J00J00 - MDOT – Maryland Transportation Authority

MDOT RESPONSE TO DLS ANALYSIS

DLS Budget Analysis Issues

1. Fiscal Prudence of MDTA Loans to Transportation Business Units (Page 23)

The Department of Legislative Services (DLS) recommends that the General Assembly consider legislation governing the issuance of loans from MDTA to MDOT, to require that cash loans from MDTA must be authorized by legislation.

MDOT Response:

The Maryland Transportation Authority (MDTA) respectfully disagrees with the Department of Legislative Services' (DLS) recommendation to consider legislation governing the issuance of loans from the MDTA to the Maryland Department of Transportation (MDOT). The loans to MDOT are consistent with the MDTA's mission to provide alternative financing for transportation projects. Since its inception, the MDTA has played a critical role in providing alternative financing for multiple State agencies. Furthermore, the agency has extensive experience with providing alternative financing for critical transportation projects, including the Seagirt and Masonville Marine terminals, the Baltimore/Washington International Thurgood Marshall Airport (BWI Marshall) consolidated rental car facility, and multiple parking garages for the BWI Marshall Airport, Washington Metropolitan Areas Transit Authority, and the State of Maryland (Calvert Street parking garage in Annapolis for State employees).

When providing alternative financing, the MDTA's goal is to provide State entities with transportation-related financing opportunities that would otherwise be unavailable via a traditional financing. Under these circumstances, the MDTA may offer financing terms that are cost-neutral to the agency because its role is not to maximize its return on investment as stated by DLS, but rather to provide alternative financing opportunities that benefit the State of Maryland without compromising the operations of the MDTA's toll facilities.

Regarding the concerns raised in the DLS analysis regarding the MDOT loans, the MDTA feels that these are moot points given the current interest rate environment and the financial health of the agency. First, the likelihood that the interest rates on future debt issued by the MDTA for the loan with the State Highway Administration (SHA) will exceed the negotiated interest rate between MDTA and MDOT is improbable given that the negotiated rate of 3.0% is higher than the 2.75% financing rate for a similar 15-year financing for double-A rated transportation sector entities. Additionally, regarding the Maryland Aviation Administration (MAA) loans, in the unlikely event that interest rates materially change, the MAA loans will include an interest rate reset provision under certain market conditions.

Furthermore, the MDTA is indifferent to an early repayment of the SHA loan given that the agency views itself as a partner in the Traffic Relief Plan and any early repayment will have no impact on the MDTA's ability to deliver against its commitments.

DLS Budget Analysis Issues (Continued)

In conclusion, the decision to use surety policies in lieu of cash funded reserves was a decision that was made independent of the MDOT loans, because it simply makes good practical sense. The MDTA estimates that the cost of the surety will pay for itself in one year based on the net carrying cost savings. That is, the earnings rate on cash held in the reserves is lower than the financing rate on debt, resulting in a present value savings of $8 million over the remaining term of the bonds. This prudent financial decision allows the MDTA to deploy cash that would otherwise sit idle in a reserve toward other purposes such as the capital program or the retirement of debt. Finally, it should be noted that the MDOT loans and the decision to use a surety policy were reviewed and approved by the MDTA's Board of Directors as part of their fiduciary responsibility. Moreover, the MAA loans will be subject to Maryland Board of Public Works approval. Additionally, the MAA loans were discussed with the MDTA's bond counsel, financial advisors, and the credit rating agencies.

2. I-95 Northbound ETLs Expansion Appears Unaffordable (Page 26)

The DLS recommends committee narrative requesting a report on the financing plan for the I-95 northbound ETLs expansion project. Further, MDTA should provide a comparison of anticipated toll increases over a 25-year prospective forecast period for both the build and no-build scenarios for the I-95 northbound ETLs expansion project.

MDOT Response:

The MDTA respectfully disagrees with DLS' recommendation. The General Assembly's creation of the MDTA as a system of transportation facilities showed incredible vision. The legislature chose to establish the MDTA as a collection of toll facilities to provide the agency with diversity of revenues across multiple facilities. The MDTA's ability to pool revenues and expenses provides the agency with the flexibility to undertake projects based on their merit irrespective of whether the project is able to generate enough revenues to pay for its construction. If self-sufficiency were the threshold for undertaking new projects, the MDTA would also be prohibited from constructing other projects, such as the Harry W. Nice/Thomas "Mac" Middleton Bridge Replacement.

The goal of the ETL expansion project is to enhance the throughput of the State's traffic system, while also addressing a number of safety concerns. The MDTA is responsible for 463 lane miles (ETL and general purpose lanes) on the I-95 extending from Joh Avenue in Baltimore City to the Delaware state line. The agency has an obligation to its general purpose lane and ETL customers to be a customer service driven leader that delivers safe, sustainable, intelligent, and exceptional transportation solutions that connect its customers to life's opportunities. The impact of the I-95 ETL Northern extension on traffic congestion is significant given that I-95 is a major transportation corridor that operates at a traffic level of service 'E' during the PM peak hours.

DLS Budget Analysis Issues (Continued)

Furthermore, the project is anticipated to have a substantial impact on Maryland's commerce and economic development given that the I-95 corridor is a critical link to the Port of Baltimore and projects such as Trade Point Atlantic in Baltimore County, Principio Business Park in Cecil County, and the Aberdeen Proving Grounds.

The I-95 ETL Northern Extension also corrects significant general purpose lane safety concerns, improves incident management, and reduces maintenance costs. The segment of highway between MD 152 and MD 24 is considered a Candidate Safety Improvement Location with accident frequencies significantly higher than similar locations statewide, resulting in eight fatalities during the 2009 to 2015 timeframe. Also, the crash rate for Section 200 is approximately 12% higher than similar State maintained highways.

The MDTA's financial outlook is strong and based on the cost estimates that were prepared by nationally reputable consulting firms, an industry forum regarding the I-95 ETL Northern Extension, and construction bids received to date, the agency is confident that the project will be delivered at or below the estimated $1.1 billion budget.

Furthermore, the MDTA's six-year financial forecast, which includes this project, exceeds the MDTA's financial standards throughout the forecast period. Given the multitude of factors that impact the agency's financial forecast, and the fact that the no build alternative that DLS is suggesting was evaluated and ruled out during the National Environmental Policy Act planning study, the MDTA feels strongly that preparing a forecast that spans multiple decades will not provide any additional assurances or reliability regarding the agency's financial position over the next two decades.

In conclusion, the existing I-95 ETL has been extremely successful in addressing the safety and congestion issues in the region. Prior to the opening of the ETL, this segment of the roadway was ranked among the top ten worst bottlenecks in Maryland. Today, the I-95 ETL is an extremely popular solution for customers with transactions and revenues exceeding initial projections. Suspending any work that is currently underway for the I-95 ETL Northern extension would result in the MDTA rescinding contractor commitments, thereby making the MDTA susceptible to contractor delay claims. Delaying the program by approximately 6 months to conduct a 25-year prospective forecast would have a financial impact on construction and engineering contractors and result in an additional $23 million in program inflationary costs and active project delay/inefficiency claims. Additionally, delaying the planned opening of the new toll lanes would result in approximately $2.6 million in revenue losses.

DLS Budget Analysis Issues (Continued)

3. MDTA Forecast Not Representative of All Known Expenses (Page 28)

MDTA should resubmit the January 2019 forecast with revised expenses to reflect the anticipated general salary increases.

MDOT Response:

The MDTA respectfully disagrees with DLS' recommendation. Consistent with State law, the MDTA updates its financial forecast bi-annually. To ensure that the forecast is provided to the legislature in a timely fashion, the forecast is typically approved by the MDTA Board at least two months prior to the required submission date. In this case, the January 2019 financial forecast was approved by the MDTA Board on November 29, 2018. Forecasts are as of a point in time. The January forecast included all of the costs that were known at that time.

To mitigate the financial impact of normal growth and unanticipated expenses, the MDTA's forecast includes a reasonable level of conservative assumptions. In the unlikely event that the MDTA must absorb an unexpected expense, including the unreflected expenses in FY 2020, the MDTA would take the necessary actions to reduce spending in an effort to weather the unplanned circumstance and ensure that the agency meets all of its financial standards. The MDTA has a long, well-established history of achieving its financial forecast.

In response to DLS' inquiry regarding the 3% cost-of-living increase for all State employees and expenses associated with the most recent collective bargaining agreement with MDTA police, as shown in the table below, the MDTA estimates that there is a sufficient level of operating growth capacity built into the current forecast to allow the agency to achieve its financial targets. Additional safeguards in the forecast include a 100% spend rate for the operating and capital budgets and higher than market borrowing cost assumptions.

Comparison of Operating Growth Assumption to Increased Salary & Collective Bargaining Costs ($ in millions)

	FY2020	FY2021	FY2022	FY2023	FY2024
Built-in Operating Budget Growth (January 2019 Forecast)	$ -	$ 13.1	$ 13.7	$ 14.2	$ 14.8
Increased Salary & Collective Bargaining Costs	$ 4.5	$ 7.6	$ 10.5	$ 10.5	$ 10.5
Difference (per year)	**$ (4.5)**	**$ 5.5**	**$ 3.2**	**$ 3.7**	**$ 4.3**

Note: Built-in operating budget growth only shows 4% growth assumption.

MDOT RESPONSE TO DLS ANALYSIS

Operating Budget Recommended Actions

1. I-95 Northbound Electronic Toll Lanes Expansion Financial Plan and Forecast (Page 29)

Adopt the following narrative:

The Maryland Transportation Authority (MDTA) plans to expand the northbound electronic toll lanes (ETL) from the current northernmost terminus to MD 24. Given the total estimated cost of the project, as programmed in the Maryland Department of Transportation fiscal 2019 to 2024 *Consolidated Transportation Program*, as well as the initial toll revenue projections for the expanded facility, there is concern that continued expansion of the I-95 ETL is unaffordable and not in the best interest of MDTA. As such, MDTA should provide a financing plan for northbound I-95 ETL expansion project, including a cash flow analysis for the project and source of funds, annual debt service, and anticipated revenues from the facility. Projections should be made for the entire term of the bonds to be issued. For the same term, MDTA should provide a forecast of revenues, expenses, and financial coverage ratios on outstanding debt, identifying any toll increases necessary to cover its expenses and maintain coverage ratios in line with current law and agency administrative policy. Toll increases should be identified by the year in which they occur, as well as the value of the estimated toll increase required. The forecast should account for both the inclusion of the northbound expansion of I-95 ETLs and the no build scenario. Finally, MDTA should identify all assumptions on which the forecast is based.

The report should be submitted by November 1, 2019. It is the intent of the General Assembly to no work should be performed on and no funds should be spent in furtherance of this project until the report has been received by the budget committees and the budget committees have had a reasonable time to review and provide comment on the contents of the report to MDTA.

MDOT Response:

The Department respectfully does not concur with the recommendation for the reasons stated in the MDTA's oral and written responses to the DLS budget analysis document.

MDOT RESPONSE TO DLS ANALYSIS

Paygo Capital Budget Recommended Actions

1. Nonbudgeted.

Maryland Transportation Authority

Legislative Presentation

FY 2020 Budget Overview

MARYLAND TRANSPORTATION AUTHORITY
FY 2020 BUDGET OVERVIEW

FY 2020 Operating Budget

Summary of Major Changes ($ in millions)

FY 2020 Operating Budget Request	$329.5
FY 2019 Operating Budget	$324.4
$ Increase FY 2020 over FY 2019	$5.1
% Increase FY 2020 over FY 2019	1.6%

The Maryland Transportation Authority's (MDTA) FY 2020 Preliminary Operating Budget, exclusive of debt service, totals $329.5 million. This represents an increase of $5.1 million, or 1.6%, over the FY 2019 operating budget.

Personnel Expenditures

The budget includes a net increase of $0.3 million in personnel expenses. This is primarily due to (1) a $0.9 million increase in pension expenses resulting from an increase in the pension rates for civil and law enforcement employees; (2) a net reduction of $0.3 million in salaries due to the retroactive payment of steps for MDTA police for FY 2018, which is offset by the annualization of a 2.5% cost-of-living adjustment and steps for the police; (3) a net reduction of $0.2 million in employee and retiree's health insurance due to a reduction in the average health insurance cost per employee, which is partially offset by an increase in the cost for retiree's health insurance; and (4) a $0.2 million reduction in workers' compensation insurance.

Other Expenditures

Other significant increases/decreases in FY 2020 operating expenditures include:

- A $1.8 million increase in E-ZPass service center fees, mostly due to an anticipated increase in the volume of E-ZPass accounts.
- A $0.8 million increase in E-ZPass credit card reciprocity payments. This adjustment brings the budget in line with actual expenses.
- A $0.8 million increase in vehicle expenses, primarily for replacement vehicles that include cars, tractors, and wheel lifts.
- A $0.7 million increase in contractual payroll expenses for toll collectors.
- A $0.6 million increase in replacement equipment that includes mobile data computers for the MDTA Police, office equipment at various MDTA facilities, and replacement radios.
- A $0.5 million increase in advertising expenses due to the procurement of a new advertising contract.
- A $0.6 million reduction in utilities due to the ongoing utility savings that are anticipated as a result of energy efficient lighting. This adjustment brings the budget in line with actual expenses.
- A $0.5 million reduction in roadway repairs and maintenance. This adjustment brings the budget in line with actual expenses.

- A $0.5 million reduction in additional equipment, primarily due to the one-time purchase of cameras for the vehicle recovery technician 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 2020 budget includes $28.6 million for these services.

FY 2020 Summary of Permanent Positions

Personnel Budget Data

FY 2017 Approved Budget	FY 2018 Approved Budget	FY 2019 Approved Budget	FY2020 Proposed Budget	FY 2019-FY 2020 Change
1,748.0	1,748.0	1,748.0	1,748.0	0.0

The MDTA's position complement for FY 2020 is unchanged from FY 2019.

Debt Service

Debt service payments on the MDTA's outstanding revenue bonds total $94.2 million in FY 2020. Debt outstanding remains below the $2.325 billion statutory cap through FY 2020 and $3.0 billion cap thereafter. Moody's Investor Service and Fitch Ratings upgraded the MDTA's ratings in August 2018 by one-notch to AA and Aa2 from AA- and Aa3, respectively. The MDTA maintained a AA- credit rating with Standard and Poor's Global Ratings.

Capital Budget and Program

The six-year Consolidated Transportation Program (CTP) for FY 2019 through 2024 totals $3.1 billion. Of this amount, $382.5 million is programmed to be spent in FY 2020. Capital spending in FY 2020 is focused on system preservation projects such as roadway improvements and reconstruction, bridge deck rehabilitation, replacing the toll collection system, the I-895 Bridge Project and the replacement of the Harry W. Nice/Thomas "Mac" Middleton Bridge. Planned spending by facility is as follows:

- Baltimore Harbor Tunnel – $103.6 million;
- Chesapeake Bay Bridge – $36.3 million;
- Fort McHenry Tunnel – $11.4 million;
- Francis Scott Key Bridge – $20.5 million;

- Harry W. Nice Memorial Bridge – $49.5 million;
- Intercounty Connector (ICC) – $1.9 million;
- John F. Kennedy Highway (includes Express Toll Lanes) – $76.1 million;
- Multi-area and other projects – $83.1 million.

Financial Forecast

The MDTA's financial forecast for FY 2019 through FY 2024 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.

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 2020 budget on or before July 1, 2019.

CASH FLOW FORECAST FY 2018- FY 2024
MARYLAND TRANSPORTATION AUTHORITY
(million $)

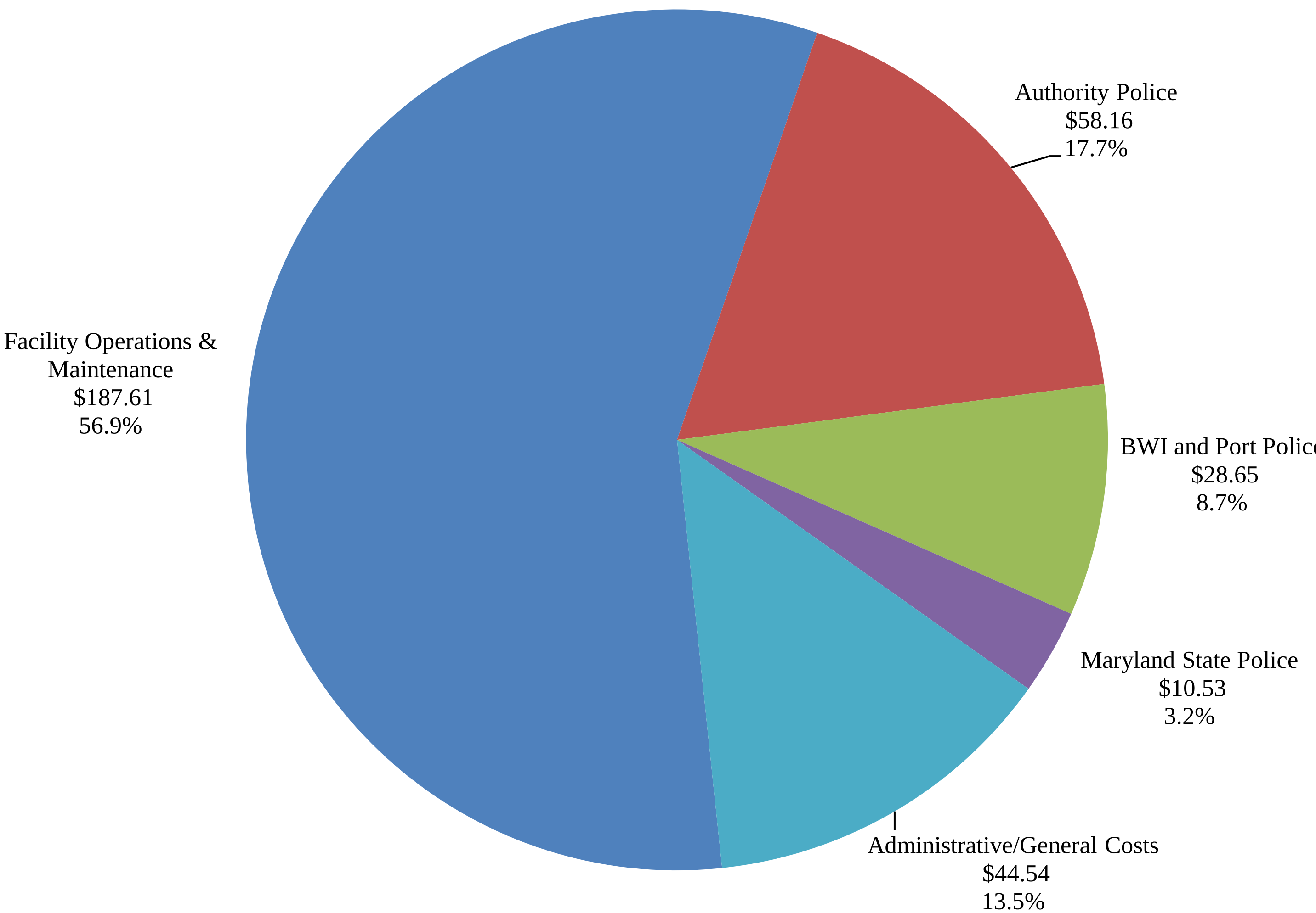
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
REVENUES							
Toll Revenues	$ 726.2	$ 735.9	$ 746.1	$ 750.4	$ 760.5	$ 773.0	$ 781.6
Concession Income	6.3	6.4	6.4	6.4	6.4	6.5	6.5
Investment Income & Other Revenue	8.5	7.4	6.9	6.7	6.6	6.7	6.7
MDOT Loan Repayment - Interest	-	-	1.4	4.8	4.7	4.5	4.3
BWI/Port Police Reimbursement	27.2	28.9	28.4	29.6	30.7	32.0	33.3
TOTAL REVENUES	**$ 768.1**	**$ 778.6**	**$ 789.3**	**$ 797.9**	**$ 809.0**	**$ 822.6**	**$ 832.4**
EXPENSES							
Operating Expenses							
Operating Account Budget	$ 294.3	$ 324.4	$ 328.2	$ 341.3	$ 355.0	$ 369.2	$ 384.0
Debt Service	129.5	92.5	94.2	102.1	113.0	134.9	155.7
Other Expenses	-	-	-	-	-	-	-
Total Operating Expenses	**$ 423.8**	**$ 416.9**	**$ 422.4**	**$ 443.4**	**$ 468.0**	**$ 504.1**	**$ 539.6**
Capital Expenses							
2018-2024 Total CTP	**$ 307.7**	**$ 375.2**	**$ 382.5**	**$ 510.9**	**$ 681.1**	**$ 754.3**	**$ 440.7**
Total Expenses (Operating and Capital)	**$ 731.5**	**$ 792.1**	**$ 804.9**	**$ 954.3**	**$ 1,149.1**	**$ 1,258.4**	**$ 980.4**
Capital Funding Sources / (Uses) and Intergovernmental:							
Revenue Bonds	$ -	$ -	$ 25.0	$ -	$ 280.0	$ 435.0	$ 140.0
TIFIA	-	-	45.0	150.0	55.0	-	-
Surety Policy Expense	-	(1.6)	(0.0)	-	(0.3)	(0.5)	(0.2)
Revenue Bond Defeasance	(603.7)	-	-	-	-	-	-
MDOT Loan / Principal Repayment	-	(42.1)	(103.0)	2.0	5.6	5.8	6.0
Accrual Accounting Reconciliation	14.4	-	-	-	-	-	-
Total Current Year Sources (Uses) Available	(589.4)	(43.8)	(33.0)	152.0	340.3	440.3	145.8
Annual Cash Requirements	**$ 1,320.9**	**$ 835.9**	**$ 837.9**	**$ 802.3**	**$ 808.8**	**$ 818.1**	**$ 834.5**
Annual Cash Surplus/Deficit	**(552.7)**	**(57.3)**	**(48.6)**	**(4.4)**	**0.3**	**4.6**	**(2.1)**
Total Cash Balance	**$ 504.5**	**$ 447.1**	**$ 398.5**	**$ 394.1**	**$ 394.3**	**$ 398.9**	**$ 396.8**
Bonds Outstanding (≤$2.325 b. FY16-FY20; then ≤$3.0 b.)	**$ 1,588.6**	**$ 1,552.8**	**$ 1,584.9**	**$ 1,695.5**	**$ 1,986.5**	**$ 2,375.7**	**$ 2,463.5**
FINANCIAL COVERAGE RATIOS							
Unencumbered Cash ($350 mm minimum)	$376.7	$401.8	$354.4	$350.0	$350.3	$354.9	$352.7
Debt Service Coverage (≥2.5x thru FY20; then ≥2.0x)	3.66	4.91	4.90	4.47	4.02	3.36	2.88
Rate Covenant Compliance (Legal - 1.0x)	2.95	3.96	3.94	3.57	3.23	2.70	2.32

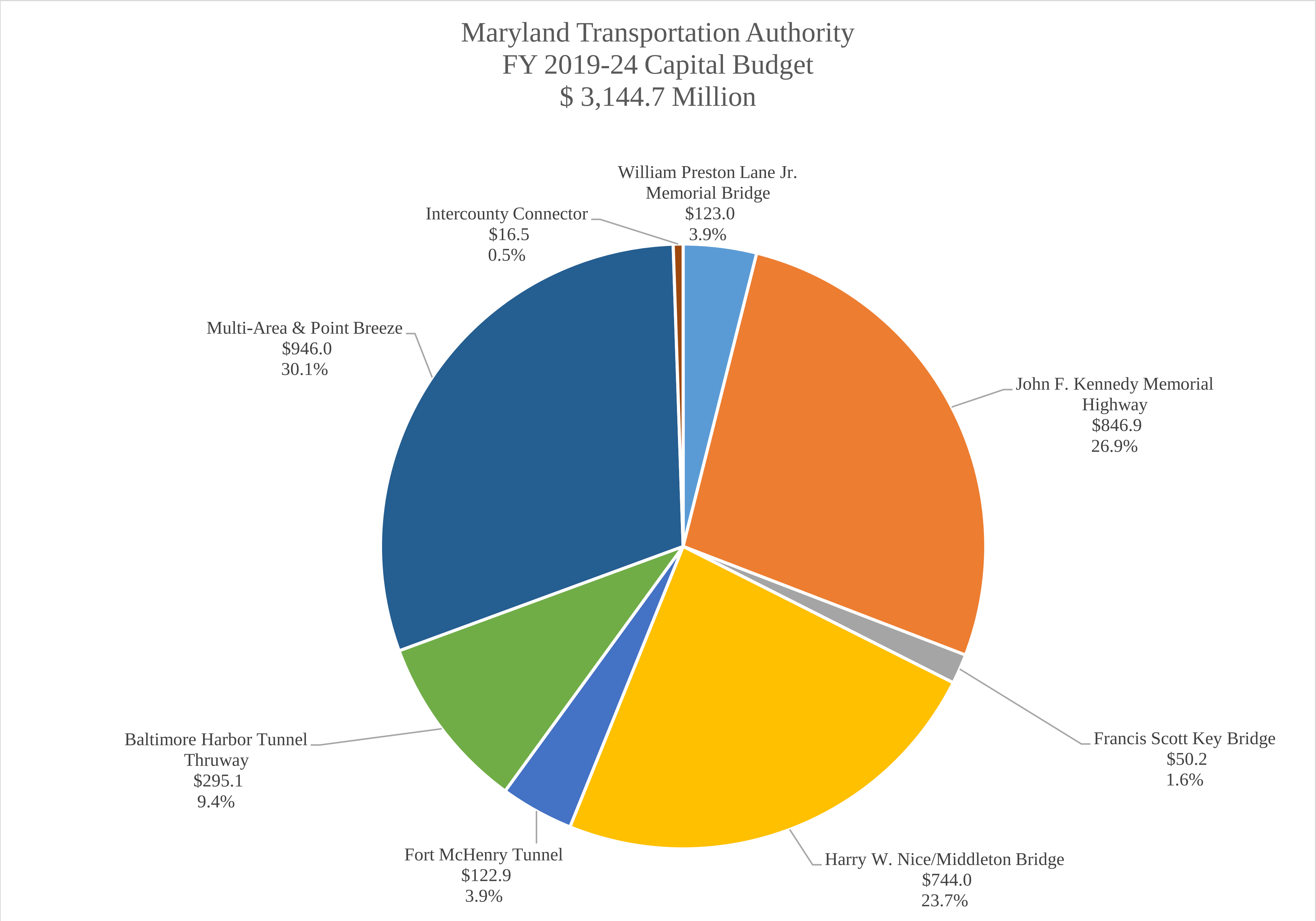
PROJECTED FUTURE AVERAGE TOLL INCREASES:

$0 IN FY 2019
$0 IN FY 2021
$0 IN FY 2023
- Does not show toll increases within FY19-24 period.
- Regardless of timing / need for system wide toll increases, tolls on ICC and I-95 ETL could be revised to manage congestion

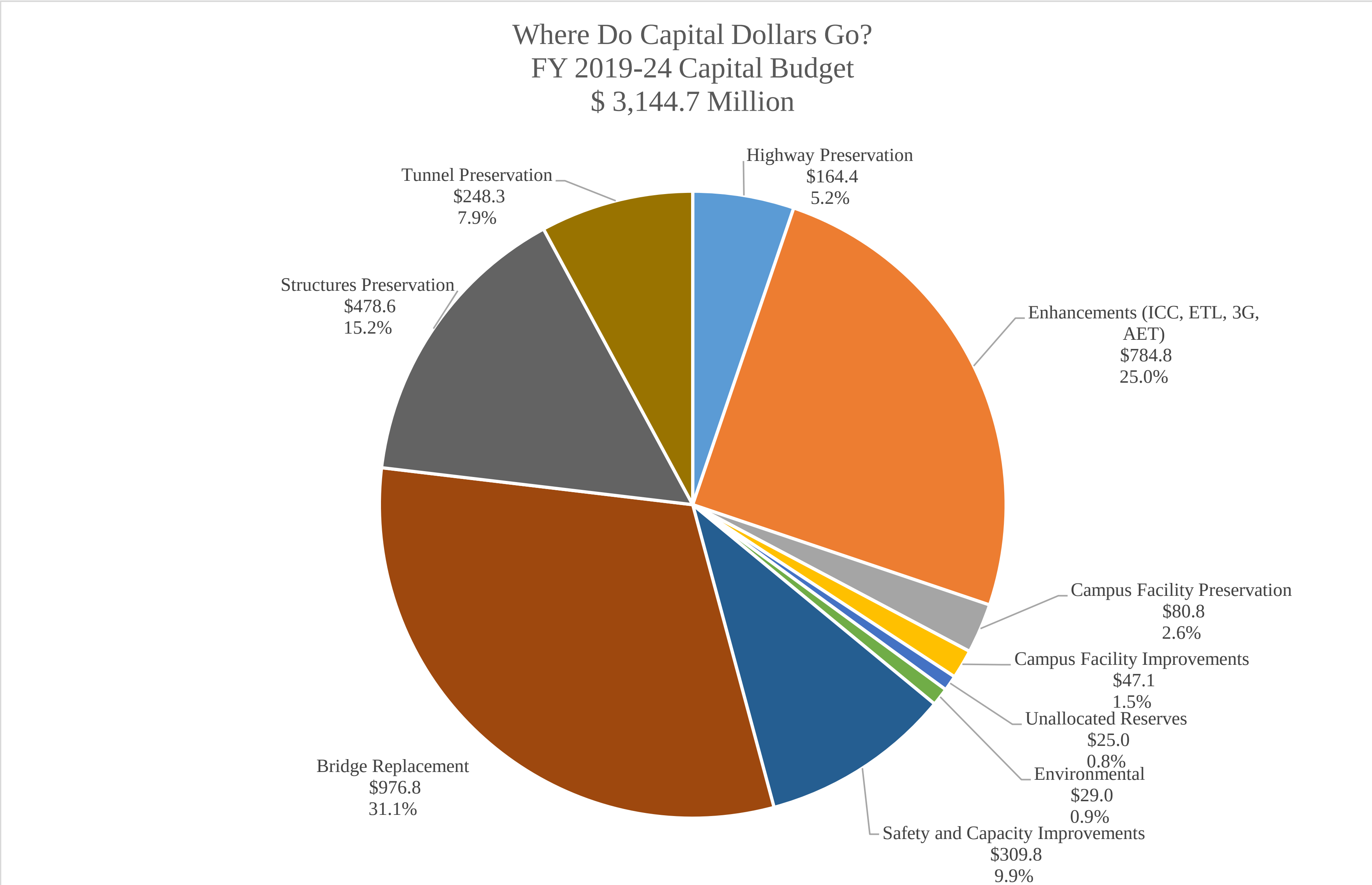
2018-12
January 2019 Financial Forecast
October Reconciliation
w/ Final FY19-24 CTP Att #1 rev D
FY 2020 Prelim. Op. Budget
Oct. 2019 T&R Reports

Maryland Transportation Authority
FY 2020 Operating Budget
$329.5 Million





Maryland Transportation Authority
FY 2019-24 Capital Budget
$ 3,144.7 Million
William Preston Lane Jr. Memorial Bridge
$123.0
3.9%
Intercounty Connector
$16.5
0.5%
Multi-Area & Point Breeze
$946.0
30.1%
John F. Kennedy Memorial Highway
$846.9
26.9%
Baltimore Harbor Tunnel Thruway
$295.1
9.4%
Francis Scott Key Bridge
$50.2
1.6%
Fort McHenry Tunnel
$122.9
3.9%
Harry W. Nice/Middleton Bridge
$744.0
23.7%


Where Do Capital Dollars Go?
FY 2019-24 Capital Budget
$ 3,144.7 Million
Highway Preservation
$164.4
5.2%
Enhancements (ICC, ETL, 3G, AET)
$784.8
25.0%
Campus Facility Preservation
$80.8
2.6%
Campus Facility Improvements
$47.1
1.5%
Unallocated Reserves
$25.0
0.8%
Environmental
$29.0
0.9%
Safety and Capacity Improvements
$309.8
9.9%
Bridge Replacement
$976.8
31.1%
Structures Preservation
$478.6
15.2%
Tunnel Preservation
$248.3
7.9%