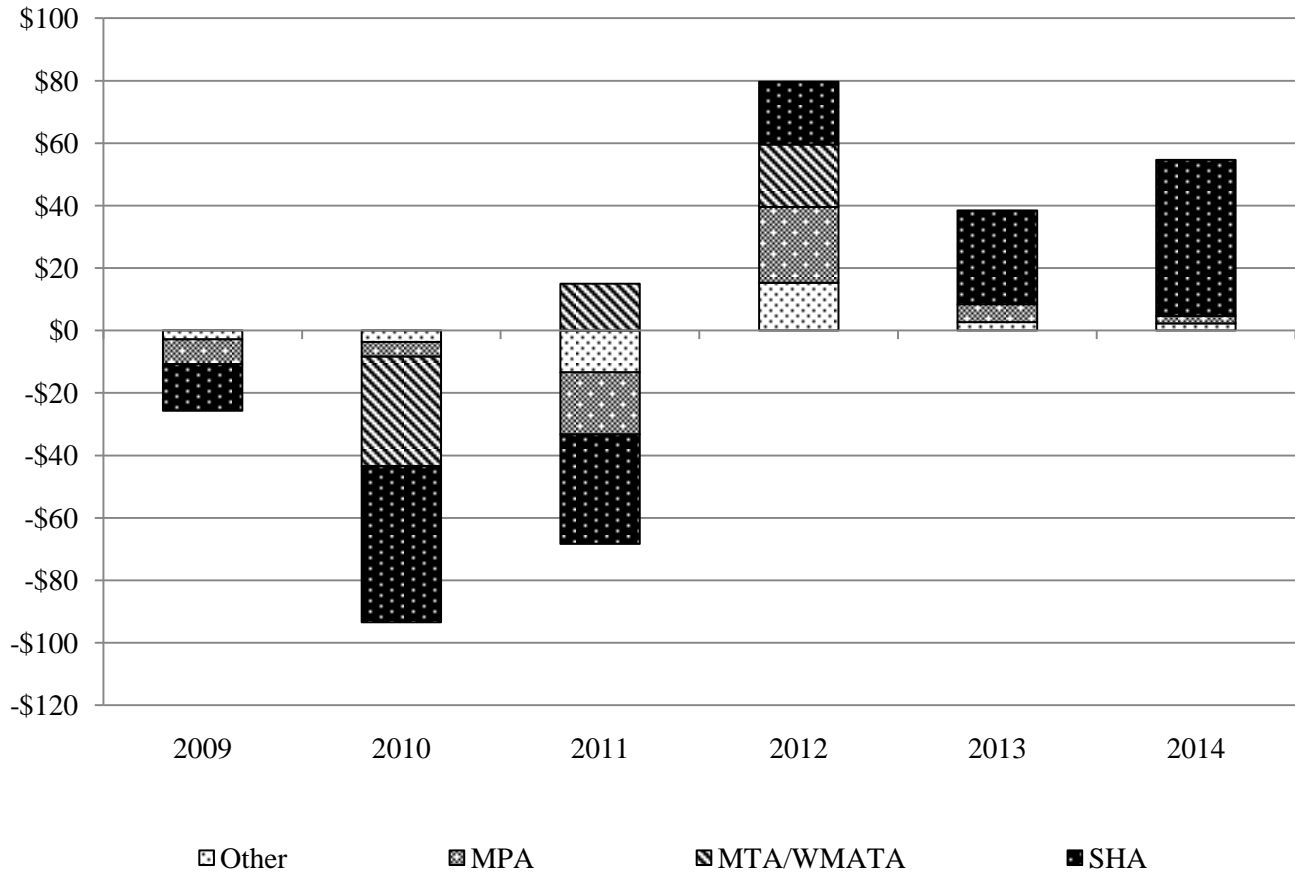
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The CTP is issued annually to the General Assembly, local elected officials, and interested citizens. The CTP provides a description of projects proposed by MDOT for development and evaluation or construction over the next six-year period. For the period fiscal 2010-2015, the CTP totals \$9.1 billion for projects supported by State, federal, and other funds. Other funds include MDTA financing, Certificates of Participation, county funding, passenger facility charges (PFC), and customer facility charges (CFC). To date, other funding has primarily been used by MAA for its recent capital expansion program at BWI Marshall Airport. This type of funding has also been utilized for projects by MPA and MTA.

### **March 2009 Revisions to the Capital Budget**

Due to continued downward revisions to revenues in fiscal 2009, MDOT was required to make additional reductions to the capital budget. The department elected to reduce the special fund capital budget by \$172.5 million from fiscal 2009-2011 with almost an equal amount of funding added back to fiscal 2012-2014, as shown in **Exhibit 12**. SHA's system preservation program had the largest reduction at \$100.0 million, or 58%, of the total reduction and funding restoration. MTA and WMATA had a combined reduction and restoration of \$35.0 million for a variety of projects, and MPA had reductions totaling \$32.4 million for a number of system preservation projects.

**Exhibit 12**  
**2009 CTP Changes by Mode and Fiscal Year**  
 (\$ in Millions)



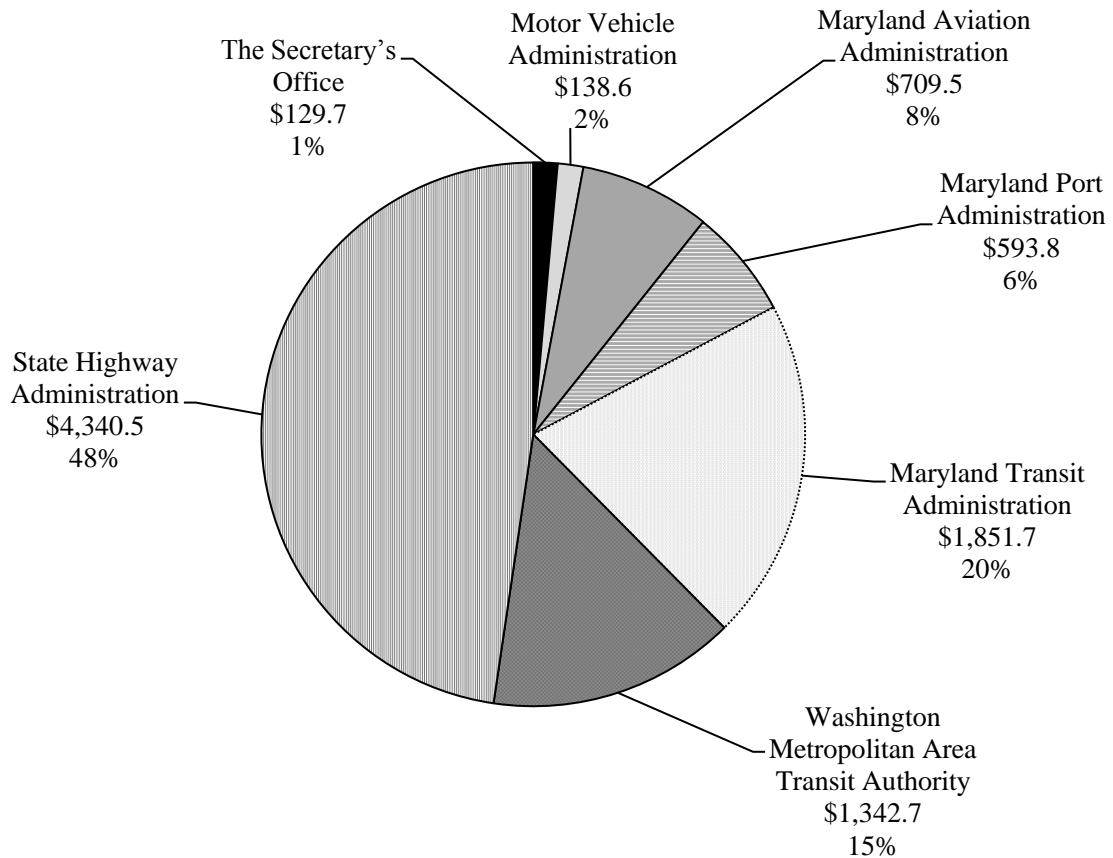
CTP: Consolidated Transportation Program  
 MPA: Maryland Port Administration  
 MTA: Maryland Transit Administration  
 SHA: State Highway Administration  
 WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation

## Fiscal 2010-2015 Consolidated Transportation Program

Exhibit 13 shows the funding level for each mode over the six-year period. Funding for SHA accounts for the largest portion of the program at 48%. Transit funding, including WMATA and MTA, accounts for 35% of funding.

**Exhibit 13**  
**Proposed Capital Funding by Mode**  
**Fiscal 2010-2015**  
**Total \$9.106 Billion**  
**(\$ in Millions)**

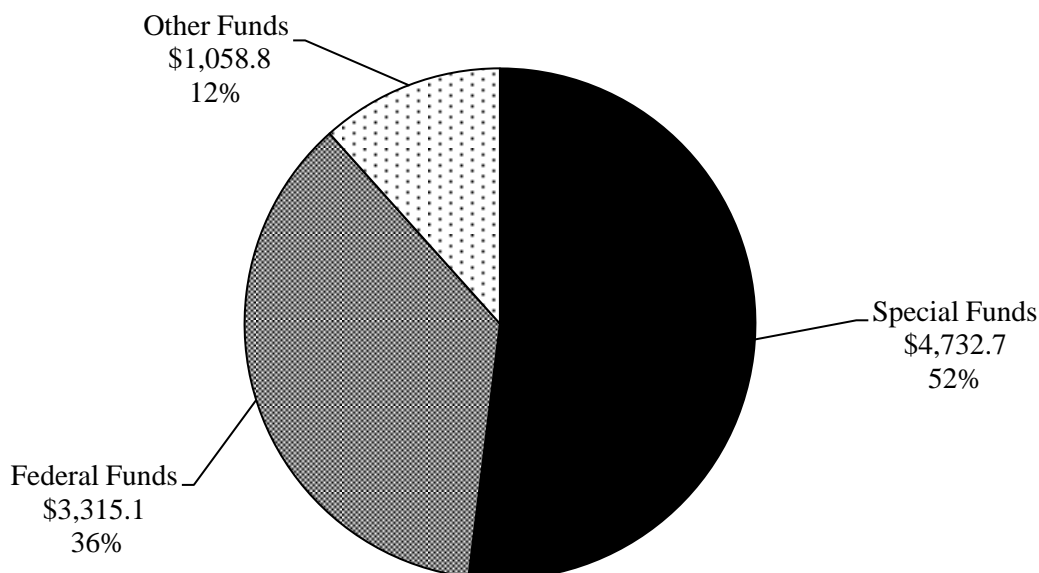


Source: Maryland Department of Transportation, 2010-2015 Consolidated Transportation Program

**Exhibit 14** shows that special funds support 52% of the six-year capital program. This compares to 56% in the 2009-2014 CTP. The decline in special funds is due to the revenue downturn and increased level of federal funds from the stimulus.

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**Exhibit 14**  
**Proposed Capital Funding by Source**  
**Fiscal 2010-2015**  
**(\$ in Millions)**



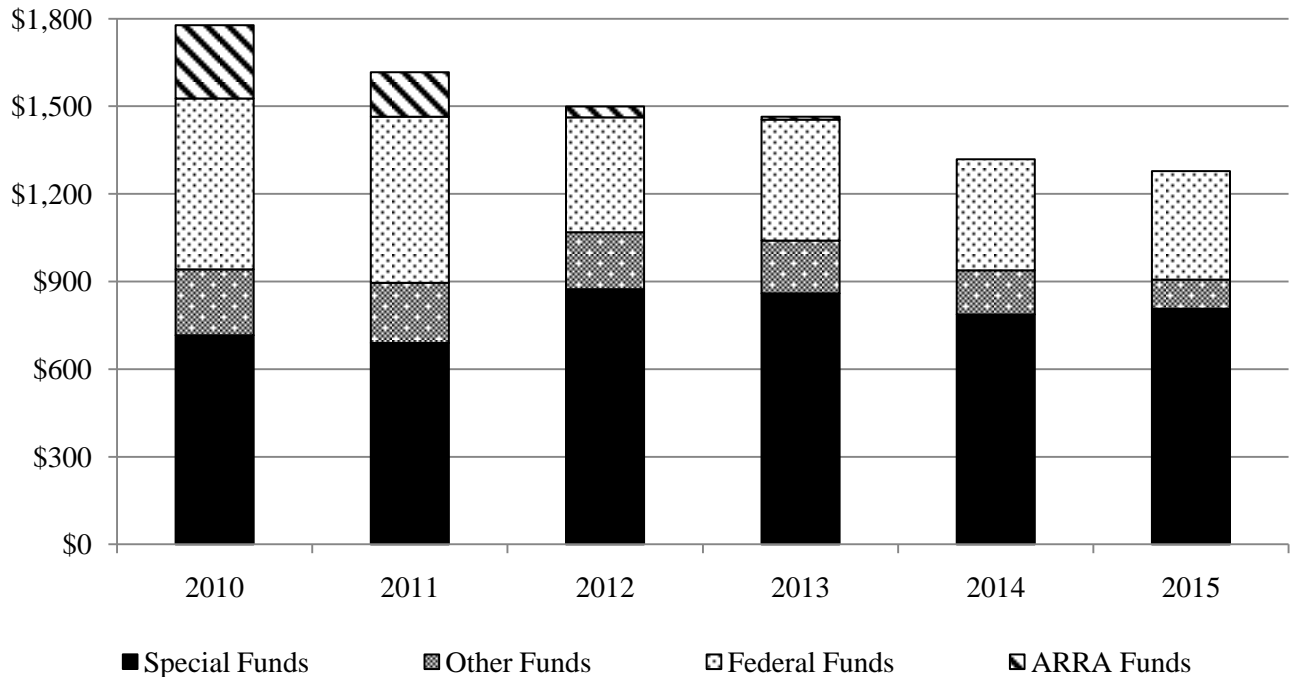
Source: Maryland Department of Transportation, 2010-2015 *Consolidated Transportation Program*

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**Exhibit 15** shows the level of special, federal, and other funds for each fiscal year of the capital program. The decline in funding from fiscal 2010 to 2011 is due to the ARRA funds declining by approximately \$100 million as the funding is spent. Future federal aid also declines throughout the forecast period; however, estimating future federal aid at this time is difficult due to the revenue shortfall in the federal Highway Trust Fund (HTF) discussed as an issue later. MDOT indicates that it has made conservative estimates of future federal aid given the uncertainty; however, this will bear watching if the reauthorization process drags on.

Special funds decline slightly in fiscal 2011 due to the March 2009 reductions to the capital budget and cash flow changes. The fiscal 2012 increase in special fund spending is a cash flow change as a result of the department moving the capital reductions identified in March 2009 from fiscal 2009-2011 to fiscal 2012 and beyond. The increase in special fund spending is made possible because of projected revenue growth which allows for a large bond sale.

**Exhibit 15**  
**Proposed Capital Funding by Year and by Source**  
**Fiscal 2010-2015**  
**(\$ in Millions)**



ARRA: American Recovery and Reinvestment Act of 2009

Source: Maryland Department of Transportation, 2010-2015 *Consolidated Transportation Program*

### **Fiscal 2009 and 2010 Cash Flow Changes**

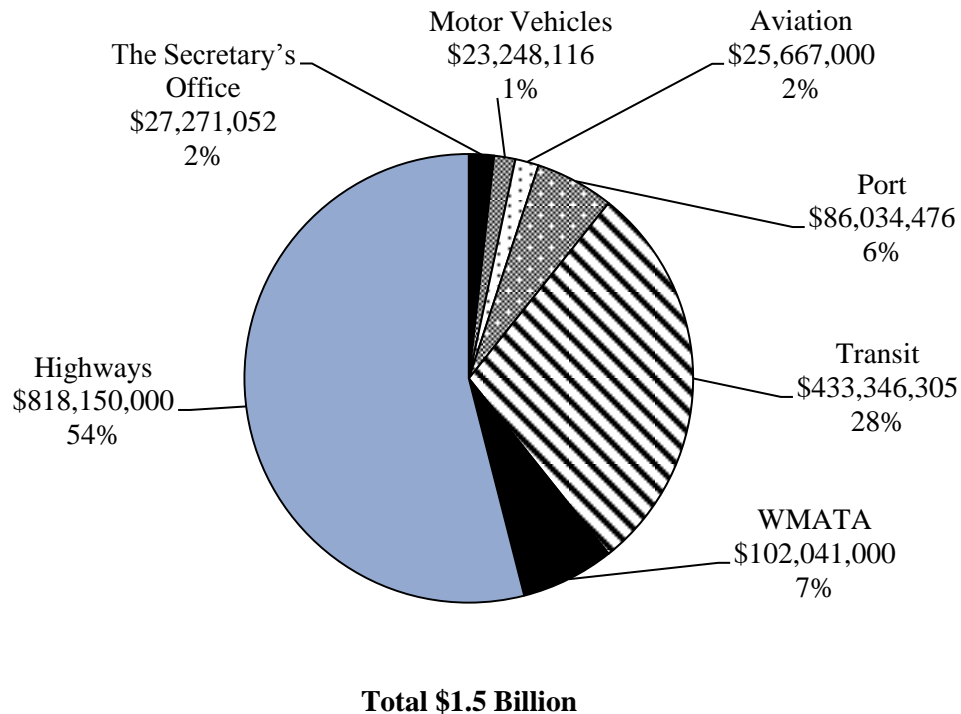
Fiscal 2009 ended with capital special fund expenditures being \$121 million less than the working appropriation. Of this amount, approximately \$114 million is due to the March 2009 special fund reductions to the capital budget. The remaining difference is largely due to a wet spring delaying capital spending at SHA and less spending at MTA based upon the cash flow needs of projects.

The fiscal 2010 working appropriation is approximately \$196 million less than the legislative appropriation. Once again, approximately \$75 million, is related to the capital reductions made in March 2009. In addition, the fiscal 2010 legislative appropriation made an assumption of the ARRA spending; however, not all of the funding was needed, so approximately \$50 million was pushed into fiscal 2011. The rest of the decline is the result of special and federal funds at SHA and MTA being pushed into later fiscal years based upon the cash flow needs of projects.

## Fiscal 2011 Allowance

**Exhibit 16** shows that excluding other funding, the fiscal 2011 PAYGO capital budget totals approximately \$1.5 billion, a decline of \$119 million (7.3%) compared to the fiscal 2010 working appropriation. The PAYGO allowance is funded with \$689 million in special funds and \$826 million in federal funds. The decrease in the allowance is due to federal stimulus funds declining in fiscal 2011 and an increased level of spending in fiscal 2010 due to fiscal 2009 cash flow roll-out.

**Exhibit 16**  
**PAYGO Capital Budget Fiscal 2011 Allowance\***



\* Excludes other funding.

PAYGO: pay-as-you-go

WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation, 2010-2015 *Consolidated Transportation Program*

The largest decline in fiscal 2011 is for highway spending, which declines \$113.5 million, (12.2%) compared to fiscal 2010 due to the ARRA spending declining. The fiscal 2011 allowance of several other modes declined including \$21.2 million (43.7%) at the Secretary's Office, \$18.4 million (4.1%) at MTA, and \$13.2 million (34.0%) at MAA. The capital budget for WMATA does increase \$50.0 million to provide matching funds for federal funds that were authorized requiring a \$50.0 million match from each of the compact jurisdictions.

## Other Funds

The fiscal 2010-2015 CTP also includes \$206.1 million in other funding in fiscal 2011 as shown in **Exhibit 17**. The other funding is comprised of pass through federal money for WMATA, local county participation, PFCs, CFCs, and funding from the Transportation Security Administration.

### Exhibit 17 Fiscal 2011 Other Funds (\$ in Thousands)

<u>Project</u>	<u>Source</u>	<u>FY 2011</u>
Owings Mills Joint Development	Local	0*
Elderly Handicapped Nonprofit Services	Local	625
MARC Silver Spring Transit Center	Local	21,895
Langley Park Transit Center	Local	11,011
Bethesda Metro Entrance D&E	Local	606
LOTS Central Maryland Transit Facility D&E	Local	664
Minor Projects	Local	217
<b>Total Other Funds MTA</b>		<b>\$35,018</b>
Metro Matters	WMATA Federal	117,830
<b>Total Other Funds WMATA</b>		<b>\$117,830</b>
Hagerstown Airport	Direct Federal	4,000
Terminal Improvement Project	PFC	1,506
Terminal Modernization Program	PFC	4,028
C/D Apron Reconstruction	PFC	15,030
Airfield Pavement Improvement	PFC	7,509
Integrated Security System	PFC/TSA	10,288
Consolidated Rental Car Facility Courtyard Improvements	CFC	1,290
Gate G Modifications	PFC	2,780
Minor Projects (7 Projects)	PFC/TSA	6,857
<b>Total Other Funds MAA</b>		<b>\$53,288</b>
<b>Grand Total</b>		<b>\$206,136</b>

CCTV: closed circuit television  
 CFC: Customer Facility Charges  
 D&E: Development and Evaluation  
 LOTS: locally operated transit systems  
 MAA: Maryland Aviation Administration  
 MARC: Maryland Area Regional Commuter

MDOT: Maryland Department of Transportation  
 MTA: Maryland Transit Administration  
 PFC: Passenger Facility Charges  
 TSA: Transportation Security Administration  
 WMATA: Washington Metropolitan Area Transit Authority

\* Baltimore County is contributing \$13.1 million to the project, but MDOT does not include this spending in the *Consolidated Transportation Program*.

Source: Maryland Department of Transportation

## ***Issues***

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### **1. Update on Stimulus Spending**

As part of the ARRA, Maryland received approximately \$565 million for transit and highway expenditures as well as \$45 million for WMATA. An additional \$15 million was provided to MAA for apron repairs at BWI Marshall Airport. The ARRA funding helped to partially offset the capital reductions taken in September 2008 and January 2009. Following is a review and update of the ARRA funding in Maryland.

#### **Maintenance of Effort Update**

In an attempt to prevent states from supplanting existing transportation funding, the ARRA included a maintenance of effort (MOE) provision. States were required to certify and maintain a level of spending as of the date of enactment of the ARRA through September 30, 2010. If a state did not meet the MOE requirements, then it would be prohibited from receiving any redistributed highway federal aid (aid not used by other states) in fiscal 2011. MDOT has estimated that in the past, Maryland's share of redistributed federal aid has totaled approximately \$20 million.

After the 2009 session, MDOT was informed by the Federal Highway Administration that local aid for federal eligible highways would be included in the ARRA MOE calculation. With the reductions to HUR taken during the 2009 session and subsequent BPW reductions, MDOT will not meet the MOE requirements. It was unlikely that MDOT would have met the MOE requirement due to declining revenues which resulted in MDOT reducing the capital program in its March 2009 financial forecast update. It should be noted that Maryland is not the only state having difficulty meeting the MOE requirement as noted in a recent Government Accountability Office report on the ARRA MOE requirements. **DLS recommends that MDOT discuss with the committees if there is an opportunity that the MOE requirement may be waived and how other states are responding to the MOE requirement.**

#### **ARRA Formula Funding**

**Exhibit 18** shows that in Maryland, highways received \$431.0 million and transit \$135.0 million in the ARRA formula funding. Due to favorable bid savings, MDOT made the policy decision to move \$17.0 million of highway funding to transit funding. As of January 2010, highways had advertised \$368.0 million worth of projects, with almost all of the State projects having been advertised and \$28.2 million in projects have been completed. Between highways and transit, it is estimated that 452 full-time equivalent jobs have either been created or saved.

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**Exhibit 18**  
**Federal Stimulus Update**  
**(\$ in Millions)**

	<u>Total Allocation</u>	<u>Flexed Spending</u>	<u>Net Allocation</u>	<u>Value of Projects Advertised</u>	<u>Value of Projects Where Work Started</u>	<u>Value of Projects Completed</u>
Highway	\$431	-\$17	\$414	\$368	\$224	\$28
Transit	135	17	152	103	65	16

Source: Department of Legislative Services

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Of the \$414 million in highway funding, \$62 million was allocated to local jurisdictions, and \$35 million was provided to Baltimore City. To date, approximately \$63 million of that funding has been advertised with about \$18 million worth of projects underway. In addition, approximately \$47 million was provided to local operated transit systems of which only a small amount has been advertised.

### **ARRA Discretionary Grant Funding**

The ARRA also included two discretionary grant programs for transportation. One program is called Transportation Investments Generating Economic Recovery (TIGER), which is a national competitive grant for large scale projects with \$1.5 billion available to be distributed. State applications for the program have far exceeded available funding. MDOT submitted five applications totaling \$204.0 million for base realignment and closure related improvements, a Branch Avenue transit oriented development project, MARC improvements, a transit maintenance facility, and the Masonville Vessel Berth. MDOT also supported several local project requests. The second grant program is for high speed rail projects. MDOT submitted seven projects worth \$353.0 million largely for MARC improvements. Similar to TIGER, applications have far exceeded available funding. Award announcements for both grant programs are expected in early 2010.

### **Additional Stimulus Funding**

There has been continued concern regarding the unemployment rate and the need for a second stimulus bill focusing on jobs. The House of Representatives passed a second stimulus bill on December 16, 2009, that included \$37.3 billion for transportation funding at levels similar to the first stimulus bill. Many of the provisions included in the first stimulus are also included in the second stimulus. Unlike the first stimulus, half of the highway and transit stimulus funding must be under contract within 90 days or the funding is lost with the second half obligated one year later. It is likely that the Senate will not take up a jobs stimulus bill until after President Barack H. Obama announces his budget.

**DLS recommends that MDOT discuss with the committees its progress in distributing the stimulus funds and any issues associated with the first or potential second round of stimulus.**

## **2. Federal Aid Issues**

### **Background**

Federal transportation aid is predominantly derived from an 18.4 cent gasoline and 24.4 cent diesel tax, with revenues deposited into the Highway Trust Fund and then distributed to states. Formula funding levels are set in a six-year authorization bill, although the most recent authorization expired on September 30, 2009. Fiscal 2010 funding is currently authorized through a continuing resolution effective through February 28, 2010, the fourth continuing resolution since the last authorization expired. Under the prior authorization, Safe, Accountable, Flexible and Efficient Transportation Act – A Legacy for Users (SAFETEA-LU), Maryland received average annual funding of \$720 million (\$580 million for highways and \$140 million for transit) – an important component of capital funding.

### **Funding Shortfall in the Highway Trust Fund**

From 1996 to 2000, receipts to the HTF exceeded outlays and a significant fund balance developed. The past two authorizations set the level of spending above the level of revenues to draw down the fund balance. In recent years, revenues did not meet estimates, and a negative cash balance was estimated. Since federal law requires the HTF to maintain a positive cash balance to ensure all prior obligations of funds by states, general fund transfers have occurred to maintain spending. In the fall of 2008, \$8 billion was transferred from the federal general fund to the HTF. An additional funding shortfall was identified in the summer of 2009 for federal fiscal 2009 and 2010. The Obama Administration proposed a transfer of \$18 billion to keep the HTF solvent through federal fiscal 2010 (\$8 billion in 2009 and \$10 billion in 2010) and an 18-month reauthorization extension. Congress instead passed a \$7 billion transfer from the general fund to keep the HTF solvent through federal fiscal 2009 and passed a continuing resolution to keep funding at federal fiscal 2009 levels. This has left the issue of the fiscal 2010 shortfall and the reauthorization unresolved.

### **Year-end Rescission and Continuing Resolutions**

SAFETEA-LU included a rescission, or withdrawal, of previously authorized spending, totaling \$11.8 billion, including \$8.7 billion at the end of the federal fiscal 2009. The rescission was included so that on paper, expenditures from the HTF would equal revenues. Since the continuing resolution that currently provides funding authorization for fiscal 2010 is based on fiscal 2009 funding levels *after* the year-end rescission, the rescission also affects fiscal 2010 funding. According to *Transportation Weekly*, Maryland's federal highway aid is reduced by approximately 34% from an annual total of \$560.2 million in fiscal 2009 to \$369.0 million.

The rescission and reduction in aid to states can only be remedied through a new authorization or a temporary reauthorization. At the moment, it is not clear what the next step is for the authorization; however, the House stimulus II bill did include additional funding for transportation, in addition to the stimulus funding, through the end of federal fiscal 2010 at the pre-rescission rate and would allow states to opt out of the matching requirements. To pay for this additional funding a transfer from the general fund would be required.

### **Status and Issues for the Upcoming Transportation Authorization**

The debate on the next transportation authorization is likely to focus primarily on how the HTF is funded and how those funds are distributed. Many experts expect a fundamentally different approach to how transportation aid is distributed. Some of the major issues under consideration follow:

- **Reducing and simplifying the number of funding programs.** Previous study groups and experts have stated that there are too many disparate funding programs. The House proposal would reduce the number of highway funding programs from 75 to 4 primary programs.
- **How much should be made available and how should we pay for it?** According to *Transportation Weekly*, to maintain fiscal 2009 funding levels, revenues to the HTF would need to be increased by approximately \$63 billion over six years, but an increase in the gas tax is politically unpopular.
- **How should transportation funds be allocated?** Every reauthorization bill includes a debate on how funding should be distributed between highways and transit and amongst states.
- **Transportation's impact on the environment?** Increasingly policymakers are looking to tie transportation funding to improvements in air quality, land use planning, and congestion.

### **Conclusion**

As a result of the structural imbalance in the HTF and a lack of clarity as to how to pay for the next authorization, Congress has been unable to reauthorize transportation spending. Currently, federal funding is provided for under a continuing resolution that is set to expire in February 2010; however, there is the potential for an interim funding solution through the end of the federal fiscal year. While funding issues are a major roadblock, there are also several large policy issues that need to be addressed, and it is likely that the next reauthorization bill will fundamentally change how transportation aid is distributed to states. **DLS recommends that MDOT discuss with the committees the following:**

- **what impact has the rescission and the uncertainty of the continuing resolution had on the capital program; and**

- what MDOT views as the most critical issues in the upcoming debate and if federal transportation funding will dramatically change?

### 3. Altering the Sales Tax Distribution

Chapter 6 of the 2007 special session increased the sales tax rate from 5.0 to 6.0% and provided that 6.5% of sales tax revenue was to be distributed to the TTF and not passed onto local jurisdictions. In addition, Chapter 3 of the 2007 special session expanded the sales tax to computer services and placed a cap on the vendor credit. During the 2008 legislative session, the expansion of the sales tax to computer services was repealed, resulting in a loss of revenue for the general fund and the TTF. As part of the solution to offset the loss of general fund revenue, the TTF's share of sales tax revenue was reduced from 6.5 to 5.3% through fiscal 2014.

Currently, the TTF share of the sales tax is expected to increase from \$229 million in fiscal 2013 to \$293 million in fiscal 2014, as shown in **Exhibit 19**. The change from 5.3 to 6.5% accounts for approximately \$60 million of the increase. **Due to estimates of continued structural imbalance in the general fund budget, DLS recommends that a provision be included in the Budget Reconciliation and Financing Act of 2010 that would make the 5.3% distribution to the TTF permanent. This action would relieve funding pressure on the general fund but reduce funding to the TTF. Making the change now would allow the department sufficient time to make changes to its capital program to adjust for the change in revenue.**

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**Exhibit 19**  
**Altering Sales Tax Distribution**  
**Fiscal 2010-2015**  
**(\$ in Millions)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Sales Tax at 6.5%	\$196	\$204	\$217	\$229	\$293	\$303
Sales Tax at 5.3%	196	204	217	229	236	244
Transportation Trust Fund Revenue Loss	\$0	\$0	\$0	\$0	-\$57	-\$59

Source: Department of Legislative Services

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#### **4. Homeland Security Costly, Yet Vital**

In December 2009, the Governor’s Office of Homeland Security, with the assistance of MDOT and several other agencies, submitted its first annual report on homeland security spending. MDOT plays an important role in homeland security due to its ownership, operation, and responsibility for the security of many of the State’s critical infrastructure assets, such as ports, airports, transit facilities, and roads. In addition, as all law enforcement and firefighting units have a central role to play in homeland security, MAA firefighters, MTA Police, and MDTA Police all play an equally important role.

In 2007, the Governor established 12 core goals for a prepared Maryland. These goals are the basic capacities that State and local public safety agencies and personnel in every region of Maryland should have. The 12 goals are:

- interoperable communications for all first responders;
- intelligence and information sharing across all law enforcement agencies;
- hazardous materials and explosive device response capability;
- personal protective equipment for all first responders;
- a real-time, 24/7 statewide biosurveillance system that incorporates a wide span of data;
- a comprehensive all-hazards threat and vulnerability assessment, updated every three years, including an assessment and inventory of critical infrastructure in the region;
- a fully funded program of annual training and preparedness exercises which addresses the most likely hazards and threats for that area;
- a robust closed circuit television (CCTV) network to secure critical infrastructure, monitor events in real-time, and be portable to and from key local and state facilities, such as emergency operations centers;
- equipment, supplies, and training necessary to respond to a mass casualty;
- the capacity to develop plans for mass evacuations and setting up mass shelters;
- an inventory of preidentified critical facilities, an up-to-date assessment of backup power capabilities, and a stockpile of generators; and

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- Maryland's ports, airports, train stations, subways, and rail lines should be fully hardened against attack, receive regular and randomly assigned heightened attention from law enforcement, and first responders should be issued specialized equipment needed to operate in these unique environments.

Over the past several years, a number of accomplishments have been made toward these goals. Completed projects at MDOT and MDTA include:

- fully outfitted all patrol officers in the MTA and MDTA Police with personal protective equipment, including a chemical suit, air mask, gloves, etc.;
- identified and created a database of more than 7,000 CCTV cameras controlled by State agencies and developed minimum policy and technology standards for sharing access;
- constructed and/or upgraded CCTV networks at the Port of Baltimore, BWI Marshall Airport and MVA facilities, and within the Baltimore Light Rail and Metro system;
- developed a CCTV bridge technology capable of integrating video signals from many different sources and in different formats;
- received a near perfect score for the second year in a row on the United States Coast Guard's annual security assessment at the Port of Baltimore;
- implemented enhanced access control and perimeter security in and around the Port; and
- became the first major port in the nation to implement the Transportation Worker Identification Credential program allowing access to all U.S. ports, and developed the M-Visitor program to grant access specifically to the Port of Baltimore.

### **Projects Underway and Future Projects**

Homeland security represents an ever moving target, and the State and MDOT must constantly react to new threat information, reevaluate vulnerability assessments, improve security measures, and coordinate activities and information between agencies. One major homeland security initiative still underway is the purchase and implementation of a statewide radio system and computer aided dispatch and record management system to allow coordinated response by multiple agencies and facilitate real-time information sharing. The Department of Information Technology is coordinating the purchase of a statewide interoperability system that agencies will be responsible for buying. The projected cost for SHA is \$40 million and MDTA is \$24 million. MTA is still in the process of developing a cost estimate, and MAA already upgraded its radio system at a cost of \$8 million.

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The challenge for MDOT and MDTA now and in the future will be identifying and prioritizing new homeland security projects and finding the funding to implement them. Although the federal government has some grant programs to help states fund these projects, funding is limited and the competition is fierce. Often, states must fund the projects on their own. Given limited resources, aging infrastructure requiring expensive replacement or rehabilitation, and the demand for new capacity, funding homeland security projects may be difficult. **DLS recommends that MDOT discuss homeland security initiatives currently underway and how the department will fund future projects given the current economic situation.**

## ***Recommended Actions***

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1. Add the following language:

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.

Notification of changes in scope shall be made to the General Assembly concurrent with the submission of the draft and final CTP. Notification of new construction project additions, as outlined in paragraph (1) above, shall be made to the General Assembly 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 2010-2015 CTP or will increase a total project’s cost by more than 10% or \$1.0 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 2010 session CTP as the basis for comparison.

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<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Capital budget changes	Maryland Department of Transportation	With draft CTP With final CTP

2. 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 2011, 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 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 non-transportation expenditures exceeding \$250,000	MDOT	As needed

3. 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 2011. 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).

*J00 – MDOT – Fiscal 2011 Budget Overview*

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 50 imposed by the General Assembly. The establishment of new jobs or positions of employment not authorized in the fiscal 2011 budget shall be subject to Section 7-236 of the State Finance and Procurement Article and the Rule of 50.

**Explanation:** The General Assembly has established 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

4. Add the following language:

Further provided that the Maryland Department of Transportation shall submit a revised financial forecast to the budget committees no more than three days after the Board of Revenue Estimates releases its March 2011 revenue estimate including actual and estimated snow removal costs. The revised financial forecast shall include information on the last actual full fiscal year and the subsequent six fiscal years as well as the following:

- (1) a schedule of operating expenses for each specific modal administration;
- (2) a schedule of revenues, including tax and fee revenues, deductions from revenues for other agencies, department program and fees, Motor Vehicle Administration cost recovery, deductions for highway user revenues, operating revenues by modal administration, and miscellaneous revenues; and
- (3) a summary schedule for the Transportation Trust Fund that includes the opening and closing fund balance, revenues, transfers, bond sales, bond premiums, any other revenues, expenditures for debt service, operating expenses, amounts available for capital expenses, bond interest rates, bond coverage ratios, total bonds outstanding, federal capital aid, and the total amount for the Transportation Capital Program.

**Explanation:** Under current law, the Maryland Department of Transportation (MDOT) submits a financial forecast to the budget committees in September of each year and with the Governor's allowance. Due to the current economic environment, the budget committees request an update of the financial forecast during the 2011 legislative session. MDOT should submit a revised financial forecast, consistent with existing statutory requirements, no more than three days after the Board of Revenue Estimates releases its March 2011 revenue estimate as well as updated operating budget spending estimates.

*J00 – MDOT – Fiscal 2011 Budget Overview*

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Updated financial forecast	MDOT	Three days after Board of Revenue Estimates March 2011 revision

## ***Updates***

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### **1. Maryland’s First Statewide Freight Plan Released**

In September 2009, MDOT issued its first statewide freight plan, making Maryland the first state in the nation to adopt one. The plan provides a comprehensive overview of the State’s current and long-term freight system performance and outlines the investments and policies needed to ensure the efficient movement of freight.

In 2006, about 682 million tons of freight was transported into, out of, within, and through Maryland, accounting for approximately \$2.3 trillion in combined value. Truck traffic accounted for approximately 84% of this tonnage, with 10% traveling by rail and 6% by water. Over half of freight tonnage in Maryland is going through Maryland and does not originate or terminate here. By 2035, the overall tonnage is expected to more than double, comprising about 1.4 billion total tons and \$5.0 trillion of value. The increase in freight traffic will exacerbate existing problems such as a shortage of truck parking, congestion, lack of a double stack rail clearance and freight/passenger rail conflicts.

To confront these problems, the plan outlines more than 100 port, highway, and rail projects totaling about \$35 billion that have been prioritized based on specific criteria ranging from safety and security to freight connectivity. The plan does not provide the expected cost of individual projects or from where the funding may come. Some of the projects listed in the plan are already included in the CTP, but the majority lack funding. To move these projects forward, MDOT intends to seek federal funding, increase State funding, or to pursue public-private partnerships.

**Transportation Trust Fund Forecast**  
**Fiscal 2009-2015**  
**(\$ in Millions)**

	<u>Actual</u> <u>2009</u>	<u>Estimate</u> <u>2010</u>	<u>Estimate</u> <u>2011</u>	<u>Estimate</u> <u>2012</u>	<u>Estimate</u> <u>2013</u>	<u>Estimate</u> <u>2014</u>	<u>Estimate</u> <u>2015</u>
<b>Opening Fund Balance</b>	<b>\$53</b>	<b>\$245</b>	<b>\$100</b>	<b>\$100</b>	<b>\$100</b>	<b>\$100</b>	<b>\$100</b>
<b>Closing Fund Balance</b>	<b>\$245</b>	<b>\$100</b>	<b>\$100</b>	<b>\$100</b>	<b>\$100</b>	<b>\$100</b>	<b>\$100</b>
<b><u>Net Revenues</u></b>							
Taxes and Fees	\$1,654	\$1,630	\$1,719	\$1,856	\$1,980	\$2,112	\$2,178
Operating & Misc.	550	500	522	516	540	551	561
Transfers between TTF and GF	0	0	0	0	0	0	0
MDTA Transfer	-30	-30	0	0	0	0	0
<b>Net Revenues Subtotal</b>	<b>2,174</b>	<b>2,100</b>	<b>2,241</b>	<b>2,688</b>	<b>2,520</b>	<b>2,663</b>	<b>2,739</b>
Bonds Sold	390	165	205	360	280	160	195
Bond Premiums	12	0	0	0	0	0	0
<b>Total Revenues</b>	<b>\$2,576</b>	<b>\$2,265</b>	<b>\$2,445</b>	<b>\$3,048</b>	<b>\$2,802</b>	<b>\$2,823</b>	<b>\$2,935</b>
<b><u>Expenditures</u></b>							
Debt Service	\$142	\$151	\$163	\$193	\$210	\$241	\$268
Operating Budget	1,525	1,546	1,591	1,664	1,730	1,797	1,860
State Capital	715	715	691	875	860	786	807
<b>Total Expenditures</b>	<b>\$2,382</b>	<b>\$2,412</b>	<b>\$2,445</b>	<b>\$2,732</b>	<b>\$2,801</b>	<b>\$2,825</b>	<b>\$2,936</b>
<b><u>Debt</u></b>							
Debt Outstanding	\$1,583	\$1,670	\$1,792	\$2,049	\$2,219	\$2,244	\$2,279
Debt Coverage – Net Income	3.1	2.7	2.2	2.2	2.3	2.5	2.6
<b><u>Local Highway User Revenues</u></b>							
HUR Transfer to GF	<b>\$0</b>	<b>\$321</b>	<b>\$340</b>	<b>\$340</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b><u>Capital Summary</u></b>							
State Capital	\$715	\$715	\$691	\$875	\$860	\$786	\$807
Net Federal Capital (Cash Flow)	627	836	721	545	451	390	372
<b>Subtotal Capital Expenditures</b>	<b>\$1,342</b>	<b>\$1,551</b>	<b>\$1,412</b>	<b>\$1,420</b>	<b>\$1,311</b>	<b>\$1,176</b>	<b>\$1,179</b>
GARVEE Debt Service	40	87	87	87	87	87	87

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, January 2010