J00J00 – Maryland Transportation Authority

MDTA RESPONSE TO DLS ANALYSIS

DLS Budget Analysis Issues

1. Electronic Tolling (Page 7)

MDTA should revise upward its goal of the percentage of tolls collected electronically, and also comment on the impact of the requirement for a follow-up study of all-electronic tolling.

MDTA Response:

MDTA concurs that the goal for the percentage of tolls collected electronically should be reviewed. Currently, the percentage of tolls collected electronically includes both *E-ZPass* and Video Tolling. This summer, MDTA will be updating the Intercounty Connector (ICC)/MD 200 traffic and revenue and all-electronic toll (AET) studies. MDTA will revise its goal based on the outcome of the studies.

MDTA anticipates only a slight increase in electronic tolling over the next several years due, in part, to (1) *E-ZPass* saturation at tolling facilities; and (2) increased traffic on the ICC and the I-95 Express Toll Lanes (ETL), the State's first AET facilities. Saturation points for *E-ZPass* or other similar technologies generally stall between 80% and 85% depending on commuter, infrequent, and out of state travel patterns.

Modest growth in electronic tolling is expected when MDTA begins converting existing facilities to AET. Currently, the conversion of existing facilities to AET is on hold pending completion of the study required by Chapter 397 of 2014 and the implementation of the new tolling system. Chapter 397 requires that MDTA submit a report by January 1, 2016, on converting existing facilities to AET. The report is to include an overview of AET as well as an analysis of alternative payment options, costs of video tolling and other issues that need to be addressed before AET is implemented. MDTA has already started data collection and analysis efforts, contacting other states for information about their AET programs and preparing customer surveys and focus groups. The goal is to better understand how we can best serve our existing cash customers today and in the future when we move to AET at all our facilities.

MDTA's current tolling contract ends in 2018. At that time, the tolling system will be replaced with a 3rd Generation (3G) system. Under the new contract, MDTA may offer additional toll payment options and begin converting certain facilities to AET. Several factors that could influence the timing of the conversion to AET include:

- Developing reciprocity agreements with neighboring states as well as other states within the *E-ZPass* Group for toll enforcement for out-of state drivers;
- Interoperability with agencies outside of the *E-ZPass* Group;
- The capital investment needed to convert existing facilities to AET;
- Continued implementation of the Video Tolling and Citation Program;
- Education on what AET is, how it works, and why it is being implemented; and
- The development of alternative payment options.

DLS Budget Analysis Issues (continued)

2. Debt Affordability (Page 14)

MDTA should comment on its benchmark for unencumbered cash on hand and whether a measure tied to operating expenses would be more appropriate. DLS recommends that committee narrative requesting a report be adopted.

MDTA Response:

Cash management policies ensure that a sufficient cash reserve is available to weather any financial storms, which may include emergency events, under attainment of revenues or unexpected operating expenses. Cash reserve levels are also monitored by rating agencies and levels that are too low could result in lower credit ratings but levels that are too high do not result in the best use of money. MDTA utilizes a minimum cash balance requirement of $350 million, which today equates to approximately 16 months of cash on hand. There is no one right answer for the number of days of cash that should be on hand, as ratings involve a balance of credit strengths and weaknesses. According to recent rating agency reports, MDTA's credit strengths include its pooled system of toll revenues from facilities across the State and its proven ability and willingness to raise tolls as necessary to ensure financial performance.

Entities that issue debt typically utilize a minimum cash balance requirement, such as MDTA's $350 million requirement, or a percentage of revenues, such as the State's target reserve of 7.5% of general fund revenues in the Rainy Day Fund. These measures serve as a proxy for days of cash on hand and are more transparent to investors and stakeholders. Each year, MDTA reviews all of its financial management policies to ensure that the policies continue to provide the best financial protection for MDTA now and in the future. As the operating budget grows over time, MDTA will continue to annually revisit this metric to ensure that the minimum balance requirement remains adequate.

DLS Budget Analysis Issues (continued)

3. Capital Program (Page 16)

MDTA should comment on possible plans for financing the construction of a new Nice Bridge, given the current constraints on the authority's financing ability, and whether a public-private partnership is possible, fiscally prudent, and allowed by current trust agreements. MDTA should also comment on any impact on tolls were construction to start within the next 10 years.

MDTA Response:

The FY 2015-2020 Consolidated Transportation Program includes $61.6 million for preliminary engineering work and right-of-way acquisitions for the Nice Bridge. Current timelines for the project suggest that construction may start as soon as 2020. At this time, MDTA is reviewing all possible delivery and funding methods for the Nice Bridge. Potential delivery methods include a traditional design-bid-build project, a design-build project or a public-private partnership (P3) and variations of these methods. Recommendations on the timeline, delivery method, and funding for this project are expected in late 2015 to early 2016.

While Maryland statute and the Trust Agreement allow MDTA to enter into P3 agreements, several issues still require consideration, including:

- The P3 law created by Chapter 5 of the Acts of 2013 requires agencies to develop and receive legislative approval of regulations for a P3 program prior to pursuing P3, which MDTA has not yet done;
- Impact on existing workforce;
- Coordination with the federal government on existing tolling agreements;
- Maintaining operations and maintenance consistency across all facilities; and
- Financial impact of a potential P3 on other facilities given that annual revenues for the Nice Bridge are not sufficient to cover the operating and capital repayment expenses for a new bridge.

Potential financing options for the project include a combination of MDTA cash or revenue bonds, federal financing options like TIFIA or GARVEE bonds, or availability payments to a P3 partner. It is important to note that although a P3 may provide an alternative option for delivering the asset, toll revenues would still ultimately fund the project. In June 2014, MDTA resized its capital program to remove future bond issuances and utilize paygo funding for system preservation work. This allows MDTA to preserve debt capacity for the Nice Bridge or other future priorities. Current toll rates are sufficient for the current capital program but the construction of the Nice Bridge or any other large capital project will require toll increases at toll facilities besides just the Nice Bridge regardless of the delivery method.

DLS Budget Analysis Issues (continued)

4. Revenue Growth (Page 16)

MDTA should comment on the forecast for potential toll increases beyond the forecast period.

MDTA Response:

The current six-year forecast does not include any toll increases or debt issuances. Based on the current capital program, there are no toll increases immediately outside of the six-year forecast period. The current capital program does not include funding for construction of the Nice Bridge. In late 2015 or early 2016, MDTA expects to make a decision on the delivery method for the Nice Bridge. The current timeline suggests that construction of the new Nice Bridge should occur in the 2020-2025 time period based on the need to redeck the bridge. Any discussion of toll increases beyond the six-year period will depend on the timeline for this project or other major expansion projects.

DLS Budget Analysis Issues (continued)

5. Two Mega-projects Open to Traffic (Page 24)

MDTA should comment on the impact of the two new facilities on the capital program and the authority's operating budget. MDTA should also comment on how successful the two projects have been at reducing traffic congestion.

MDTA Response:

Impact on Capital Program

Simultaneous construction of the ICC and I-95 ETL required prudent financial management over the last several years. The size of the six-year CTP grew from $1.1 billion in 2003 to $4.5 billion in 2007. Debt issuances from FY 2008 through 2012 totaled $2.1 billion and annual debt service costs increased from $25 million in FY 2007 to $130 million in FY 2017. Over this time, MDTA reduced the size of expected debt issuances, benefited from low borrowing costs, and utilized toll increases to pay for rising debt service costs and provide additional funding for system preservation projects.

Over the last several years, MDTA significantly reduced the amount of expected debt issuances through cost containment in the operating budget, underspending in the capital budget, and higher than forecasted revenue attainment. Outstanding debt through the FY 2015-2020 forecast period peaks at $2.3 billion in FY 2015, which is $192 million less than the peak forecasted during the 2014 legislative session and $596 million less than the peak forecasted during 2008 session. MDTA's bonds outstanding remain below the statutory limit of $3 billion by nearly $700 million. Significantly, in the current forecast outstanding debt declines after FY 2015, whereas in the prior forecast it increased through the period. Comparing the current forecast and that presented in the 2014 session, debt service in the common FY 2014-2020 period is reduced by $115 million, or nearly 12%. Financial coverage ratios are strong, with debt service coverage above 3.0 throughout the forecast period and the rate covenant above 2.0.

MDTA has also benefitted from low borrowing costs. In 2009 and 2010, MDTA borrowed at true interest costs ranging from 2.56% to 3.80%. Borrowing at such low interest rates saved MDTA tens of millions of dollars over the life of these bonds and reduced annual debt service requirements.

Although toll increases are never easy decisions, the decision to increase tolls in FY 2012 through 2014 enabled MDTA to remain financially well positioned despite increases in indebtedness and system preservation needs. Absent the additional revenue generated from the toll increase, revenue levels today would only be sufficient to pay operating expenses and debt service costs. The capital program would be non-existent or entirely debt funded, which would increase future debt service costs.

DLS Budget Analysis Issues (continued)

Impact on Operating Budget

The FY 2016 Operating Budget includes $10.3 million and $0.6 million for operations and maintenance on the ICC and I-95 ETL, respectively. (Since the ETL is a portion of the larger I-95 facility, few costs are directly attributed to the ETL.) Other than minor inflationary increases over time, the operating budgets are not expected to grow significantly from these levels.

Impact on Congestion

With just about two months since the I-95 ETL's opening, early traffic numbers are running slightly higher than forecasted, but the traffic numbers have been too volatile to make any definitive statements about the impact of the facility. Generally, since the opening of the I-95 ETL, there have not been back-ups on the I-95 ETL or on the existing general purpose lanes on I-95 along this corridor. Anecdotally, commuters on this route have reported time savings over their previous commute times. The State Highway Administration will be performing a before and after study of the parallel routes to determine the impact of the facility after it has been open for one year.

A similar study was performed by the State Highway Administration and National Capital Region Transportation Planning Board in March 2013 for the ICC. Among other findings, the study found that average daily traffic on parallel corridors has decreased resulting in peak hour travel time savings of 5-11% on local routes.

DLS Budget Analysis Issues (continued)

6. Video Tolling and Citation Program Implementation (Page 25)

MDTA should comment on the impact of implementing the video toll process on MDTA and other agencies and the response to the program from the public. MDTA should also discuss the reasons for the high number of notices of toll due resulting from drivers on the ICC and any strategies for reducing that number.

MDTA Response:

Close coordination between MDTA and the District Court, Motor Vehicle Administration (MVA) and the State's Central Collection Unit (CCU) has been instrumental throughout the development and implementation of the Video Toll and Citation Program. For example, MDTA has worked closely with the District Court to prepare adequate evidentiary packages, provide court representatives at the District Court's request, address scheduling of court cases, and improve processes for the large amounts of citations and paperwork moving through the system. This Spring, referrals to CCU for out-of-state drivers will occur and referrals for in-state drivers to MVA for vehicle registration flagging and suspension will occur this Summer.

MDTA is considering potential legislative changes to the Program in an effort to improve customer service and to minimize the impact that the Program is having on other agencies. While the current statute provides zero tolerance for drivers who deliberately avoid paying tolls, it sometimes ensnares well intentioned drivers who have a valid *E-ZPass* account but simply forgot to update license plate information when buying a new vehicle or updating the credit card on file when their credit card was re-issued.

Collection rates for Video Tolls have increased from 60% to just under 70%, meaning that more tolls are paid prior to being issued a citation. Powerful enforcement tools like the ability to flag or suspend vehicle registrations for non-renewal and referral to CCU will help educate drivers on the importance of paying their Notices of Toll Due on time.

The ICC is Maryland's first AET facility, where tolls are collected at highway speed as motorists drive under tolling structures. There are no tollbooths so payment must be made via *E-ZPass* or Video Tolling; therefore, the higher percentage of Video Tolling is expected on the ICC compared to our toll plazas that accept cash payments. While MDTA encourages the use of *E-ZPass*, Video Tolling is an acceptable form of payment and is the preferred option for approximately 10% of drivers on the ICC.

In 2014, MDTA's *E-ZPass* Outreach Team sold 179 *E-ZPass* transponders and provided information to more than 3,200 citizens on how to use the ICC and how to get *E-ZPass* during 61 local events and visits to area businesses. In addition, MDTA has conveniently located *E-ZPass* "Stop-in Centers" and "On the Go" retail locations throughout the State to obtain an *E-ZPass* and customers can enroll online at ezpassmd.com.

DLS Budget Analysis Issues (continued)

7. Impact of Toll Reduction (Page 27)

> ***MDTA should comment on the impact of any potential reductions in toll rates on the authority's revenue, operations, and debt affordability benchmarks.***

MDTA Response:

At the request of the Chairman of the MDTA Board, MDTA staff is currently reviewing potential toll reductions options and the impact on MDTA's long-term financial health. While weighing these options, staff is analyzing the potential impact on MDTA's financial forecast to determine the impact on the size and timing of future toll rate increases, future indebtedness, debt service, financial coverage ratios, operating expenses and the capital program. A decision on toll rates could also impact future capital priorities like the Nice Bridge. Toll reductions are uncommon in the tolling industry and may require assurance to the rating agencies that the reductions are financially feasible and make sense from a policy standpoint. After staff completes an analysis of options and impact, the MDTA Board Members may choose to take action.

MDTA RESPONSE TO DLS ANALYSIS

Operating Budget Recommended Actions

1. **Adopt the following narrative (Page 28):**

   Unencumbered Cash on Hand: Due to the changing nature of the Maryland Transportation Authority's operating expenses and toll revenues, the Maryland Transportation Authority (MDTA) has as its benchmark that the amount of unencumbered cash on hand be a minimum of $350 million. MDTA should report to the budget committees by November 1, 2015, on whether linking the benchmark to the level of operating expenses would be more appropriate, and what best practices are in use by other authorities nationally.

Information Request	Author	Due Date
Unencumbered cash on hand benchmark	MDTA	November 1, 2015

MDTA Response:

MDTA concurs with the DLS recommendation.

PAYGO Capital Budget Recommended Actions

1. Nonbudgeted. (Page 29)

MDTA Response:

MDTA concurs with the DLS recommendation.

MDTA

Maryland
Transportation
Authority

Legislative Presentation

FY 2016 Budget Overview

MARYLAND TRANSPORTATION AUTHORITY
FY 2016 BUDGET OVERVIEW

FY 2016 Operating Budget

Summary of Major Changes ($ in millions)

FY 2016 Operating Budget Request	$286.2
FY 2015 Operating Budget	$285.1
$ Increase FY 2016 over FY 2015	$1.1
% Increase FY 2016 over FY 2015	0.4%

The Maryland Transportation Authority's (MDTA) FY 2016 Preliminary Operating Budget totals $286,247,940. This represents an increase of $1,193,453, or 0.4%, over the FY 2015 operating budget of $285,054,487.

Personnel Expenditures

Personnel expenditures increase by $6.7 million, or 4.4%, compared to the FY 2015 operating budget. Salaries increase by $4.3 million due to the annualization of the January 2015 cost-of-living adjustment (COLA) and step increases. Employee and retiree health insurance increases by $2.9 million primarily due to inflation and an increase in the contribution rate for employee and retiree health insurance. This does not include adjustments to salary for Statewide personnel actions.

Other Expenditures

Other significant increases/decreases in FY 2016 operating expenditures include the following:

- $1.4 million increase for information technology (IT) systems analysis and equipment (*e.g.*, license plate readers and Electronic Traffic Information Exchange (E-TIX) caddies and printers) and consulting and technical services contracts;
- $1.4 million increase for E-ZPass credit card fees primarily due to opening of the final segments of the Intercounty Connector (ICC) and the opening of the I-95 Express Toll Lanes (ETL);
- $1.0 million increase for E-ZPass Service Center fees due to the additional types of correspondence that must be issued as a result of the implementation of the Video Toll and Citation Program;
- $0.9 million increase for motor vehicle expenses and utilities, which brings FY 2016 spending in line with FY 2015 actual expenditures;
- $4.3 million decline in contractual services expenditures for engineering services, which is more in line with annual spending on toll facility inspections;
- $2.2 million reduction in motor vehicle replacement expenditures due to the timing of motor vehicle replacements;
- $2.1 million reduction in publicity and advertising due to the opening of the Intercounty Connector and ETL; and
- $2.1 million reduction in additional and replacement equipment, overtime for cruise ships, and supplies.

Reimbursable Expenditures

MDTA is under contract with the Maryland Aviation Administration (MAA) to provide law enforcement services at the Baltimore/Washington International Thurgood Marshall (BWI 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 2016 budget includes $25,036,264, for these services.

FY 2016 Summary of Permanent Positions

MDTA's FY 2016 budget includes 1,789.5 positions. No new positions have been added since FY 2011.

Debt Service

Debt service payments from the Bond Service Sub-Account on MDTA's outstanding revenue bonds total $126,989,152 in FY 2016. In addition, MDTA plans to defease $193,567,593 in bonds in FY 2016. Debt service costs are expected to level off in FY 2017 at approximately $130 million.

Capital Budget and Program

The capital budget for FY 2016 amounts to $293.5 million. The six-year Consolidated Transportation Program (CTP) for FY 2015 through 2020 is $2.0 billion. Planned spending by facility for FY 2016 is as follows:

- Baltimore Harbor Tunnel – $19.1 million;
- Fort McHenry Tunnel – $44.5 million;
- Francis Scott Key Bridge – $7.3 million;
- Chesapeake Bay Bridge – $25.0 million;
- Harry W. Nice Memorial Bridge – $14.2 million;
- John F. Kennedy Highway (includes ETL) – $60.9 million;
- Thomas J. Hatem Bridge – $0.2 million;
- Intercounty Connector (ICC) – $2.5 million; and
- Multi-area and other projects – $119.7 million.

Capital spending in FY 2016 is focused on system preservation projects such as roadway improvements and reconstruction, bridge deck rehabilitation, and cleaning and painting of bridges.

MARYLAND TRANSPORTATION AUTHORITY
FY 2016 BUDGET OVERVIEW

Financial Forecast

MDTA's financial forecast for the FY 2015 – FY 2020 period 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. 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 2016 budget on or before July 1, 2015.

CASH FLOW FORECAST FY 2014 - FY 2020
MARYLAND TRANSPORTATION AUTHORITY
(millions $)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
REVENUES							
Toll Revenues	$ 650.1	$ 673.2	$ 684.8	$ 692.9	$ 702.6	$ 710.0	$ 719.7
Concession Income	3.3	5.5	5.9	6.0	6.1	6.2	6.2
Investment Income & Other	8.5	10.8	10.3	9.3	9.1	9.1	13.4
Maryland Department of Transportation:							
Masonville Auto Terminal Lease	0.5	1.7	1.7	1.7	1.7	1.7	1.7
BWI/Port Police Reimbursement	24.0	25.2	25.0	26.3	27.6	29.0	30.4
TOTAL REVENUES	**$ 686.5**	**$ 716.3**	**$ 727.8**	**$ 736.2**	**$ 747.0**	**$ 755.9**	**$ 771.4**
EXPENSES							
Operating Expenses							
Operating Account Budget	$ 257.1	$ 285.1	$ 286.3	$ 301.1	$ 317.3	$ 333.3	$ 350.0
Debt Service (net of capitalized interest)	121.2	107.8	127.0	130.0	130.1	130.1	130.1
Maryland Department of Transportation:							
Transfer Payment	-	-	-	-	-	-	-
Total Operating Expenses	**378.3**	**392.8**	**413.2**	**431.1**	**447.4**	**463.4**	**480.2**
M&O Expenses							
2015-2020 CTP	0.0	0.1	-	-	-	-	-
Capital Expenses							
2015-2020 CTP (Non-ICC)	281.6	333.4	291.0	366.0	305.4	312.5	330.2
2015-2020 CTP (ICC)	77.7	61.9	2.5	-	-	-	-
Total Capital Expenses	**359.3**	**395.3**	**293.5**	**366.0**	**305.4**	**312.5**	**330.2**
Total Expenses (Ops, M&O, and Capital)	**737.7**	**788.2**	**706.8**	**797.1**	**752.8**	**775.8**	**810.4**
Capital Funding Sources:							
Revenue Bonds	-	132.0	-	-	-	-	-
Garvee Bonds	-	-	-	-	-	-	-
Seagirt Proceeds	-	-	-	-	-	-	-
MDOT Pay-Go	-	-	-	-	-	-	-
Special Federal Funds	-	-	-	-	-	-	-
General Funds/General Obligation Bonds	21.5	-	-	-	-	-	-
Revenue Bond Defeasance	(54.5)	-	(193.6)	-	-	-	-
Accrual Accounting Reconciliation	21.1	-	-	-	-	-	-
Total Current Year Sources Available	(12.0)	132.0	(193.6)	-	-	-	-
Other Funding Required (Current Year)	371.3	263.3	487.1	366.0	305.4	312.5	330.2
Total Capital Funding Sources	359.3	395.3	293.5	366.0	305.4	312.5	330.2
Annual Cash Requirements	**$ 749.6**	**$ 656.2**	**$ 900.3**	**$ 797.1**	**$ 752.8**	**$ 775.8**	**$ 810.4**
Annual Cash Surplus/Deficit	**(63.2)**	**60.2**	**(172.6)**	**(60.9)**	**(5.8)**	**(19.9)**	**(39.0)**
Total Cash Balance	**$ 668.4**	**$ 728.5**	**$ 556.0**	**$ 495.1**	**$ 489.3**	**$ 469.4**	**$ 430.4**
Bonds Outstanding	**$ 2,214.3**	**$ 2,318.3**	**$ 2,114.3**	**$ 2,078.9**	**$ 2,030.7**	**$ 1,980.4**	**$1,927.9**
FINANCIAL COVERAGE RATIOS							
Ratio of Total Cash to Toll Revenues	102%	107%	80%	71%	69%	66%	59%
Unencumbered Cash ($350 mm minimum)	$ 577.06	$ 517.07	$ 476.83	$ 415.93	$ 410.13	$ 390.22	$ 351.25
Debt Service Coverage (Policy - 2.0x)	3.54	3.99	3.46	3.33	3.29	3.24	3.23
Rate Covenant Compliance (Legal - 1.0x)	2.85	3.22	2.80	2.70	2.66	2.61	2.57

PROJECTED FUTURE AVERAGE TOLL INCREASES:

[illegible]

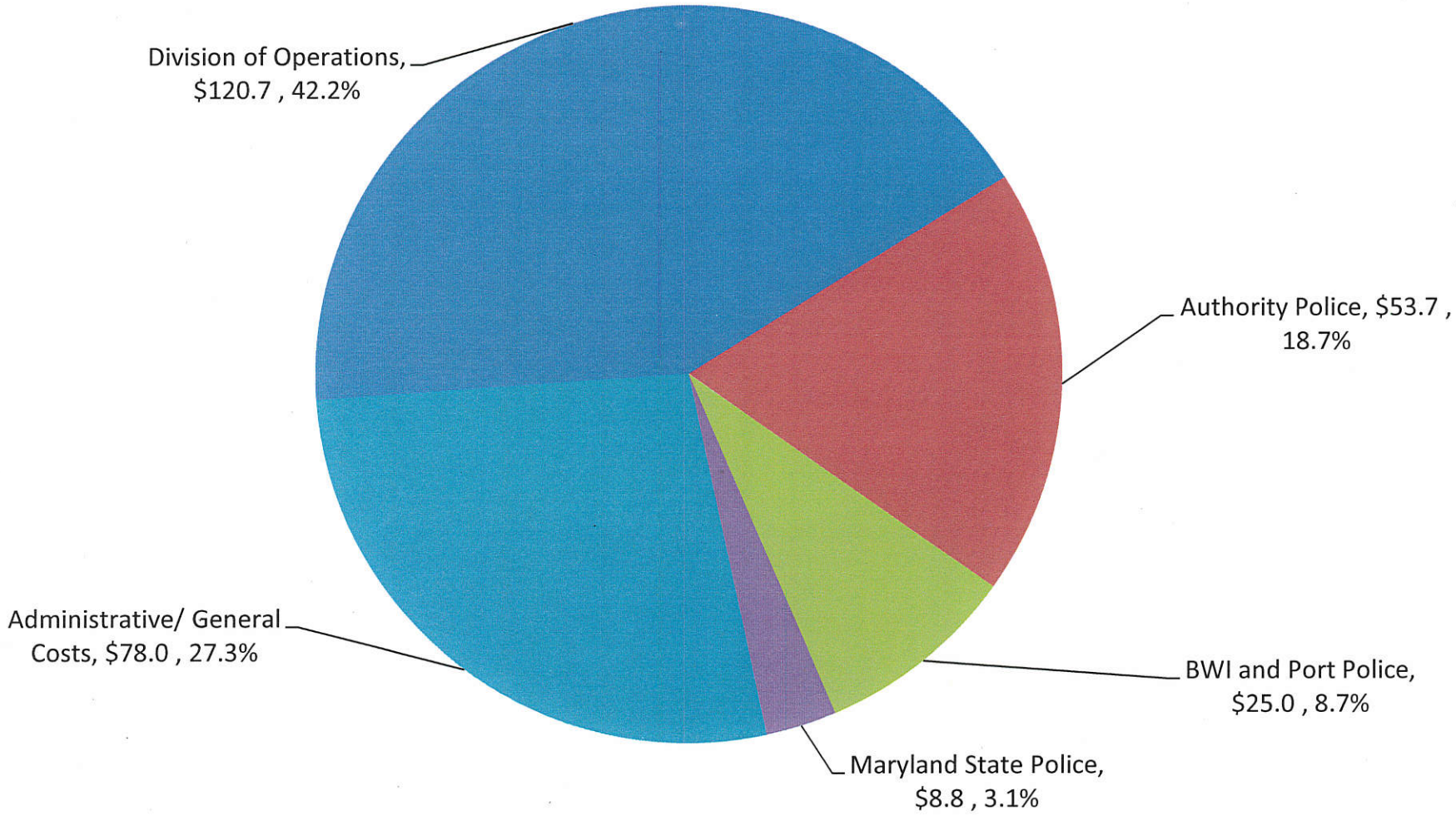
$0 IN FY 2016
$0 IN FY 2018
$0 IN FY 2020

- Does not show toll increases beyond FY15-20 period.
- Regardless of timing and need for system wide toll increases, tolls on ICC and I-95 ETL would be increased to manage congestion

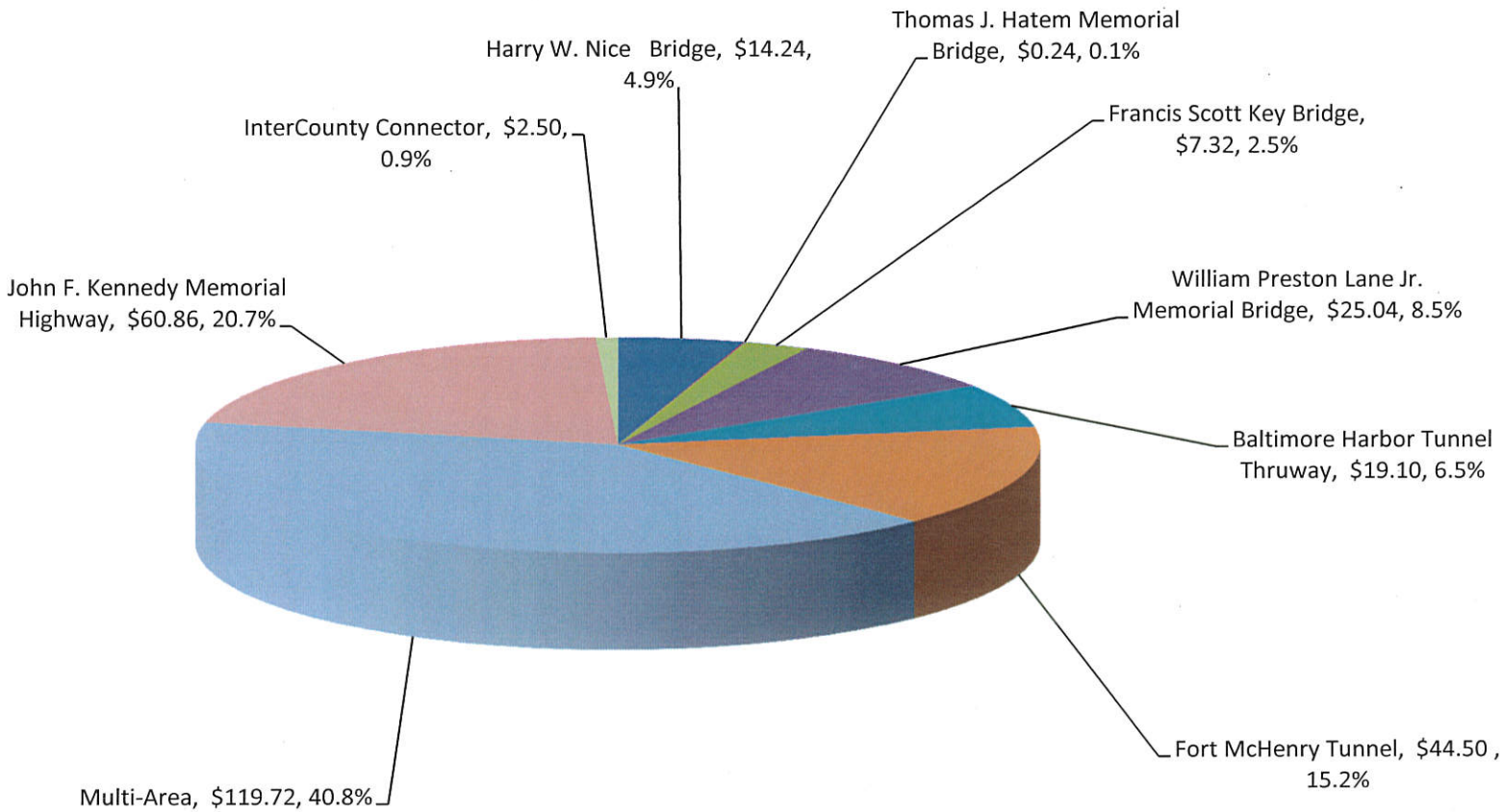
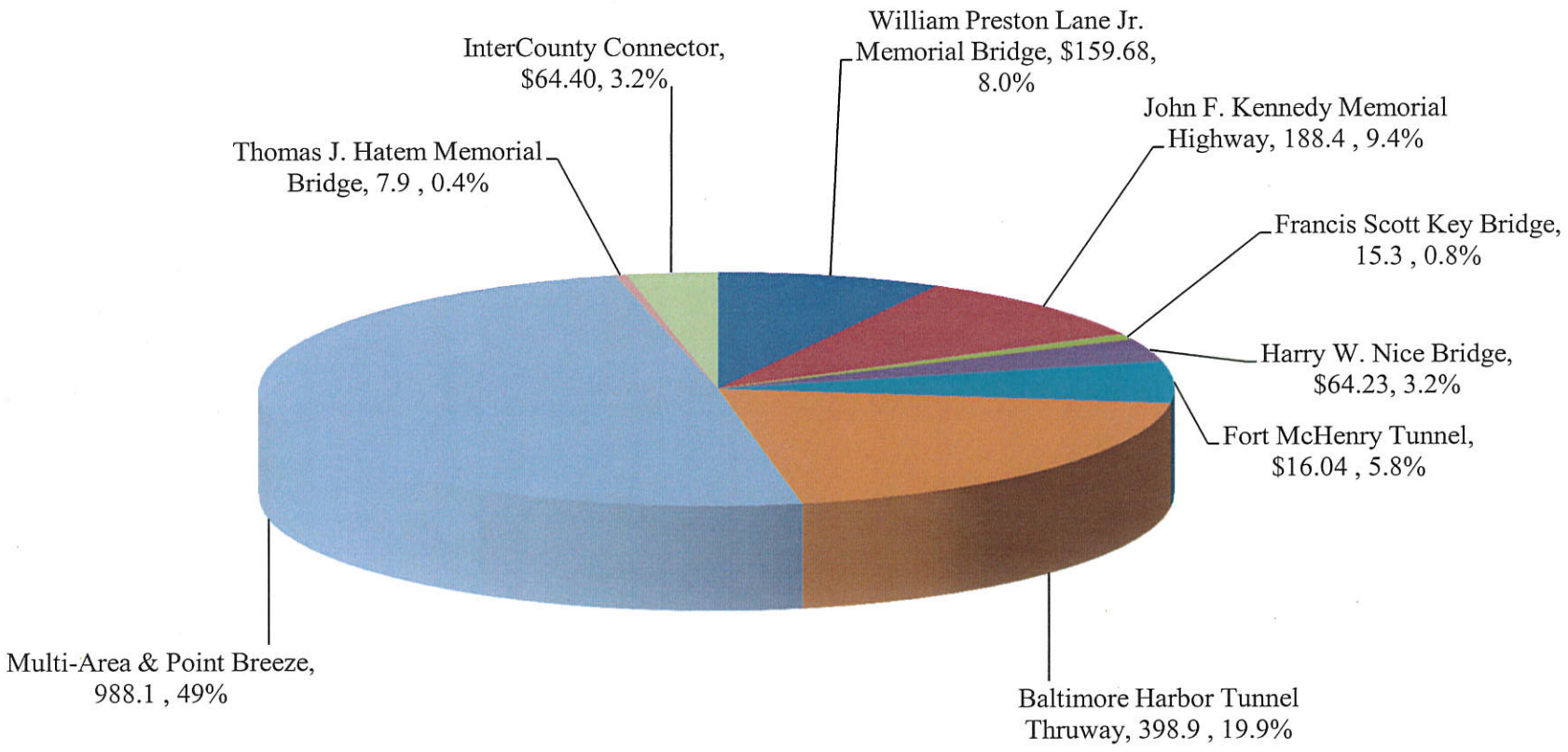
Scenario 2014-10 v8

JAN. 2015 FINANCIAL FORECAST
Final FY 15 - 20 CTP
Preliminary FY 16 Operating Budget
2014 Traffic and Revenue Report

Maryland Transportation Authority
FY 2016 Operating Budget
$286.2 Million



Maryland Transportation Authority
FY 2016 Capital Budget
$ 293.5 Million



Maryland Transportation Authority
FY 2015 - FY 2020 Capital Program
$ 2,002.9 Million