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**J00J00 MDOT Maryland Transportation Authority
FY 2022 Operating Budget
Response to the Department of Legislative Services Budget Analysis**

Senate Budget and Taxation Committee
Public Safety, Transportation, and Environment Subcommittee
Senator Cory McCray
March 4, 2021

House Appropriations Committee
Transportation and the Environment Subcommittee
Delegate Marc Korman
March 4, 2021

**J00J00 MDOT – Maryland Transportation Authority
MDOT RESPONSE TO DLS ANALYSIS
FY 2022 BUDGET**

DLS Budget Analysis

1. Revenue Bonds

MDTA should comment on the rising levels of its debt issuances and what it will do if the \$3.0 billion statutory limit is met. (Page 11)

MDOT Response:

The MDTA took swift action to mitigate the near and long-term fiscal impacts of COVID-19. This included, but was not limited to, updating the agency’s financial forecast model to reflect known and anticipated COVID-19 traffic and revenue impacts and achieving \$409 million in operating and capital budget savings over the FY 2020-2026 forecast period, including extending the completion of the I-95 Express Toll Lanes (ETL) Northbound Extension Project by one-year.

The debt issuances shown in the financial forecast are primarily related to the financing of two major projects totaling \$1.7 billion, the Nice/Middleton Bridge and the I-95 ETL Northbound Extension which has been reflected in the MDTA’s forecast since June 2018. Despite COVID-19 and transitioning to a new tolling system later than originally planned, the MDTA’s January 2021 forecast aligns very closely to the June 2018 official financial forecast. As shown in the table below (1) debt outstanding remains at \$2.4 billion in FY 2023; (2) debt service coverage remains at 2.8 in FY 2024; and (3) capital expenses are \$364.3 million less than forecasted in June 2018.

June 2018 Official Forecast

Fiscal Years	Forecasted or Actual	Debt Outstanding (billions)	Debt Service Coverage	Capital Expenses (millions)
2019	Forecasted	\$ 1.6	5.2	\$ 390.2
2020	Forecasted	\$ 1.6	5.0	\$ 437.5
2021	Forecasted	\$ 1.7	4.5	\$ 553.3
2022	Forecasted	\$ 2.1	4.0	\$ 749.1
2023	Forecasted	\$ 2.4	3.2	\$ 658.7
2024	Forecasted	\$ 2.5	2.8	\$ 472.3
2019-2024				\$ 3,261.1

Debt Outstanding: Bond issuances shifted between fiscal years to capitalize on low interest rate environment. FY2023 outstanding debt is identical to June 2018 forecasted debt.

Debt Service Coverage: FY2020 to FY2023 debt service reduced due to COVID-19, transition to AET and transition to new tolling system. Rebounds by FY2024 to June 2018 forecasted level.

January 2021 Official Forecast

Fiscal Years	Forecasted or Actual	Debt Outstanding (billions)	Debt Service Coverage	Capital Expenses (millions)
2019	Actual	\$ 1.5	5.1	\$ 357.90
2020	Actual	\$ 1.9	4.2	\$ 464.80
2021	Forecasted	\$ 2.2	2.9	\$ 549.50
2022	Forecasted	\$ 2.2	3.8	\$ 577.40
2023	Forecasted	\$ 2.4	2.9	\$ 554.30
2024	Forecasted	\$ 2.5	2.8	\$ 392.90
2019-2024				\$ 2,896.80

Capital Expenses: January 2021 forecast shows FY2019-2024 capital expenses are \$364.3 million less than forecasted in June 2018.

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DLS Budget Analysis Issues (Continued)

Consistent with all forecasts, the MDTA does not anticipate reaching the \$3 billion statutory debt limit in the near or long-term. If MDTA should approach its maximum debt capacity, the agency will take the necessary mitigating actions to ensure that it remains in compliance with all of its financial standards, including the bond cap. These actions include but are not limited to reducing the budget (operating and capital) and seeking innovative financing solutions.

In conclusion, the current financial forecast aligns with the long-term execution of the MDTA's financial plan to construct two mega capital projects as outlined in the June 2018 financial forecast. The MDTA's long-term financial approach often entails planned cycles when the agency issues debt and then pays down debt. Similar to when the MDTA constructed the Intercounty Connector and Section 100 of the I-95 ETL, the MDTA is currently in a debt issuance cycle as it prepares to construct the Nice/Middleton Bridge and the I-95 ETL Northbound Extension.

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DLS Budget Analysis Issues

1. COVID-19 Pandemic Hits MDTA Finances, Exacerbating Fiscal Stress (Page 22)

Given ongoing concerns about the fiscal stress that is being placed on MDTA, the Department of Legislative Services recommends the adoption of budget bill language restricting \$5.0 million in the MDOT budget for MDTA police reimbursement pending a report on MDTA fiscal stress, including projections through fiscal 2031.

MDOT Response:

As with most State agencies and all toll agencies, the MDTA experienced a decline in revenues associated with the COVID-19 pandemic. The MDTA took the necessary actions to help mitigate the near and long-term fiscal impacts of COVID-19. This included (1) reducing the traffic and revenue forecast by a total of \$483.9 million over the FY 2020-2026 forecast period; (2) reducing operating expenses by realizing \$34.6 million in savings in FY 2020 and reducing the operating budget by \$32.8 million in FY 2021; and (3) reducing the capital program by \$253.7 million, including extending by one-year the completion date for the I-95 ETL Northbound Extension while ensuring that underway and near-term projects start on schedule (see the chart below). All of these actions produced a financial forecast that meets the MDTA's financial policies that are the foundation for the MDTA's double-A credit rating.

While total expenses increased in FY 2021 as a result of pulling forward certain capital cashflows from improvements in individual project schedules, (*e.g.*, early completion of the 895 Bridge, early start of the Nice/Middleton Bridge, etc.), total expenses decline by \$409 million throughout the six-year forecast period. The reduction in anticipated spending is the result of a concerted agency-wide effort to constrain operating and capital budget spending while taking advantage of debt service savings through the cash refunding of certain toll revenue bond maturities.

Regarding the MDTA's unencumbered cash balance, the MDTA has a policy that requires the agency to maintain an unrestricted cash balance of \$350 million. The MDTA is in compliance with the policy. As originally outlined in the June 2018 forecast, the MDTA is undertaking two mega projects resulting in a cycle of debt issuances. As such, the MDTA is balancing PAYGO cash and debt and thereby aligning unencumbered cash to near policy levels. Failure to do so would result in unnecessary debt issuances and interest expense.

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DLS Budget Analysis Issues (Continued)

January 2020 Forecast v. January 2021 Forecast Comparison				
\$ in Millions				
<u>Operating Budget</u>				
Fiscal Year	2020	2021	2022 to 2026	TOTAL
January 2020 Forecast	\$ 337.4	\$ 337.4	\$ 1,901.3	\$ 2,576.1
January 2021 Forecast	302.8	304.6	\$ 1,816.4	\$ 2,423.8
Difference	\$ (34.6)	\$ (32.8)	\$ (84.9)	\$ (152.3)
<u>Debt Service</u>				
Fiscal Year	2020	2021	2022 to 2026	TOTAL
January 2020 Forecast	\$ 92.0	\$ 98.3	\$ 698.3	\$ 888.6
January 2021 Forecast	91.3	86.5	\$ 707.7	\$ 885.5
Difference	\$ (0.7)	\$ (11.7)	\$ 9.4	\$ (3.1)
<u>Capital Budget</u>				
Fiscal Year	2020	2021	2022 to 2026	TOTAL
January 2020 Forecast	\$ 429.5	\$ 424.1	\$ 2,703.5	\$ 3,557.1
January 2021 Forecast	464.8	549.5	\$ 2,289.2	\$ 3,303.4
Difference	\$ 35.3	\$ 125.4	\$ (414.4)	\$ (253.7)
<u>Total Expenses</u>				
Fiscal Year	2020	FY 2021	2022 to 2026	TOTAL
January 2020 Forecast	\$ 858.9	\$ 859.7	\$ 5,303.1	\$ 7,021.8
January 2021 Forecast	858.9	940.6	\$ 4,813.3	\$ 6,612.8
Difference	\$ (0.0)	\$ 80.9	\$ (489.9)	\$ (409.0)

The MDTA remains committed to transparency as demonstrated by the financial information on the MDTA’s website, the livestreaming of Board meetings, and by submitting all requested legislative reports with timely, accurate, and complete information. The most recent reports submitted regarding financial affordability include the *I-95 Northbound Express Toll Lanes Expansion Financial Plan and Forecast*, the *I-495 and I-270 Public-Private Partnership Maryland Transportation Authority Bonds*, and the *Future I-95 Northbound Express Toll Lane Expansion* submitted in November 2019, October 2020, November 2020, respectively. While the MDTA concurs with preparing the requested report, the MDTA respectfully requests that the language be changed to committee narrative. The MDTA has a longstanding history of submitting responses to legislative requests as requested and believes that the restriction in funds is unwarranted. Lastly, the MDTA respectfully requests that the due date of the report be changed to December 31, 2021, so that it reflects actual FY 2021 revenue and expenses and an updated independent traffic and revenue forecast.

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DLS Budget Analysis Issues (Continued)

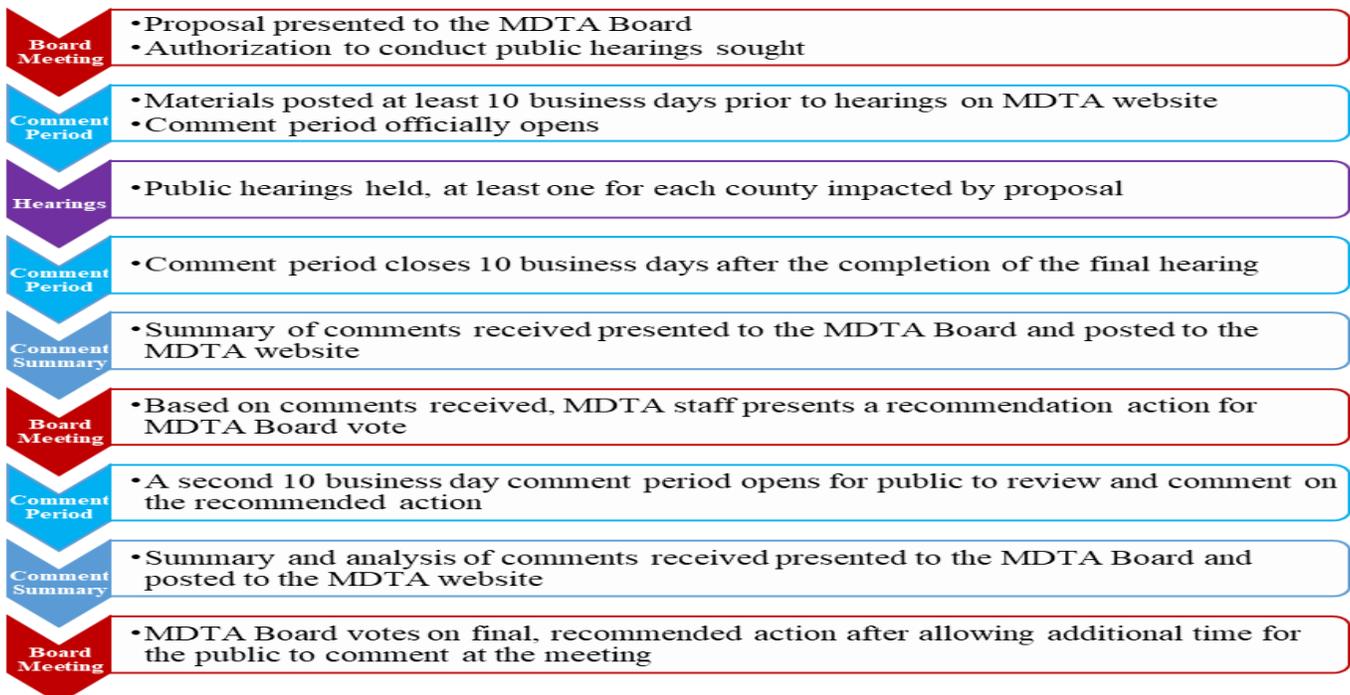
2. I-495 and I-270 Public-private Partnership MDTA Bond Issuance (Page 23)

MDTA should comment on the report, the toll-setting process, and how toll rates will be adjusted going forward.

MDOT Response:

On February 25, 2021, to begin the exchange of information and understanding of the toll-setting rates and process, the MDTA presented a report to the MDTA Board to discuss preliminary information developed by MDTA staff on the toll rate range and soft rate cap for Phase I South (American Legion Bridge (ALB) I-270 to I-370). Due to the complexity of the information, MDTA staff presented key extracts of the toll-setting process in advance of a Spring MDTA Board meeting where dynamic tolling, coupled with the introduction of a soft rate cap (neither of which exist on any of the MDTA’s current facilities) will be discussed. The meeting materials are publicly available on MDTA’s website.

The public toll-setting process is centered around a proposal by the MDTA staff to adopt an increase in mileage rate ranges, pricing periods, toll zones, fees, or other charges on a variably priced toll transportation facilities project. To ensure the public is engaged in the toll-setting process and to ensure compliance with State law, the MDTA will provide opportunities for public review and comment on the proposed changes at one or more meetings held at a time and place of convenience to the public in each county where the changes for the P3 Program are proposed to be implemented. The flow chart below summarizes the toll setting process that will be followed.



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DLS Budget Analysis Issues (continued)

State law requires a minimum and maximum toll rate range for all variably priced toll facilities to be approved by the MDTA Board in accordance with the toll setting process discussed above. COMAR also allows for the establishment of a soft rate toll cap. The soft rate cap is the toll rate amount that can only be exceeded in limited circumstances when one or more of the established operational performance metric thresholds are triggered for a given segment. The soft rate cap will only be exceeded until the throughput and speed performance targets are achieved and then the toll rate will return to the soft cap or below. The purpose of the soft rate cap is to constrain the toll rate charged to motorists when vehicle throughput or speed performance targets will not otherwise be achieved. Soft rate caps are not traditionally standard practice in the tolling industry. The soft rate cap is a protective measure for customers. The soft rate cap, which is always lower than the maximum toll rate, may be exceeded temporarily to ensure that customers who choose to pay a toll receive a faster and more reliable trip.

The MDTA staff anticipates the minimum and maximum toll rates and the soft rate toll caps to escalate annually. The adjustments are necessary to ensure the toll rates will keep up with (1) the growing traffic demand for the managed lanes; (2) annual inflation; and (3) the goal of providing a faster and more reliable trip for customers who choose to pay the toll. The specific escalation calculations and assumptions will be discussed in detail when the staff toll proposal is presented to the MDTA Board this spring.

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Operating Budget Recommended Actions

- 1. Add language restricting funding pending a report on fiscal stress on the Maryland Transportation Authority. (Page 24)**

MDOT Response:

The Department concurs in part with the request for the report but respectfully requests that (1) the report request be done through committee narrative rather than the withholding of funds; and (2) the due date be changed to December 31, 2021, to reflect the most up-to-date information. Please see the MDTA response to Issue 1 above for additional information.

PAYGO Budget Recommended Actions

- 1. Nonbudgeted. (Page 24)**

MDOT Response:

The Department concurs with the DLS recommendation.