



Maryland  
Transportation  
Authority

Legislative Presentation

FY 2018 Budget Overview

# MARYLAND TRANSPORTATION AUTHORITY

## FY 2018 BUDGET OVERVIEW

### FY 2018 Operating Budget

Summary of Major Changes (\$ in millions)

FY 2018 Operating Budget Request	\$307.3
FY 2017 Operating Budget	\$304.0
\$ Increase FY 2018 over FY 2017	\$3.3
% Increase FY 2018 over FY 2017	1.1%

The Maryland Transportation Authority's (MDTA) FY 2018 Preliminary Operating Budget, exclusive of debt service, totals \$307.3 million. This represents an increase of \$3.3 million, or 1.1%, over the FY 2017 operating budget.

### **Personnel Expenditures**

The budget includes an increase of \$2.9 million in personnel expenses. This is primarily due to (1) an increase in salaries and pension expenses due to collective bargaining for the police; (2) a reduction in turnover due to the restoration of funding for the police academy in FY 2018; and (3) a reduction in employee's and retiree's health insurance.

### **Other Expenditures**

Other significant increases/decreases in FY 2018 operating expenditures include:

- A \$1.3 million increase in road repairs and maintenance, which includes \$0.5 million for virtual weigh station maintenance and \$0.7 million in one-time expenses for a bridge washing pilot program on the John F. Kennedy Memorial Highway.
- A \$1.0 million increase in E-ZPass service center costs due to increased video tolls.
- A \$0.6 million increase in management studies, including the Bay Bridge NEPA study and a Continuity of Operations Plan (COOP).
- Engineering services increase by \$0.6 million, primarily in the environmental discipline.
- An increase of \$0.7 million for salt to reflect the three-year average salt usage.
- A \$2.0 million reduction in IT systems analysis and services, which includes replacing contractors with State employees, which is more cost-effective.
- A \$0.8 million reduction due to the removal of a one-time expense associated with the procurement of the 3<sup>rd</sup> generation tolling system.
- A \$0.7 million reduction in vehicle expenses due to lower gas prices and fewer replacement vehicles.

### **Reimbursable Expenditures**

MDTA is under contract with the Maryland Aviation Administration (MAA) to provide law enforcement services at the Baltimore/Washington International Thurgood Marshall Airport and with the Maryland Port Administration (MPA) to provide law enforcement services at MPA-owned facilities at the Port of Baltimore. MDTA is reimbursed by MAA and MPA for the costs of providing these services. The FY 2018 budget includes \$27.4 million for these services.

# MARYLAND TRANSPORTATION AUTHORITY

## FY 2018 BUDGET OVERVIEW

### FY 2018 Summary of Permanent Positions

#### *Personnel Budget Data*

<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY2018</b>	<b>FY 2017-</b>
<b>Approved</b>	<b>Approved</b>	<b>Approved</b>	<b>Proposed</b>	<b>FY 2018</b>
<b><u>Budget</u></b>	<b><u>Budget</u></b>	<b><u>Budget</u></b>	<b><u>Budget</u></b>	<b><u>Change</u></b>
1,789.5	1,761.0	1,748.0	1,748.0	0.0

From FY 2015 through 2017, the MDTA abolished 41.5 positions as a cost containment measure. The MDTA's position complement for FY 2018 is unchanged from FY 2017.

### Debt Service

Debt service payments on the MDTA's outstanding revenue bonds total \$136.0 million in FY 2018. The MDTA anticipates \$2.5 million in debt service savings as a result of refunding the Series 2007 bonds. Debt outstanding remains below the \$2.325 billion statutory cap through FY 2020 and \$3.0 billion cap thereafter. In 2016, Fitch Ratings and Standard & Poor's reaffirmed the MDTA's AA- credit ratings and Fitch upgraded the MDTA's outlook from Stable to Positive. The MDTA maintains a credit rating of Aa3 with Moody's.

### Capital Budget and Program

The six-year Consolidated Transportation Program (CTP) for FY 2017 through 2022 totals \$2.4 billion. Of this amount, \$409.8 million is programmed to be spent in FY 2018. Capital spending in FY 2018 is focused on the Nice Bridge and system preservation projects such as roadway improvements and reconstruction, bridge deck rehabilitation, replacing the toll collection system, and replacing the Canton Viaduct. Planned spending by facility is as follows:

- Baltimore Harbor Tunnel – \$69.0 million;
- Chesapeake Bay Bridge – \$47.7 million;
- Fort McHenry Tunnel – \$89.8 million;
- Francis Scott Key Bridge – \$16.0 million;
- Harry W. Nice Memorial Bridge – \$16.3 million;
- Intercounty Connector (ICC) – \$15.6 million;
- John F. Kennedy Highway (includes Express Toll Lanes) – \$15.8 million;
- Thomas J. Hatem Bridge – \$0.1 million; and
- Multi-area and other projects – \$139.4 million.

In November 2016, Governor Hogan announced the MDTA's plans to build a new Nice Bridge on an accelerated project schedule. The project will deliver a new, wider, and safer bridge in 2023. Project costs have been reduced by more than \$200 million and the \$769 million project will be delivered with an approximately equal combination of cash and debt.

# MARYLAND TRANSPORTATION AUTHORITY

## FY 2018 BUDGET OVERVIEW

### **Financial Forecast**

The MDTA's financial forecast for FY 2017 through 2022 incorporates projected toll revenues, concession income, investment income, and other sources of income. Operating and debt service expenditures are projected for the six years and the forecast includes the capital program cash flow projections. The MDTA will meet or exceed its financial policy standards (debt service coverage ratios and unencumbered cash balance) and legal requirements in the forecast period.

After providing drivers more than \$50 million in annual savings from toll rates and fees, the MDTA saw actual toll revenues decline by only \$5.1 million as a result of underlying traffic growth. More than 157 million transactions were recorded on the MDTA's facilities, a 9.4% growth from the previous year. Over 76% of these transactions were paid through an E-ZPass. E-ZPass is by far the most cost-effective payment method for customers and for the MDTA.

NOTE: MDTA's budget is submitted for information purposes by the Secretary of Transportation in accordance with Title 7 of the State Finance and Procurement Article of the Annotated Code of the State of Maryland. In accordance with the Amended and Restated Trust Agreement between MDTA and the Bank of New York (Trustee), MDTA must approve a final FY 2018 budget on or before July 1, 2017.

**CASH FLOW FORECAST FY 2016 - FY 2022**  
**MARYLAND TRANSPORTATION AUTHORITY**  
(millions \$)

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
<b>REVENUES</b>							
Toll Revenues	\$ 686.5	\$ 698.5	\$ 707.7	\$ 711.9	\$ 718.0	\$ 721.3	\$ 729.1
Concession Income	6.2	5.7	5.7	5.8	5.9	6.0	6.1
Investment Income & Other	18.7	10.9	10.3	9.1	8.2	7.4	6.9
Masonville Auto Terminal Lease	5.9	-	-	-	-	-	-
BWI/Port Police Reimbursement	25.3	26.6	27.4	28.5	29.6	30.8	32.0
<b>TOTAL REVENUES</b>	<b>\$ 742.6</b>	<b>\$ 741.6</b>	<b>\$ 751.1</b>	<b>\$ 755.3</b>	<b>\$ 761.7</b>	<b>\$ 765.4</b>	<b>\$ 774.1</b>
<b>EXPENSES</b>							
<b>Operating Expenses</b>							
Operating Account Budget	\$ 277.5	\$ 304.0	\$ 307.3	\$ 319.6	\$ 332.4	\$ 345.7	\$ 359.6
Debt Service	126.9	138.5	136.0	129.9	130.0	133.0	137.1
<b>Total Operating Expenses</b>	<b>\$ 404.5</b>	<b>\$ 442.5</b>	<b>\$ 443.2</b>	<b>\$ 449.5</b>	<b>\$ 462.4</b>	<b>\$ 478.7</b>	<b>\$ 496.7</b>
<b>Capital Expenses</b>							
2016-2022 Total CTP	\$ 240.4	\$ 331.9	\$ 409.8	\$ 438.7	\$ 362.8	\$ 417.6	\$ 486.5
<b>Total Expenses (Operating and Capital)</b>	<b>\$ 644.9</b>	<b>\$ 774.4</b>	<b>\$ 853.1</b>	<b>\$ 888.3</b>	<b>\$ 825.2</b>	<b>\$ 896.4</b>	<b>\$ 983.2</b>
<b>Capital Funding Sources:</b>							
Revenue Bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20.0	\$ 225.0
Seagirt / ICTF Proceeds	14.2	-	-	-	-	-	-
Revenue Bond Defeasance	-	-	-	-	-	-	-
Accrual Accounting Reconciliation	(17.4)	-	-	-	-	-	-
Total Current Year Sources Available	(3.2)	-	-	-	-	20.0	225.0
Other Funding Required (Current Year)	243.6	331.9	409.8	438.7	362.8	397.6	261.5
Total Capital Funding Sources	240.4	331.9	409.8	438.7	362.8	417.6	486.5
<b>Annual Cash Requirements</b>	<b>\$ 648.0</b>	<b>\$ 774.4</b>	<b>\$ 853.1</b>	<b>\$ 888.3</b>	<b>\$ 825.2</b>	<b>\$ 876.4</b>	<b>\$ 758.2</b>
<b>Annual Cash Surplus/Deficit</b>	<b>94.5</b>	<b>(32.8)</b>	<b>(101.9)</b>	<b>(132.9)</b>	<b>(63.5)</b>	<b>(110.9)</b>	<b>15.9</b>
<b>Total Cash Balance</b>	<b>\$ 917.9</b>	<b>\$ 885.1</b>	<b>\$ 783.1</b>	<b>\$ 650.2</b>	<b>\$ 586.7</b>	<b>\$ 475.8</b>	<b>\$ 491.7</b>
<b>Bonds Outstanding</b> (≤\$2.325 b. FY16-FY20; then ≤\$3.0 b.)	<b>\$ 2,299.6</b>	<b>\$ 2,264.2</b>	<b>\$ 2,216.0</b>	<b>\$ 2,165.7</b>	<b>\$ 2,113.2</b>	<b>\$ 2,078.4</b>	<b>\$ 2,243.7</b>
<b>FINANCIAL COVERAGE RATIOS</b>							
Unencumbered Cash (\$350 mm minimum)	\$788.6	\$757.7	\$657.7	\$526.9	\$464.6	\$352.4	\$356.9
Debt Service Coverage (≥2.5x thru FY20; then ≥2.0x)	3.62	3.16	3.26	3.35	3.30	3.16	3.02
Rate Covenant Compliance (Legal - 1.0x)	2.87	2.54	2.62	2.69	2.65	2.54	2.45

**PROJECTED FUTURE AVERAGE TOLL INCREASES:**

\$0 IN FY 2018

\$0 IN FY 2020

\$0 IN FY 2022

- Does not show toll increases beyond FY16-22 period.

- Regardless of timing and need for system wide toll increases, tolls on ICC and I-95 ETL could be revised to manage congestion

MDTA Finance and Davenport  
12/23/16

**2016-08 v2.2.2**

**January 2017 Financial Forecast**

**Final FY 17-22 CTP**

**Amended FY 17 Operating Budget**

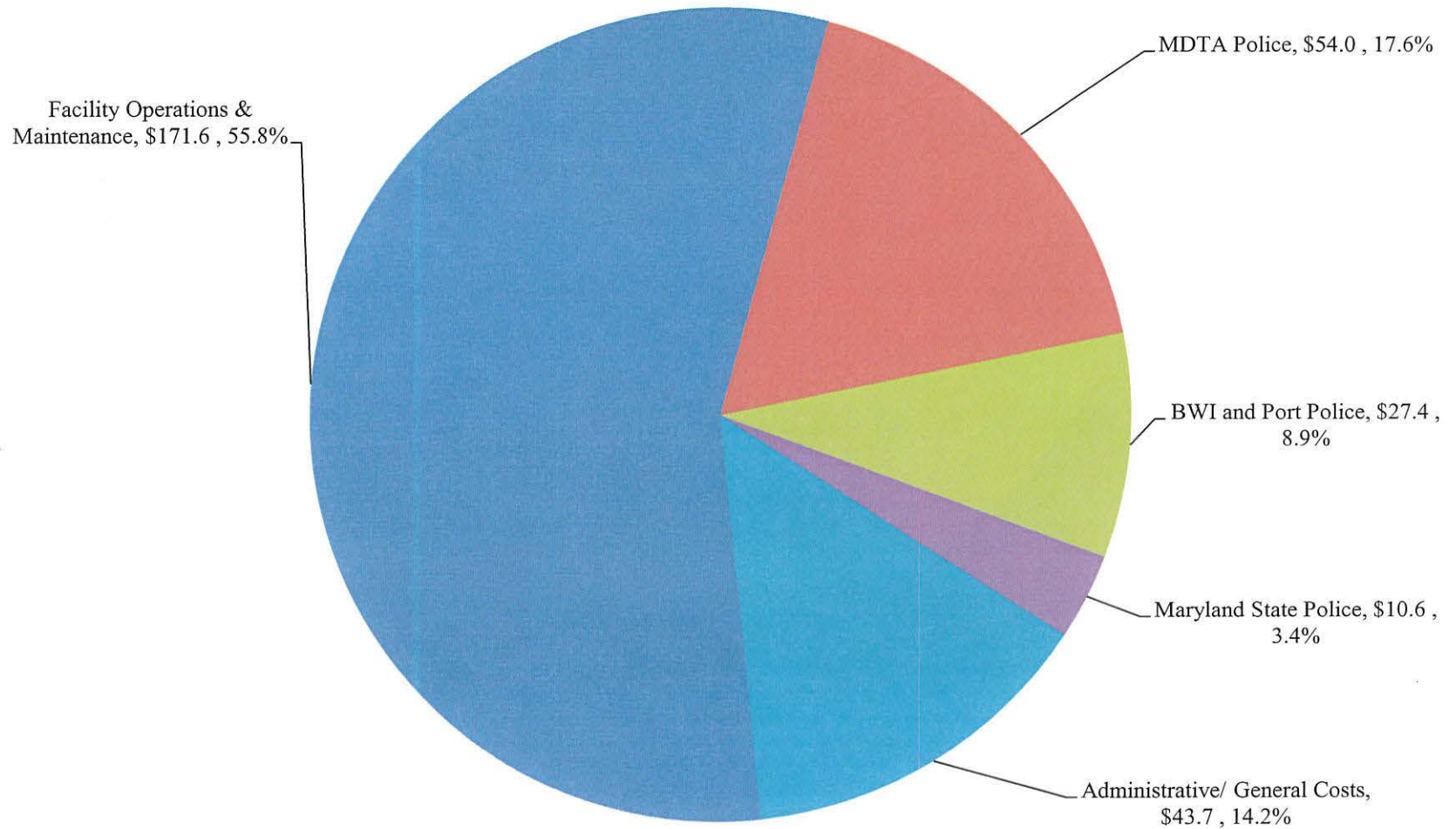
**Preliminary FY 18 Operating Budget**

**2016 Traffic and Revenue Reports**

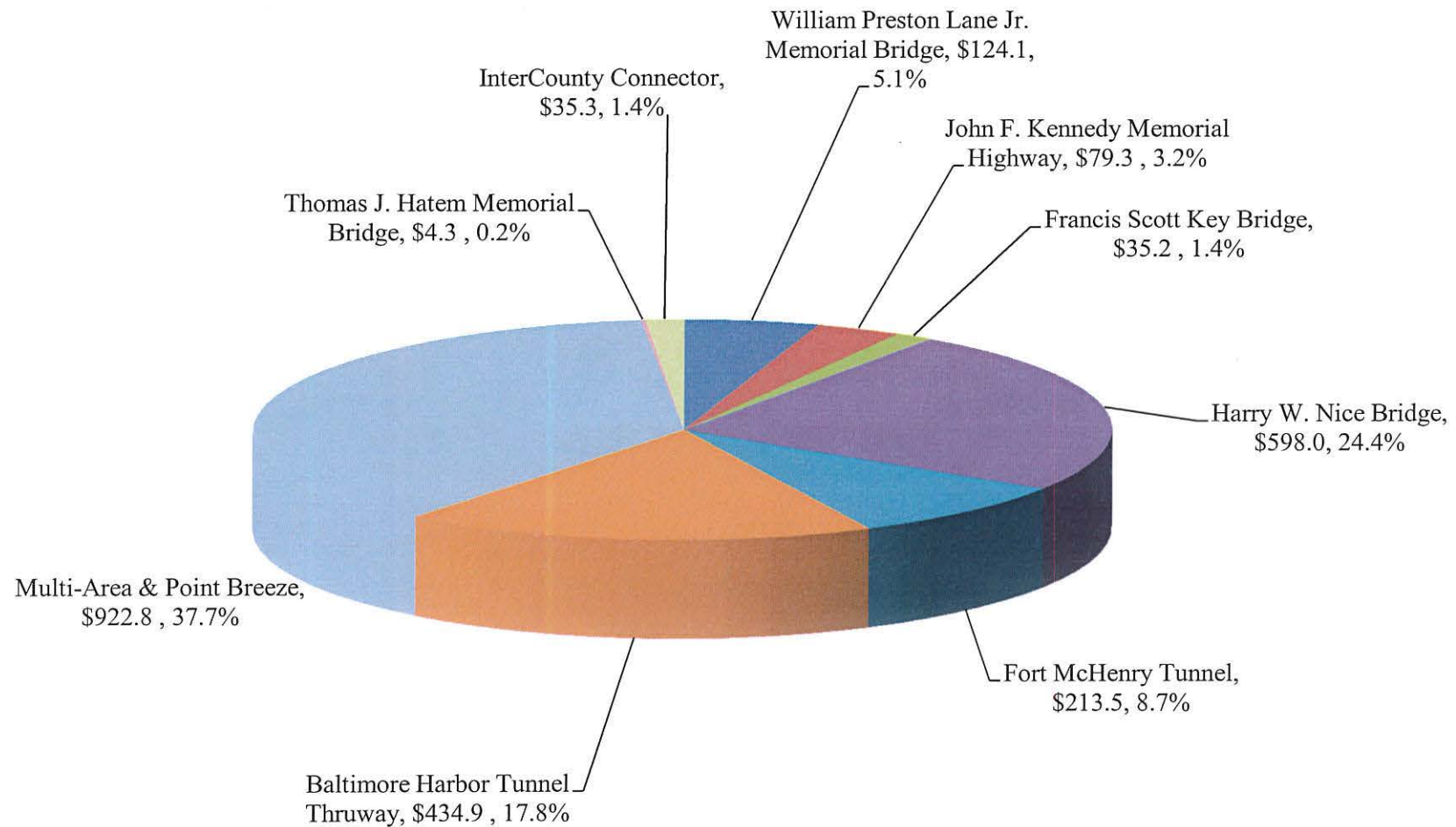
**Refunding 2007 2008 Bonds**



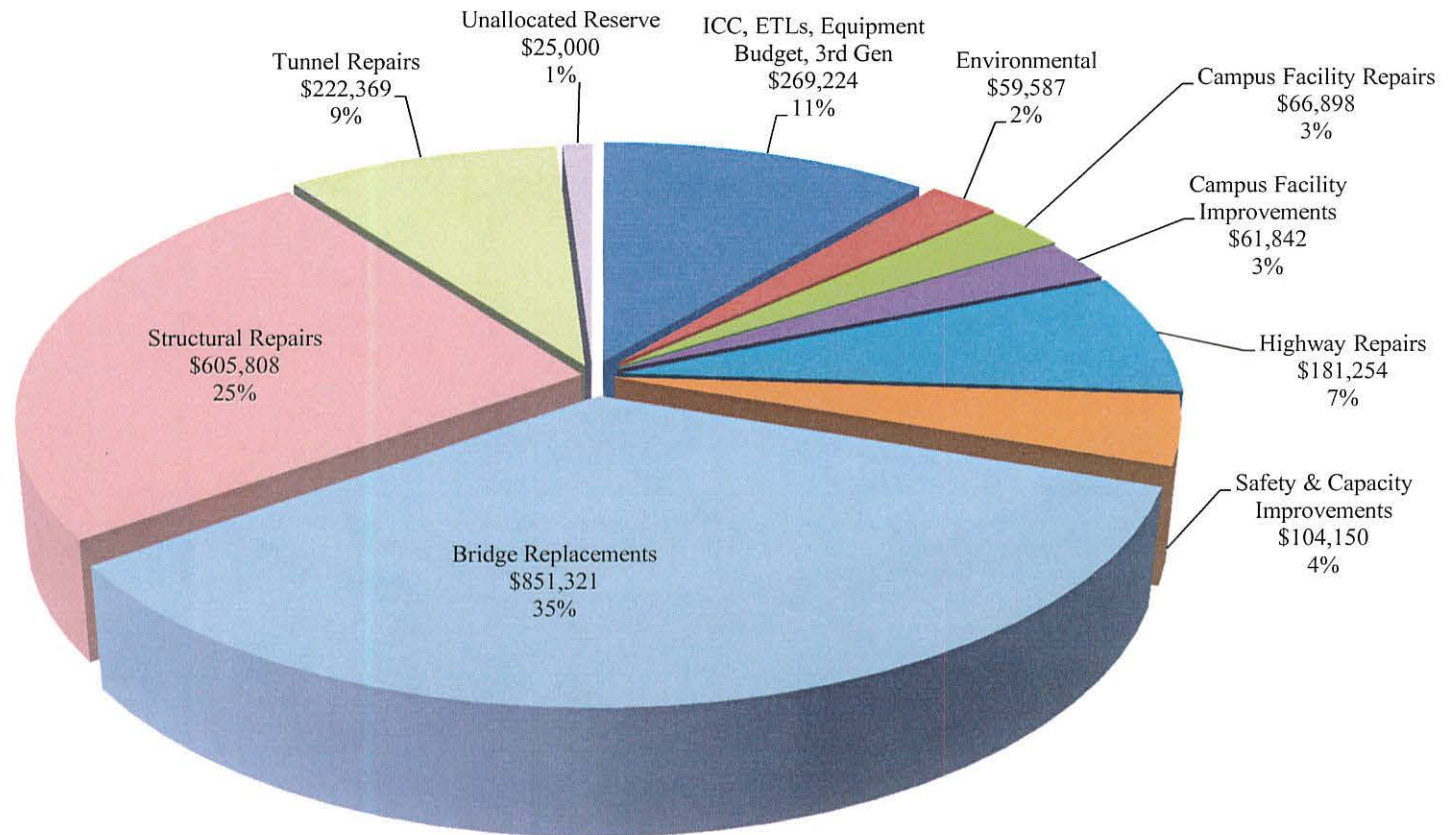
**Maryland Transportation Authority  
FY 2018 Operating Budget  
\$307.3 Million**



**Maryland Transportation Authority  
FY 2017 - FY 2022 Capital Program  
\$ 2,447.5 Million**



**Where Do Capital Dollars Go?**  
**FY 2017-2022 CTP = \$2,447 Million**  
**\$ in Thousands**





**MDOT RESPONSE TO DLS ANALYSIS**

***DLS Budget Analysis***

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**Financial Outlook (Page 17)**

*In order to maintain MDTA's financial stability, DLS recommends the addition of provisions to the Budget Reconciliation and Financing Act of 2017. DLS recommends setting minimums for various financial measures, as shown in Exhibit 9.*

**MDOT Response:**

The Department respectfully does not concur with the recommendation. The MDTA's existing financial standards reflect established industrywide standards for creditworthiness, as evidenced by the MDTA's AA credit rating, which is the highest rating that toll agencies can typically achieve. The DLS recommendation significantly alters the measures established two years ago, thus reducing the MDTA's financial stability by creating uncertainty in requirements from year to year. Reduced financial flexibility and independence may impede the MDTA's ability to deliver requirements for the Nice Bridge replacement project in accordance with the current financing plan and project schedule and may be seen as a credit negative by the rating agencies.

In November 2016, the Governor announced the MDTA's plan to replace the Nice Bridge under an accelerated construction schedule that will deliver a new Nice Bridge by 2023. The funding plan was developed in accordance with the provisions regarding minimum requirements for unencumbered cash and the debt service coverage ratio established by the legislature in the 2015 Budget Reconciliation and Financing Act (BRFA), but does not include the modified requirements now being recommended by DLS.

Over the next several years, it is especially advantageous and important for the MDTA to maintain the financial flexibility that it has always had. The DLS recommendation may prevent the MDTA from being able to respond quickly to changes in the project schedule or the bond market and may require toll increases to meet arbitrary financial requirements.

The MDTA has a history of strong financial management evidenced by its AA credit ratings from the three major credit rating agencies. In August 2016, Fitch Ratings upgraded the MDTA's outlook from Stable to Positive, citing "continued positive traffic trends and financial flexibility". Little benefit can be gained by modifying existing standards since the MDTA already maintains the highest credit ratings that it can hope to achieve without general taxing authority. Instead, these changes may be seen as a credit negative because it creates uncertainty in financial management practices from year to year.

The minimum cash requirement would limit the MDTA's ability to achieve long-term debt service savings through a potential cash defeasance. In 2017 and 2018, the MDTA plans to refinance over \$850 million in outstanding debt to achieve debt service savings. Current available cash allows the MDTA to utilize a partial cash defeasance instead of refinancing the full amount to provide greater savings. Cash defeasances reduce the amount of debt outstanding

**MDOT RESPONSE TO DLS ANALYSIS**

and provide long-term debt service savings. The cash requirements proposed in the DLS recommendation would prevent the MDTA from using available cash for this purpose, thus costing the MDTA tens of million of dollars of potential debt service savings.

The MDTA has consistently maintained minimum requirements of \$350 million of unencumbered cash, debt service coverage of 2.0 times, and rate covenant compliance of 1.0 times. These financial measures provide assurance to bondholders of repayment and that financial management practices will be consistent over the long-term. In 2015, the legislature included language in the 2015 BRFA that codified the MDTA's minimum cash balance and established a higher debt service coverage requirement. Only two years later, DLS recommends significantly altering these requirements again. Making significant changes to financial requirements in a short period of time prevents the MDTA from performing the long-term financial planning required to address future needs like an additional span of the Bay Bridge.

MDOT RESPONSE TO DLS ANALYSIS

*DLS Budget Analysis Issues*

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**1. Nice Bridge Replacement Added to Construction Program (Page 24)**

*MDTA should comment on the uncertainties of the Nice Bridge financing plan, including the likelihood of a contribution from VDOT and the potential impact on the capital program if a contribution is not received.*

**MDOT Response:**

In November 2016, the Governor announced the MDTA’s plan to replace the Nice Bridge under an accelerated construction schedule that will deliver a new Nice Bridge by 2023. The funding plan for the \$769 million project includes a combination of MDTA cash and bonds. Cash funding includes debt service savings from debt refinancings, capital budget reductions, cash reserves, and a potential contribution from Virginia. Debt includes MDTA revenue bonds and a potential TIFIA loan. By utilizing a funding plan with diverse funding sources, the MDTA has mitigated much of the risk and uncertainty that may come from any one funding source.

The DLS analysis notes several potential funding uncertainties, as outlined below. The MDTA has historically utilized conservative forecasting measures that mitigate these risks and often result in actual performance exceeding the forecast.

- *Interest Rate Risk:* Interest rate risk is inherent in long-term planning. The MDTA mitigates this risk by assuming higher long-term interest rates. For example, the borrowing rate assumed for revenue bonds issued in FY 2021 and beyond is 4.75%, which is well above current expected rates of approximately 3.3%.
- *Revenue Risk:* The MDTA has historically mitigated the impact of revenue risk by utilizing conservative forecasting and there is a long history of revenues meeting or exceeding forecasts. As noted on page 25 of the DLS analysis, “Despite the consistent toll revenue overattainment in recent years, MDTA has maintained a fairly conservative outlook for future revenues.”
- *Virginia Contribution to Funding:* The MDTA remains optimistic that our partners in Virginia will recognize the economic development and other benefits that will result from this project. We continue to have conversations with Virginia about their involvement in the project.

While the MDTA has developed a diverse and achievable funding plan for the Nice Bridge, the DLS recommendation establishing minimum requirements for financial measures creates unanticipated risk and uncertainty that was not contemplated when the Nice Bridge funding plan was established and may jeopardize the current project schedule and funding plan.

MDOT RESPONSE TO DLS ANALYSIS

***DLS Budget Analysis Issues (Continued)***

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**2. Actual Toll Revenues Higher Than Estimated (Page 26)**

*MDTA should comment on the impact of the toll revenue overattainment and possible reasons for recent overattainment.*

**MDOT Response:**

The MDTA utilizes an independent consultant to estimate its traffic and revenue for the next ten years. Forecasts are updated annually and are based on econometric models that seek to establish correlative relationships between historical transactions and various independent variables such as population, employment, income, real gross regional product, inflation, and gasoline prices. Total toll revenues in FY 2016 were \$63.7 million (up slightly from previous estimates of \$62 million) higher than what was projected at the time the toll reductions were implemented. The MDTA's independent consultant attributes this stronger than expected performance to continued recovery from the Great Recession, low gas prices, strong growth on the Intercounty Connector and I-95 Express Toll Lanes, recovery from the multi-phased toll increases in FY 2012 through 2014, and the impact of the toll reduction.

Outperforming the forecast is preferred to underperforming the forecast. The fact that revenues have outperformed the forecast in recent years has resulted in a stronger financial position for the MDTA. Revenues that exceed projections provide additional resources that can be reinvested into MDTA's facilities. In FY 2016, revenues outperforming the forecast allowed the MDTA to utilize a greater portion of pay-as-you-go cash for the Nice Bridge.

**J00J00 – MDOT – Maryland Transportation Authority**

**MDOT RESPONSE TO DLS ANALYSIS**

***Operating Budget Recommended Actions (Page 27)***

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1. Nonbudgeted.

**MDOT Response:**

The Department concurs with the DLS recommendation.

***PAYGO Capital Budget Recommended Actions (Page 28)***

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1. Nonbudgeted.

**MDOT Response:**

The Department concurs with the DLS recommendation.