
Transportation Funding Overview

**Presentation to the
Senate Budget and Taxation Committee
House Committee on Appropriations
House Committee on Ways and Means**

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

September 18, 2007

Outline

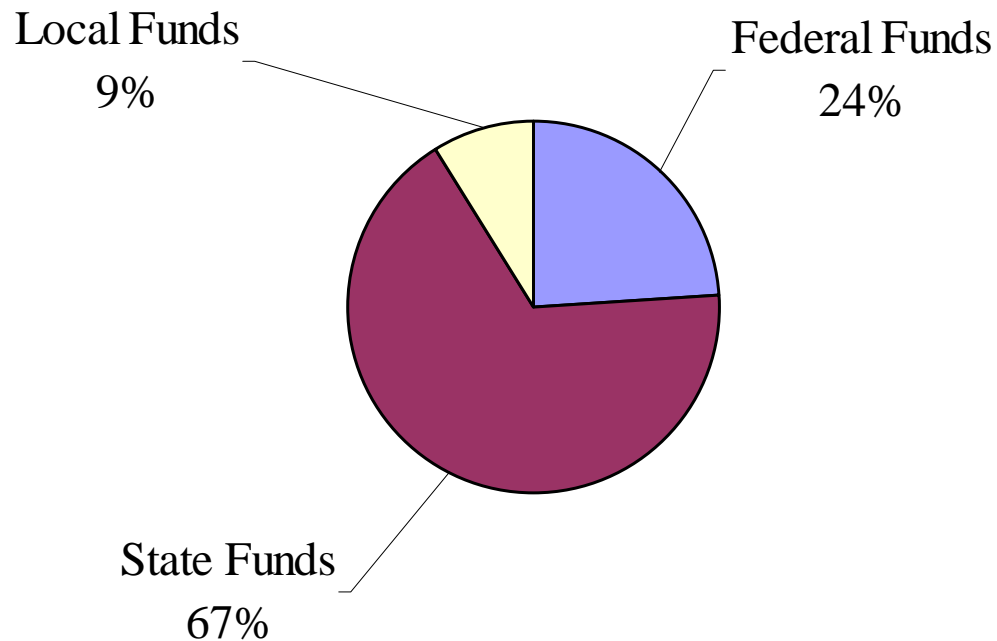
- Facts and Funding
- Maryland Transportation Authority
- Transportation Trust Fund (TTF)
- Current and Unfunded Capital Needs
- Revenue Options

Maryland Transportation Facts

- There were 253 million transit riders (State and local systems) in fiscal 2006.
- Over 20 million passengers flew through the Baltimore/Washington International Thurgood Marshall Airport in calendar 2006.
- The Port of Baltimore handled 30.6 million tons of foreign cargo in calendar 2006, with a value of \$36.7 billion.
- The State is responsible for 17 percent of publicly maintained roads.
- 72 percent of the vehicle miles traveled (VMT) in the State occur on State-maintained roads.
- In the past 20 years, VMT on State-owned roads has increased by 65 percent, while the number of lane-miles has only increased 7 percent.

Maryland Transportation Funding

- In fiscal 2005 total statewide spending totaled \$4.4 billion.



Maryland Transportation

There are two separate State entities responsible for transportation in Maryland:

- Maryland Transportation Authority (MdTA)
 - Nonbudgeted agency funded by toll revenue
 - Revenues deposited into separate fund that is not part of the TTF
 - Responsible for the State's toll facilities
- Maryland Department of Transportation (MDOT)
 - Funded by dedicated taxes and fees to the TTF
 - Responsible for highways, transit, aviation, port, and motor vehicle agencies

Maryland Transportation Authority

Overview

MdTA Overview

- Created in 1971 with responsibility for the State's toll facilities and for financing transportation facilities on behalf of MDOT
- Nonbudgeted agency
- Governed by an eight-member board chaired by the Secretary of Transportation
- Owns and operates seven toll facilities
- Owns three transportation facilities (Seagirt Marine Terminal, Canton Railroad Company, and Masonville Auto Terminal)
- Currently constructing two additional toll facilities (InterCounty Connector (ICC) and Express Toll Lanes on I-95 north of Baltimore)

MdTA's Toll Facilities



MdTA's Fiscal 2008 Numbers

Operating budget	\$212.0 million
Capital budget	\$873.7 million
Positions	1,757.5
Toll revenue	\$285.2 million
Other revenue	\$78.9 million
Projected Bond Issuance	\$686 million
Total Bonds Outstanding	\$914.8 million

Toll Revenue

- Tolls collected from each of the facilities are pooled together in the Transportation Authority Fund.
- Toll revenues are held separately from the TTF.
- MdTA has independent toll-setting authority.
- Toll increases require legislative notice, but not approval.

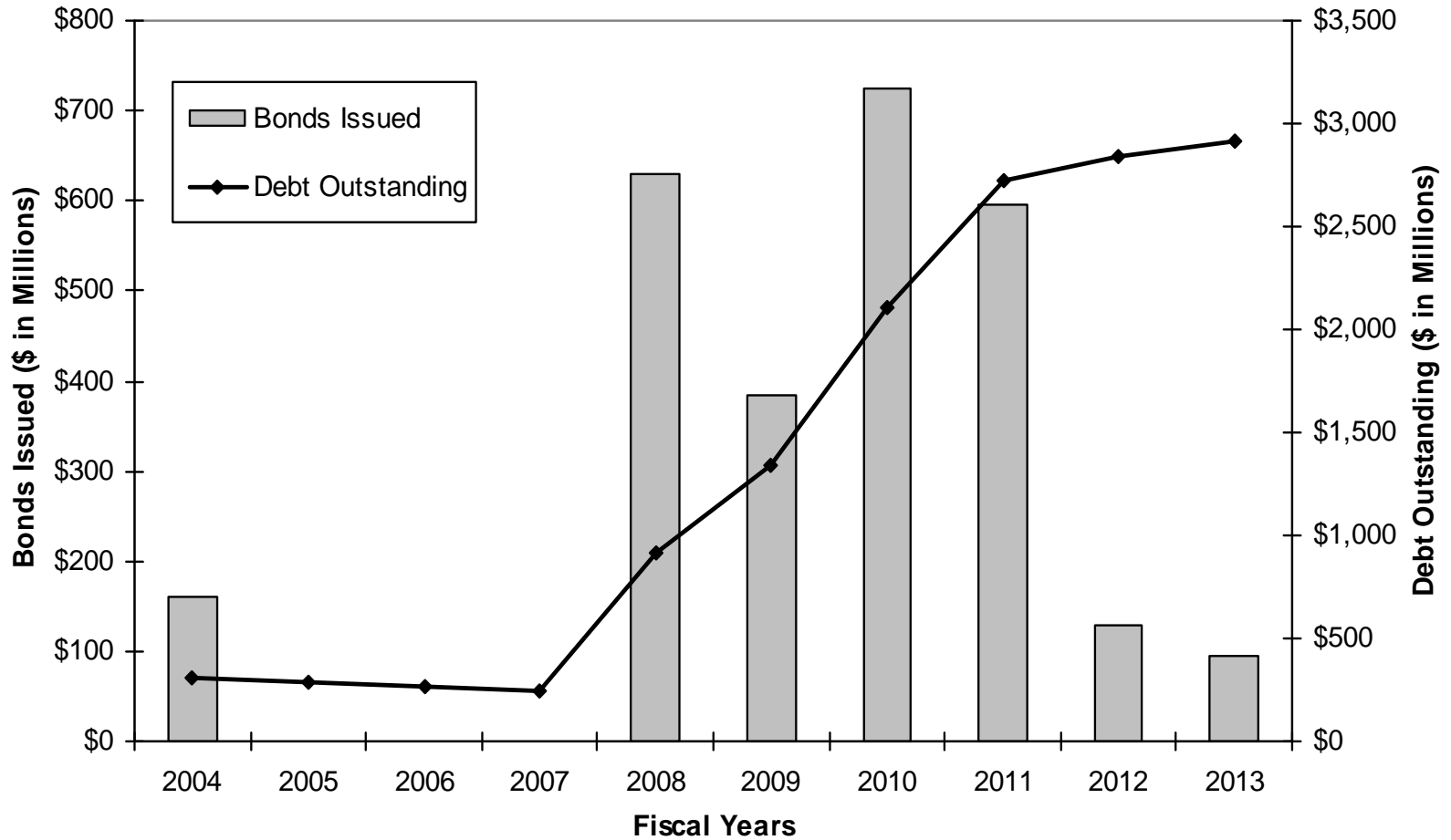
Current Toll Rates

Toll Facility	Toll Two-axle Vehicle	Commuter Toll	Commuter Discount
Baltimore Harbor Tunnel	\$2.00	\$0.40	80%
Fort McHenry Tunnel	\$2.00	\$0.40	80%
Francis Scott Key Bridge	\$2.00	\$0.40	80%
Harry W. Nice Memorial Bridge (one-way toll)	\$3.00	\$0.60	80%
William Preston Lane, Jr., Memorial Bridge (one-way toll)	\$2.50	\$1.00	60%
John F. Kennedy Memorial Highway (one-way toll)	\$5.00	\$0.80	84%
Thomas J. Hatem Memorial Bridge (one-way toll)	\$5.00	\$0.80 or AVI decal	84%

MdTA Debt

- MdTA has the authority to issue revenue bonds backed by toll revenues.
- Revenue bonds are issued with a 30-year maturity, although statute allows for 40-year maturity.
- MdTA debt does not count toward State debt limits.
- Prior to the most recent issue of \$300 million in revenue bonds, MdTA had not issued bonds since 2004.
- There is a statutory limit on total debt outstanding of \$1.9 billion. MdTA's current forecast shows it exceeding that amount beginning in fiscal 2010.
- MdTA will need to request legislative approval for a debt limit increase during or prior to the 2009 legislative session.

MdTA Debt



Grant Anticipation Revenue Vehicle (GARVEE) Bonds and Conduit Financing

- GARVEE bonds are backed by future federal aid.
- MdTA has the statutory authority to issue \$750 million in GARVEE bonds for construction of the ICC.
 - \$325 million of this authorization was issued in May 2007.
 - The remaining \$425 million will be issued in the fall of 2008.
- GARVEE bonds count toward State debt limits.
- MdTA may also issue conduit debt for revenue-producing transportation facilities and for parking garages.

Projected Toll Revenue Increases

- Over the next five years, MdTA will issue a large amount of debt (\$2.7 billion).
- To continue to meet its coverage ratios, MdTA must increase tolls by 2011 at the latest. It is likely that tolls will be increased much sooner than that.
- In fiscal 2011, MdTA's financial forecast shows additional revenue from a toll increase of \$110 million.
- Increasing tolls earlier than needed allows for smaller increases and may allow MdTA to use PAYGO financing rather than bonds for capital projects.
- The last toll increases took place in 2003 at five toll facilities. Commuter rates were not affected.

Toll Revenue Increase Options

- Increasing the standard toll rate for all two-axle vehicles by \$1.00 would generate an additional \$63.8 million. The percentage increase at each facility would range from 20 to 50 percent.
- If commuter rates were proportionally increased to maintain the same commuter rate discount, additional revenue of \$8.2 million would be generated. The new commuter rates would range from \$0.60 to \$1.40.

Toll Revenue Increase Scenarios

Two-axle Rate

Toll Facility	Potential Increased Toll	Percent Increase	Revenue Generated (\$ in Millions)
Baltimore Harbor Tunnel	\$3.00	50	\$12.7
Fort McHenry Tunnel	\$3.00	50	\$24.9
Francis Scott Key Bridge	\$3.00	50	\$4.0
Harry W. Nice Memorial Bridge (one-way toll)	\$4.00	33	\$2.2
William Preston Lane, Jr., Memorial Bridge (one-way toll)	\$3.50	40	\$8.1
John F. Kennedy Memorial Highway (one-way toll)	\$6.00	20	\$11.6
Thomas J. Hatem Memorial Bridge (one-way toll)	\$6.00	20	\$0.2

Toll Revenue Increase Scenarios Commuter Rates

Toll Facility	Potential Increased Toll	Percent Increase	Revenue Generated (\$ in Millions)
Baltimore Harbor Tunnel	\$0.60	50	\$2.4
Fort McHenry Tunnel	\$0.60	50	\$2.8
Francis Scott Key Bridge	\$0.60	50	\$1.2
Harry W. Nice Memorial Bridge (one-way toll)	\$0.80	33	\$0.2
William Preston Lane, Jr., Memorial Bridge (one-way toll)	\$1.40	40	\$1.5
John F. Kennedy Memorial Highway (one-way toll)	\$1.00	20	\$0.2
Thomas J. Hatem Memorial Bridge (one-way toll)	\$1.00	20	\$0.0

Other Funding Options

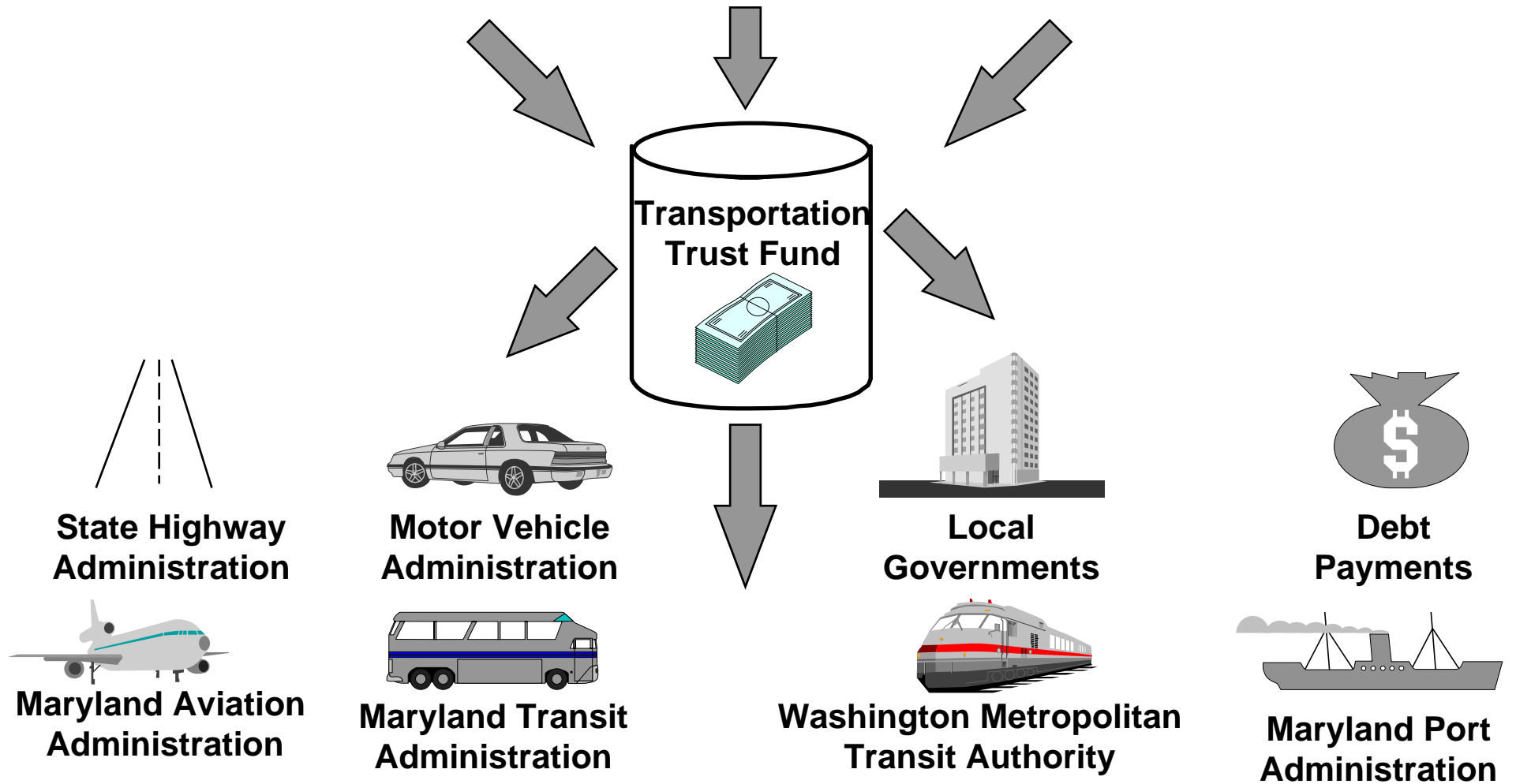
- Expand the use of toll roads – add tolls to new or existing highways, thereby creating a user fee system for highways.
 - Variable pricing
 - Express Toll Lanes
 - High Occupancy Toll (HOT) lanes
- Public Private Partnerships (P3) – partner with the private sector to either lease or build new transportation facilities. Statute requires 45 days of review and comment by the legislature on any proposed P3 agreements.

Maryland Department of Transportation and Transportation Trust Fund

Overview

How the Trust Fund Works

Motor Fuel Tax	Corporate Income Tax	Bonds and Other Aid
Titling Tax	Operating Revenues	MdTA Transfers
	Sales Tax on Rental Cars	Federal Aid
		Motor Vehicle Taxes and Fees



Fiscal 2008 TTF Revenues

(\$ in Millions)

Motor Fuel Taxes	\$780
Titling/Rental Car Sales Tax	755
Federal Capital	731
Vehicle Registration/MVA Fees	563
Operating and Other Revenues	491
Bond Proceeds	400
Corporate Income Tax	187
Transfers	-13
Total Revenues	\$3,894

Fiscal 2008 TTF Expenditures

(\$ in Millions)

PAYGO Capital Budget	\$1,691
Operating Budget	1,454
Local Highway User Revenue	567
Debt Service	128
Deductions	60
Total Expenditures	\$3,900

TTF Major Revenue Comparison

<u>State</u>	<u>Titling/Sales Tax Rate</u>	<u>Motor Fuel Excise Tax</u>	<u>Registration Fees</u>
Delaware	3.25% document fee is assessed with purchase of vehicle	23.0 cents	\$40 annually
District of Columbia	6 to 8% depending on the weight of the vehicle	20.0 cents	\$72 – \$155 annually depending on vehicle weight
Maryland	5% titling tax on vehicle purchase price	23.5 cents	\$50.50 or \$76.50 annually depending on weight
New Jersey	7% sales tax	10.5 cents	\$35.50 – \$84 depending on size of vehicle
North Carolina	3% of purchase price less trade in value plus local property tax rate assessed by county annually	27.1 cents	\$28 annually
Pennsylvania	6% sales tax (7% in Philadelphia and Allegheny County)	30.0 cents	\$36
Virginia	3% sales and use tax based on the vehicle's gross sales price or \$35, whichever is greater, plus personal property tax	17.5 cents	\$39.50 – \$44.50 annually
West Virginia	5% privilege tax based on purchase price with new resident exempt plus a 2% personal property tax	27.0 cents	\$30 annually

Federal Funds

- Federal funds total \$854 million for operating and capital expenditures in fiscal 2008.
- Federal funds for highways and transit are received from the Federal Highway Trust Fund (HTF).
- Federal funds for aviation come from the Airport and Airway Trust Fund.

Federal Highway Trust Fund

- Most revenue is derived from the 18.4 cent fuel tax.
- HTF is divided into the Highway Account and Mass Transit Account.
- Funds authorized every six years with current authorization expiring in fiscal 2009.
- In fiscal 2008, GARVEE debt service is 4.9 percent of federal highway aid.
- Financial solvency of the HTF is measured through fund balance, which is expected to have a deficit in 2010.
- Absent an increase in the federal gas tax, federal revenues are likely to stagnate or decline.

Highway User Revenues

- The State shares 30 percent of revenues collected in the Gasoline and Motor Vehicle Revenue Account (GMVRA) with the counties and municipalities. The specific revenues deposited in the GMVRA are:
 - motor fuel tax;
 - 80 percent of the titling tax;
 - 80 percent of MDOT's portion of the rental car sales tax;
 - 100 percent of MDOT's portion of the corporate income tax; and
 - a portion of motor vehicle registration fees.
- Baltimore City receives roughly 12.25 percent of total GMVRA revenues, and the counties and municipalities share the remaining revenue based on road miles and registered vehicles.

Statutory Deductions

Fiscal 2008
(\$ in Millions)

Deductions	Fiscal 2008
Maryland State Police (MSP) Truck Enforcement	\$18.6
Chesapeake Bay Programs	13.6
Security Interest Filing Fees	8.2
Comptroller Fuel Tax Division/Revenue Administration	8.1
MSP Highway Safety	5.8
Department of Natural Resources Environmental Programs	3.5
Special Tags	1.6
Maryland Department of the Environment Motor Carrier Hazmat	0.5
Total Deductions	\$60.0
Registration Fee Surcharges	
Medevac (\$11 annually)	\$52.7
Physicians Trauma Fund (\$2.50 annually)	12.0

MDOT Debt – Traditional

- MDOT issues 15-year Consolidated Transportation Bonds (CTBs).
- Traditional MDOT debt is subject to numerous limitations:
 - Outstanding debt is capped by statute at \$2.0 billion. The legislature sets annual limits below this amount.
 - Two coverage tests manage debt outstanding: net revenues and pledged taxes must be 2.0 times maximum annual debt service. MDOT sets an administrative minimum of 2.5 coverage for each test.
 - The Debt Affordability Committee includes transportation debt and GARVEEs when it establishes annual limits on State tax supported debt.
 - Future MDOT debt issuances may be constrained by the State's debt limit of debt outstanding not exceeding 3.2 percent of personal income.

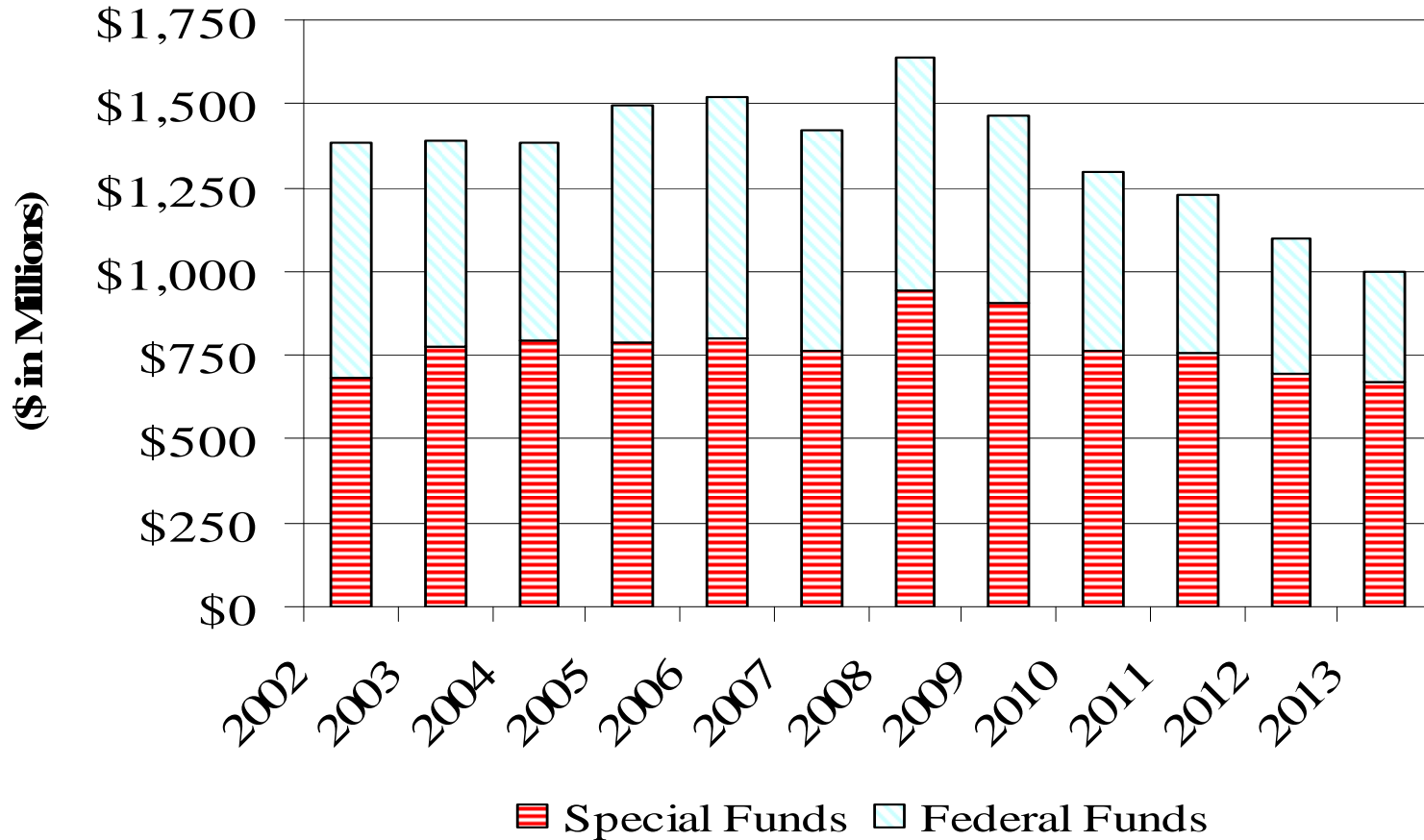
MDOT Debt – Nontraditional

- In recent years MDOT has expanded the types of instruments it uses to issue debt for transportation projects:
 - Certificates of Participation (COPs)
 - Revenue bonds backed by passenger facility charges and customer facility charges
 - Maryland Economic Development Corporation bonds
 - GARVEE bonds backed by anticipated federal aid
- There are no statutory limitations on these non-CTB debt instruments, except for GARVEE bonds. Since fiscal 2002, nontraditional debt outstanding is limited by annual budget language.

Current Status of TTF

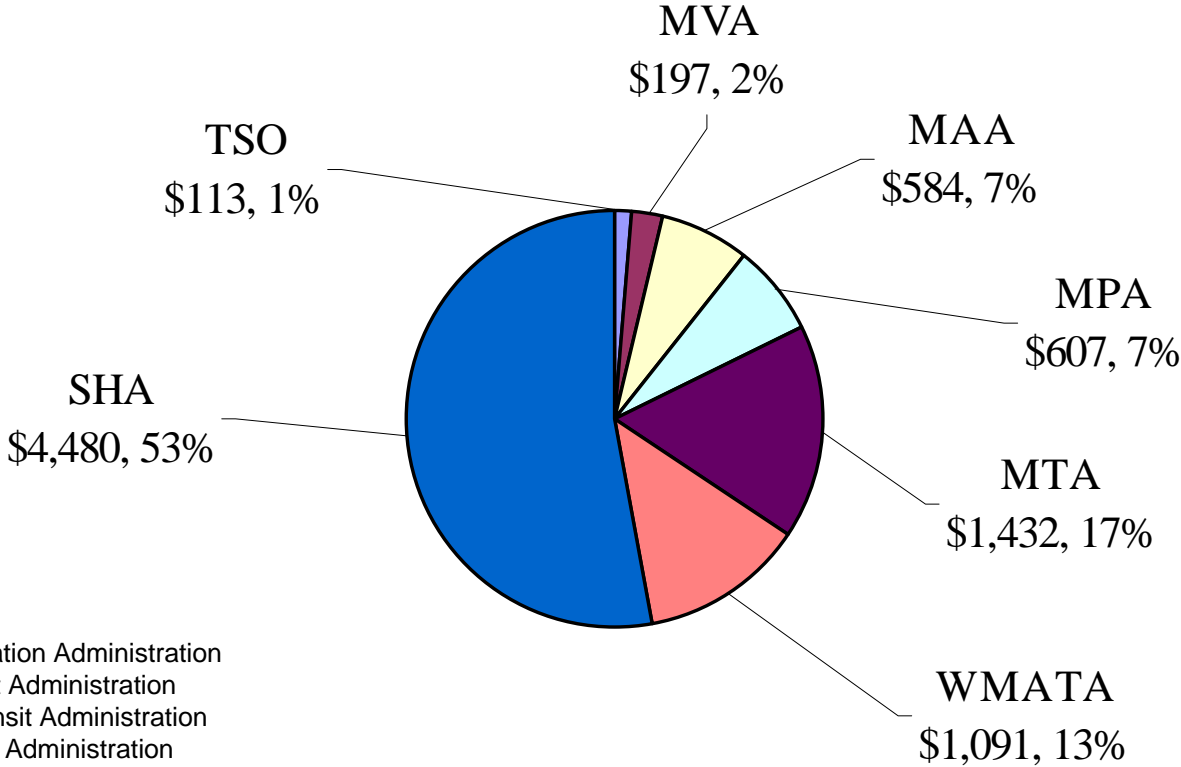
- Draft Consolidated Transportation Program (CTP)
- Pressures on the Capital Program

Draft CTP – Capital Funding



Six-year Capital Funding by Mode

(\$ in Millions)

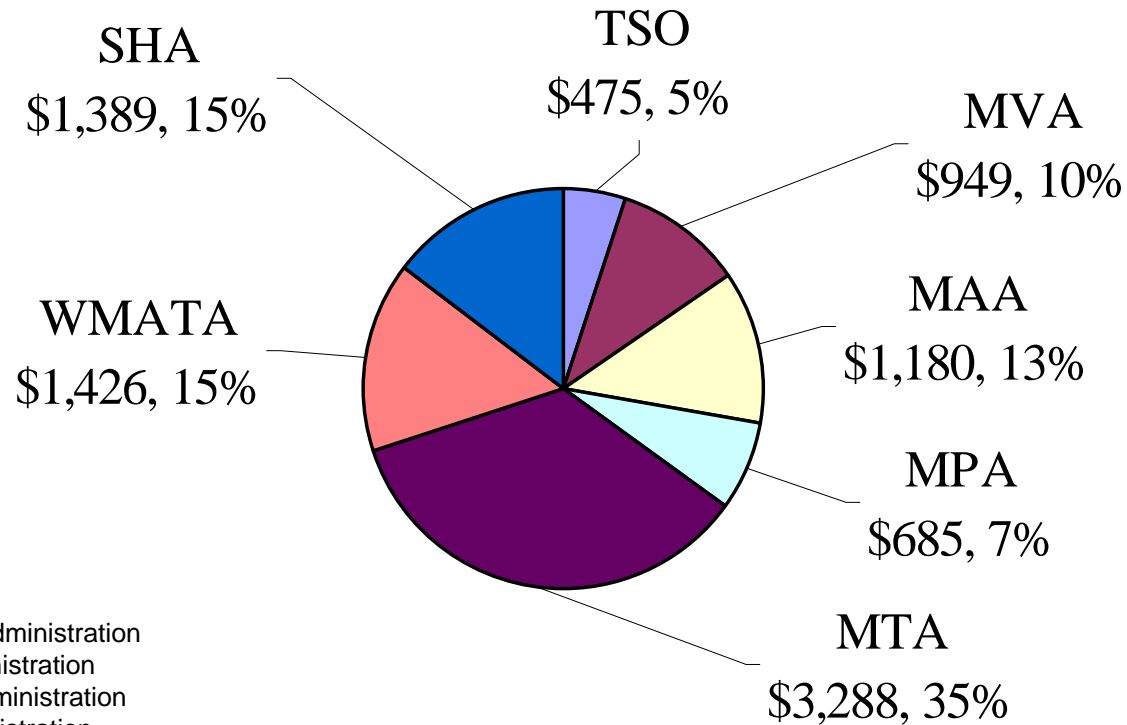


Total = \$8.5 Billion

- MAA: Maryland Aviation Administration
- MPA: Maryland Port Administration
- MTA: Maryland Transit Administration
- MVA: Motor Vehicle Administration
- SHA: State Highway Administration
- TSO: Secretary's Office
- WMATA: Washington Metropolitan Transit Authority

Six-year Operating Funding by Mode

(\$ in Millions)



MAA: Maryland Aviation Administration
MPA: Maryland Port Administration
MTA: Maryland Transit Administration
MVA: Motor Vehicle Administration
SHA: State Highway Administration
TSO: Secretary's Office
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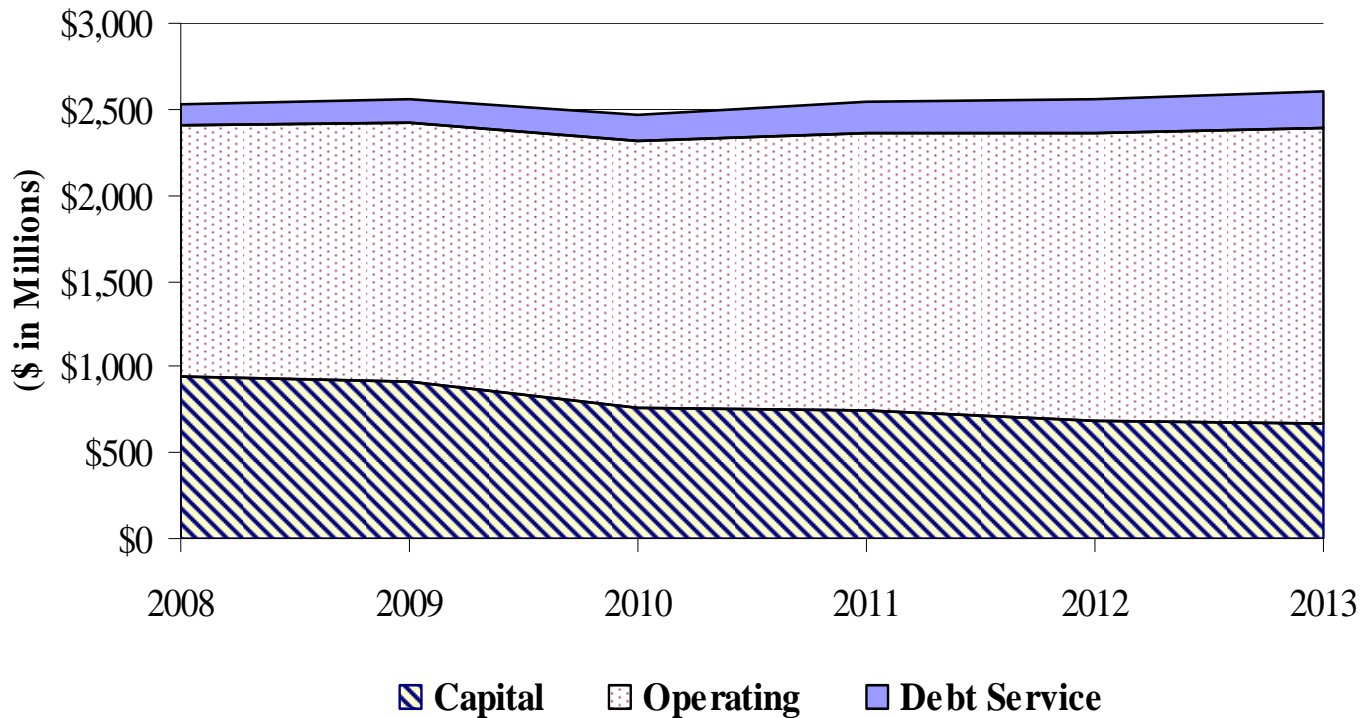
Total = \$9.4 Billion

Pressures on the Capital Program

- **Operating Budget Growth:** From fiscal 2008-2013, operating expenditure growth is estimated at 3.4 percent compared to revenue growth of 2.9 percent.
- **Debt Issuances Constrained:** Future debt issuances are constrained by coverage ratios and debt outstanding limit.
- **Future Federal Funds Uncertainty:** How much in future federal funds will be available for the capital program is uncertain due to the federal reauthorization process and limited capacity of the HTF.
- **GARVEE Debt Service:** Future federal aid for the capital program will be reduced to pay for GARVEE debt service.

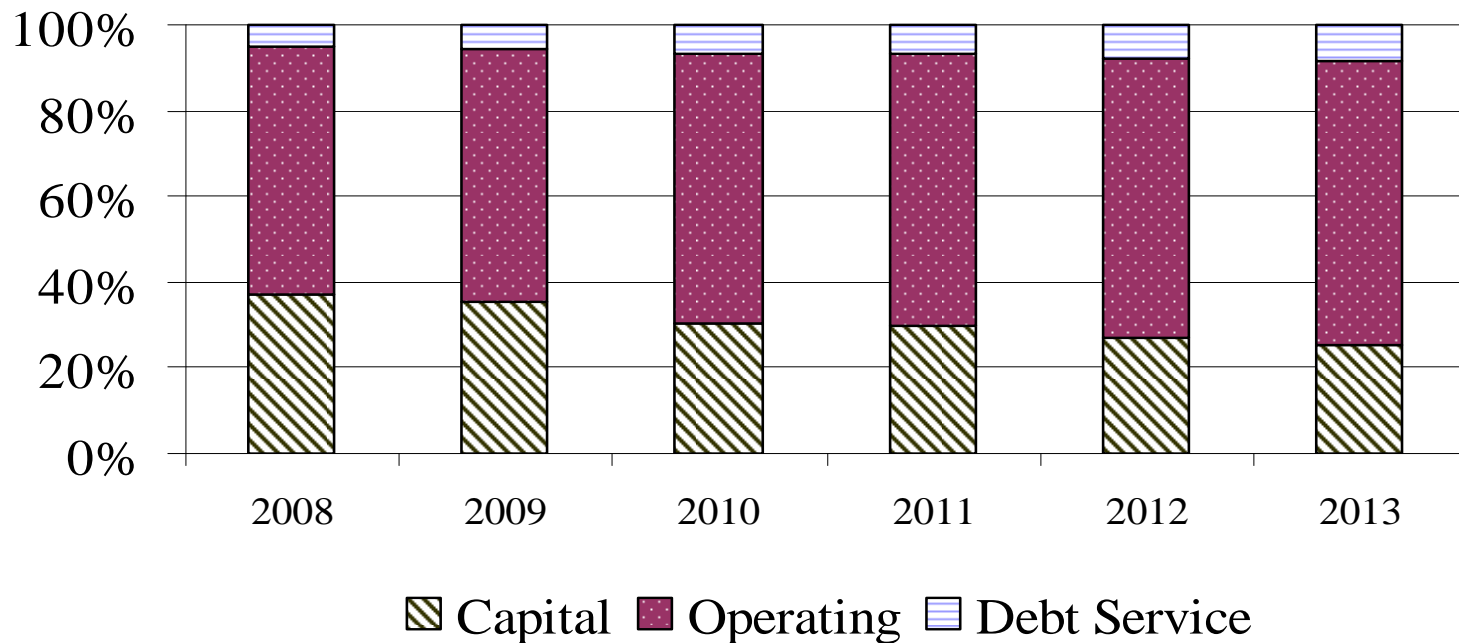
MDOT – Draft CTP Special Funds

- As operating and debt service special fund expenditure growth outpaces revenue growth, less cash is available for the capital program.



MDOT – Draft CTP Capital Spending Decreases

- Special fund capital spending as a percent of total special fund spending equals 37 percent in fiscal 2008 and decreases to 26 percent in fiscal 2013.



MDOT's Capital Program Needs

- Current funding and policy issues
- Defining the unfunded needs
- Issues

Major Funding/Policy Issues

Departmentwide

- **Base Realignment and Closure (BRAC):** Thousands of jobs and residents will come to Maryland as a result of the BRAC process.
- **Inflation:** In recent years, the rising cost of construction materials has outpaced revenue growth.

State Highway Administration (SHA)

- **Highway Congestion:** A recent census survey showed that only New York residents have a longer commute time than Maryland residents.
- **Bridge Maintenance:** SHA has 130 bridges (5 percent of all SHA-maintained bridges) rated structurally deficient by federal standards.

Major Funding/Policy Issues (Cont.)

Motor Vehicle Administration

- **REAL-ID Act:** The federal government has created a national standard for driver's licenses and personal identification cards.
- **Cost Recovery:** The Motor Vehicle Administration must set fees to recover 95 to 100 percent of its operating and capital expenditures.

Washington Metropolitan Area Transit Authority

- **Washington Metro Funding:** Federal legislation has been introduced that would require an additional \$50 million in payments.

Maryland Transit Administration

- **Transit Capital Funding:** Currently there are four major transit projects in the planning phase.
- **Transit Operating Funding:** The Maryland Transit Administration (MTA) is required by statute to recover 50 percent of its costs through operating revenues in fiscal 2009.

Major Funding/Policy Issues (Cont.)

Maryland Port Administration (MPA)

- **Port Security:** Recent and upcoming changes to federal guidelines will necessitate improvements in security.
- **Port Dredging:** Beginning in 2009, the Port's need for placement sites will exceed its available capacity, requiring the development of more placement sites.
- **Chromium waste remediation:** Clean up of chromium waste at Dundalk Marine Terminal could cost billions of dollars, of which the State's share of the cost is 23 percent.

Identifying Needs

Several groups have met since the last gas tax increase in 1992 to examine MDOT's needs and funding:

- 1994 Joint Transportation 2000 Committee
- 1998 Private Sector Advisory Group
- 1998 Transportation Investment Commission
- 1999 Commission on Transportation Investment
- 2000 Transit Policy Panel
- 2003 Transportation Task Force
- 2006 Transit Funding Steering Committee

Commission on Transportation Investment (CTI)

Following the 1992 motor fuel tax increase, this was the first commission to make a specific recommendation regarding the funding levels of the capital program.

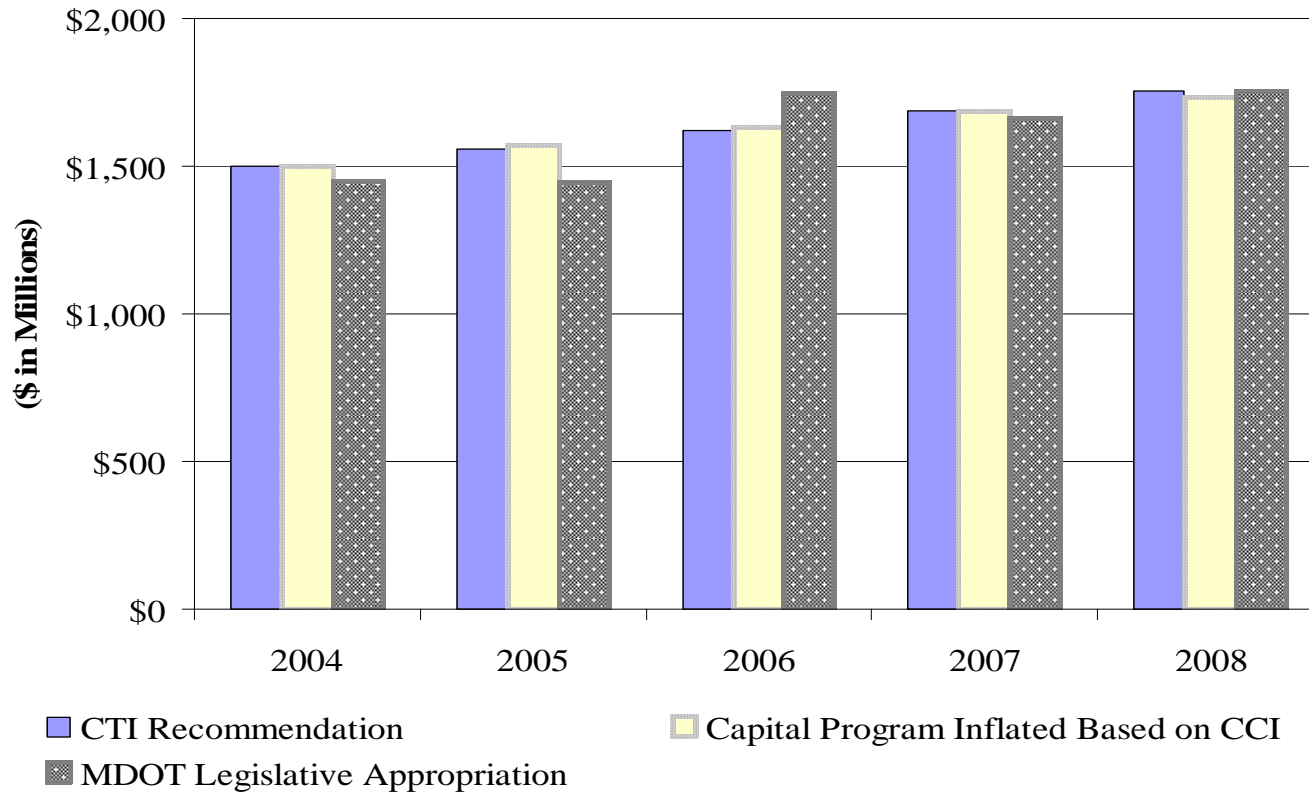
Recommendation

- Identified \$27 billion in unfunded needs over 20 years.
- Advocated a larger capital program by increasing MDOT's capital program from \$935 million in fiscal 1999 to \$1.5 billion in fiscal 2004 and 4 percent thereafter.

Result

- MDOT increased the capital program to meet this recommendation.

CTI Recommendations and the Capital Program



* Legislative Appropriation does not include other funds.

Transportation Task Force

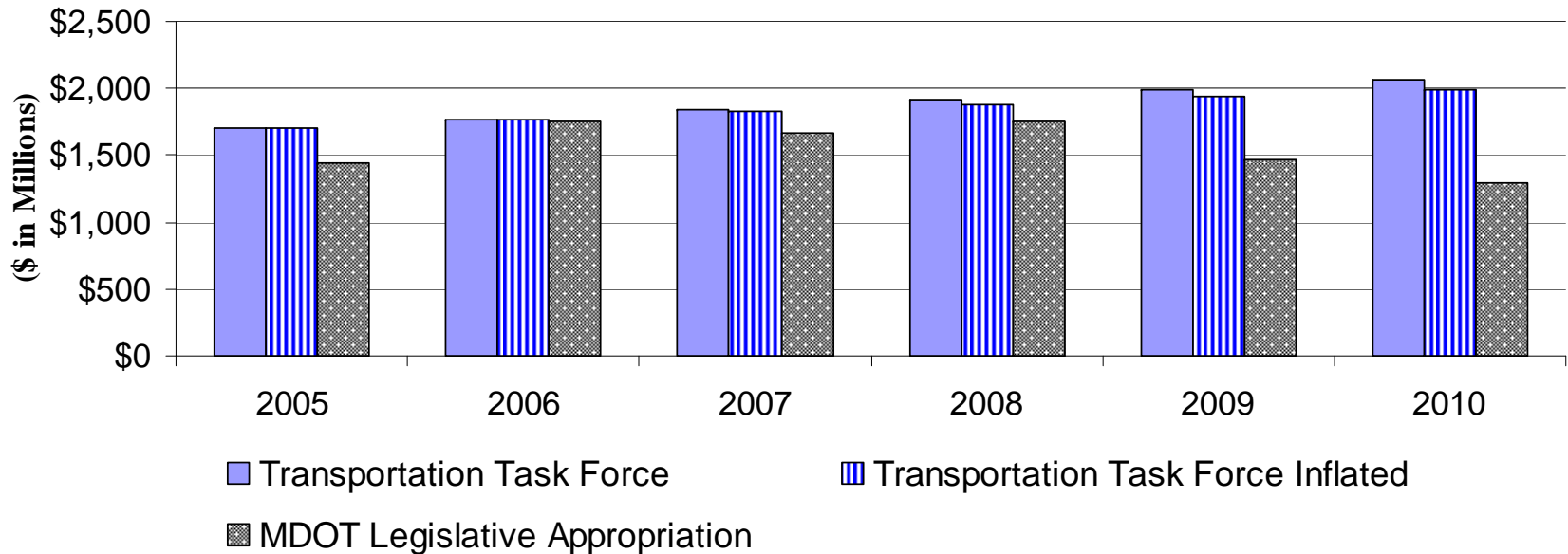
Recommendation

- Concurred with MDOT's recommendation to increase the six-year capital program from \$6.6 billion to \$11.3 billion to address unfunded need of \$17 billion from fiscal 2005-2010.
- Recommended an increase in revenues of \$300 million per year but did not specify the method of increased revenue

Result

- In 2004, registration fees were increased, generating \$153 million in additional annual revenue.

Transportation Task Force and the Capital Program



* Legislative Appropriation does not include other funds.

Transit Funding Steering Committee

- Transit Funding Steering Committee (2006)
 - Identified \$40 billion in transit needs, including \$21 billion in operating costs, over the next 20 years for operating and capital expenditures.
 - Assumptions were based on unconstrained growth.
 - The unfunded needs included the construction of the following major transit lines:
 - Baltimore Green Line
 - Baltimore Red Line
 - Purple Line
 - Corridor Cities Transitway

What Is MDOT's Current Need?

- MDOT's *Capital Needs Report*, submitted in response to a 2007 *Joint Chairmen's Report* request
 - \$22 billion in needs for SHA projects in the 2007 CTP;
 - \$5 billion in needs for other modes; and
 - unspecified amount is needed for counties' projects and BRAC.
- To maintain MDOT's current capital program in fiscal 2008 for 20 years, assuming inflation of 3 percent, the total cost is approximately \$39 billion.

What Is MDOT's Current Need? Issues

- Without an updated list of projects, the General Assembly is unable to identify what a revenue increase will provide.
- A prioritized list of projects will provide the opportunity to understand what are the most pressing needs facing MDOT.

MDOT Revenue Options

- Motor Fuel Tax
- Titling Tax
- Registration Fees
- Alter Distributions
- Cost Recovery

MDOT – Motor Fuel

- Current regular fuel rate is 23.5 cents, and special fuel is 24.25 cents per gallon.
- Motor fuel tax rate was last increased in 1992.
- Current revenue growth is relatively stable and increases as vehicle miles traveled increases.
- The long-term concern is that as fuel economy standards increase this will result in eroding revenue growth.
- A 1-cent increase in the motor fuel tax generates approximately an additional \$33 million (\$23 million for TTF and \$10 million for locals).

Motor Fuel Tax Rankings

- Maryland's current excise tax is the seventeenth highest in the country.
- When looking at total taxes paid, including any sales taxes, Maryland has the twenty-sixth highest motor fuel tax rate.

MDOT – Motor Fuel Price Based Tax

- Other motor fuel tax options include:
 - Applying State sales tax to motor fuel and dedicating revenues to TTF. (HB 821 from 2007 session indicated this would generate \$440 million – \$308 million for TTF and \$132 million for locals in fiscal 2008.)
 - Applying a wholesale sales tax with revenues dedicated to the TTF. SB 949 from the 2007 session would have created a 4 percent sales tax on the difference between the current wholesale price and \$1.50. Once fully in effect, this would generate an additional \$33 million in revenue (\$23 million for TTF and \$10 million for locals).

MDOT – Motor Fuel Price Based Tax

Advantages

- Limit the need for future statutory increases to flat tax rate.
- Revenue growth is more closely tied to inflation.
- Revenue growth will reflect the growth in the price of motor fuels.

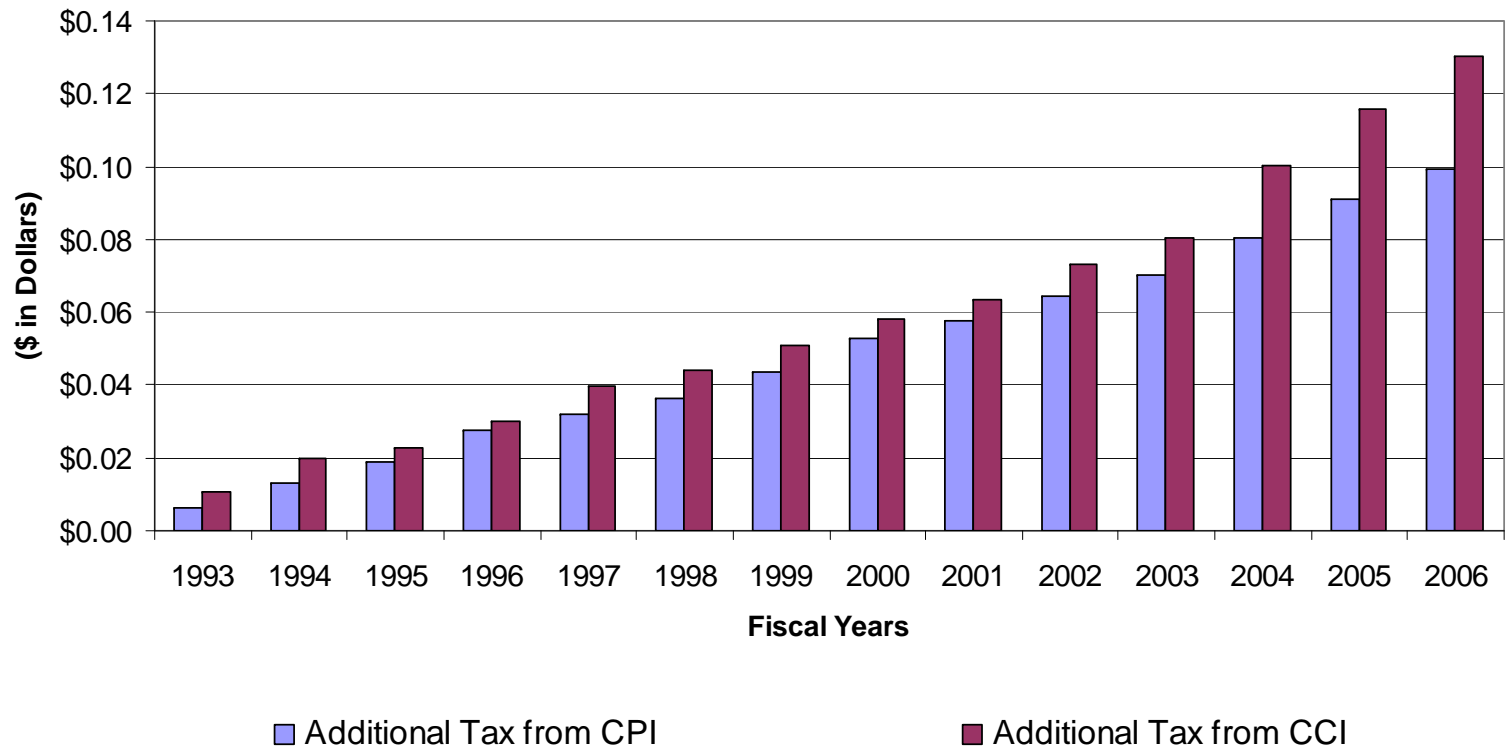
Disadvantages

- Gasoline prices are highly volatile and thus predicting future revenues is difficult.
- Taxpayers may react negatively to a tax that increases as the price of gasoline increases.
- Given the volatility associated with a price based tax, future debt issuances may be constrained if revenues tighten.

MDOT – Motor Fuel Tax Indexing

- One problem with the motor fuel tax is that it has not increased since 1992, and the purchasing power of the revenues has steadily declined.
- Florida and Maine currently index their motor fuel tax rate to the Consumer Price Index (CPI).
- Indexing fuel tax to inflation allows for tax rate to increase automatically as inflation increases.

MDOT – Motor Fuel Tax Index Comparison



MDOT – Titling Tax

- Titling tax rate was last increased in 1978.
- Current titling tax rate is 5 percent of purchase price.
- A 1 percent increase in the titling tax generates approximately \$150 million in revenue (\$114 million for the TTF and \$36 million for locals).

Titling Tax Ranked with Surrounding States

<u>State</u>	<u>Titling/Sales Tax</u>	<u>Rank</u>
New Jersey	7.00%	1
District of Columbia	6.00-8.00%	2
Pennsylvania	6.00%	2
Maryland	5.00%	4
West Virginia	5.00%	4
Delaware	3.25%	6
North Carolina	3.00%	7
Virginia	3.00%	7

Registration Fees

- Registration fees were last increased in 2004.
- Current registration fee is \$52.50 – \$76.50 annually or \$101 – \$153 biennially.
- In addition, there is a surcharge of \$13.50 annually for emergency support services.
- An important consideration regarding potential registration fee increases is that the Maryland Emergency Services Operations Fund will need to be replenished in the coming fiscal years.

Registration Fees of Surrounding States

State	Annual Rate	Rank
District of Columbia	\$72.00	1
Maryland	52.50	2
Delaware	40.00	3
Virginia	39.50	4
Pennsylvania	36.00	5
New Jersey (assuming 2004 passenger vehicle)	35.00	6
West Virginia	30.00	7
North Carolina	28.00	8

MDOT – Altering Distributions

- Local Share of Highway User Revenues
 - Currently, revenues are split 70 percent to MDOT and 30 percent to local jurisdictions. This formula could be altered.
 - Changing the formula to a 75/25 percent would net the TTF an additional \$98 million approximately.
 - A revenue bill could be structured such that revenues are increased, the local share is changed to 25 percent, and local jurisdictions do not see a reduction in aid.

MDOT – Altering Distributions

- Increase portion of Corporate Income Tax to TTF.
 - Currently, 24 percent of the revenues are distributed to the TTF which is estimated to be \$187 million in fiscal 2008.
- Dedicate all Rental Car Sales Tax revenues to the TTF.
 - Currently, 45 percent of all revenues given to TTF (\$30 million) with remaining funds going to the general fund.

The concern is that at a time when the general fund has a deficit of \$1.4 billion perhaps not prudent to transfer OUT general funds exaggerating the deficit.

Operating Cost Recovery

Amount Needed for 100 Percent Cost Recovery	Fiscal 2008	Percent of Fiscal 2008 Budget
Maryland Port Administration	\$7.6	7.2%
Maryland Aviation Administration	14.2	7.8%
Motor Vehicle Administration*	23.5	13.1%
Amount Needed for 40 Percent Cost Recovery		
Maryland Transit Administration*	20.8	4.1%
Total	\$66.1	
* Statutorily required and the Motor Vehicle Administration needs 95 to 100 percent for operating and capital expenses.		