Summary of Recommendations

Final Report, November 1, 2011

Overview

The Commission's recommendations concern both the structure of transportation funding in Maryland and the pressing need to infuse additional resources into the Transportation Trust Fund to meet critical transportation system obligations. The Commission's recommendations reflect the importance of transportation to the State's economic competitiveness, mobility, and employment. The recommendations are structured around five issue areas with several recommended actions within each issue area. The recommendations are linked—without the first recommendation to protect the Transportation Trust Fund there will be little faith by the public in the other recommendations.

Benefits the State will reap from the transportation funding increase called for in the Commission's Final Report include:

- Near and longer-term job creation
- Greater overall economic competitiveness derived from a more state-of-the-art transportation system
- A more reliable and functional transportation system vital to quality of life
- Reduced dependence on uncertain federal funding
- Enhanced mobility and expanded transportation choices
- Contributions to meeting the State's environmental objectives
- Responsible asset management

The Commission recognizes that there is no silver bullet to solve our transportation funding crisis and is mindful of the impacts that raising taxes and fees will have on Maryland's citizens and businesses. The Commission contends, however, that the consequences of not investing in infrastructure will have even greater costs and further sacrifices to the State's competitive stance within the region and the quality of life of its residents.

ISSUE AREA I: Put the Trust Back in the Transportation Trust Fund

All Maryland Department of Transportation (MDOT) expenditures are made through the Transportation Trust Fund and despite the intent to dedicate Transportation Trust Fund revenues to transportation uses, large transfers to the General Fund have occurred. The majority of transfers have been repaid, however, approximately $1.1 billion from the local government portion of Highway User Revenues has not been, and is not scheduled to be, replenished. The Commission recommends the following actions with regard to the underlying structure of the Transportation Trust Fund and the importance of its restoration and continuation.

- Protect the Transportation Trust Fund by ***(Action 1)***:
    - Amend the Maryland Constitution to prohibit transfers out of the Transportation Trust Fund (except in declared emergencies).
    - Enact a statute that requires the Governor and the General Assembly to declare a fiscal emergency and to obtain approval of each house of the General Assembly, along with a repayment plan, before making a transfer of money from the Transportation Trust Fund.
    - Continue to require the local government portion of Highway User Revenues be dedicated to transportation and maintain reporting and audit procedures.

ISSUE AREA II: Shore Up and Expand Core Transportation Funding

Transportation revenues have not kept pace with inflation nor are they sufficient to meet system obligations and expansion needs. No single funding source will be sufficient due to the magnitude of Maryland's transportation investment needs. The Commission recommends the following actions with regard to the level of net new annual funding and the components to meet that funding level.

- Raise approximately $870 million in net new annual revenues for transportation primarily from revenues sources that are directly related to transportation, such as the following ***(Action 2)***:
  - Motor fuel tax levied on gasoline and special fuels (including diesel and clean burning fuels) at the wholesale level – Three-year phase-in of 5 cents per gallon per year and in year 4 implement an index component with a floor and a ceiling (estimated $491 million in net new revenues, growing with inflation beginning in by year 4). A motor fuel tax increase should be included in any revenue package.
  - Registration fees – 50% increase (estimated $165 million in net new revenues)
  - Titling tax – increase to 6.5% or eliminate trade-in allowance (estimated $70 million in net new revenues)
  - Maryland Transit Administration (MTA) transit fares – various fare increases to all modes and elimination of free passes to achieve a 35% farebox recovery ratio (estimated $26 million in net new revenues)
  - VEIP (Vehicle Emissions Inspection Program) fee – increase to $28 (estimated $22 million in net new revenues)
  - Other Motor Vehicle Administration (MVA) fees – various increases (estimated $34 million in net new revenues)
- Restore annual Highway User Revenue funding to local governments incrementally. ***(Action 3)***
- Transit Funding ***(Actions 4, 5, 6, 7)***
  - Study regional transit financing authorities as a means to generate additional funding.
  - Reach MTA's transit cost recovery ratio goal of 35% (currently, approximately 29%).
  - Establish methodology to regularly adjust transit fares to keep pace with inflation.
  - Eliminate non-paying transit ridership by reversing agreements for free ridership currently subsidized by the Transportation Trust Fund.
- Increase bonding capacity commensurate with net new revenues and in accordance with established guidelines to maintain high credit ratings. ***(Action 8)***
- Remove cap on miscellaneous MVA fees (all MVA fees except the vehicle titling tax and specified vehicle registration fees, including for registration of passenger cars and trucks) to facilitate raising revenue through the full range of user fee-based mechanisms. Currently, if MVA miscellaneous fee revenue exceeds 100% of expenses, fees must be reduced. ***(Action 9)***
- Tolling ***(Actions 10, 11)***
  - Review Maryland Transportation Authority (MDTA) roadways for the potential to toll currently un-tolled portions of these roadway segments (e.g., inability to place tolling infrastructure throughout certain lengths of roadways).
  - Explore ability to generate additional toll revenues via newer tolling and pricing practices (high-occupancy tolls, congestion-based tolls, and managed lanes) on new and existing facilities when adding capacity.
- Facilitate goods movement and expand investment in freight infrastructure through additional revenues such as innovative funding for direct investment, private investment incentives, and federal matching funds. ***(Action 12)***

ISSUE AREA III: Facilitate Smart Growth by Investing in Transportation in Growth Areas

Smart growth concentrates new development and redevelopment in areas that have existing or planned infrastructure to avoid sprawl. The Commission recommends the following actions with regard to the facilitation of smart growth via transportation investment.

- Establish a strategic framework for transportation investment decisions to ensure investments support growth areas and preserve rural areas by tying decision-making processes and incentives to economic vitality, job growth, smart growth, and land use policies, including the State's smart growth policies. ***(Action 13)***

- Work cooperatively with local governments to ensure county and municipal plans, which are where most land use decisions are made, reflect the State's overall growth policies. ***(Action 14)***

ISSUE AREA IV: Explore Policies and Legislation to Facilitate Value Capture

Value capture can be used by public entities to fund investments in infrastructure, services, or other amenities by "capturing" additional land value that these expenditures create for private property owners and developers. Recouping some of the property value gains from public investment in transportation can provide a viable means to help pay for or offset infrastructure costs. This technique is not new to Maryland, however, to date there has not been a comprehensive Statewide coordination of local value capture programs or strategic planning to deploy such programs broadly or systematically. The Commission recommends the following actions with regard to potential expansion of the use of value capture for transportation investment.

- Develop a systematic approach to consider value capture strategies as an additional revenue source—early and throughout a project's development—to supplement existing revenue sources. ***(Action 15)***

- Recognize value created by State transportation investments for local and private entities and work collaboratively to capture this value by incorporating into decision-making processes the means to review benefits relative to the risks for involved entities. ***(Action 16)***

- Seek legislative authority to apply tax increment financing (TIF) support to highway projects (as currently provided for targeted transit projects) and develop policies and procedures for use of TIF, special assessment, and development impact fee revenues. ***(Action 17)***

ISSUE AREA V: Explore Policies and Legislation to Facilitate Partnerships to Enhance Transportation Investment

Public-private partnerships (P3s) refer to contractual agreements between a public agency and private sector entity that allow for greater private sector participation in the delivery of transportation projects. Traditionally in Maryland, with a few exceptions, private sector participation has been limited to separate planning, design, or construction contracts on a fee-for-service basis. Expanding the private sector role could allow public agencies to tap private sector technical, management, and financial resources in new ways to achieve public objectives such as greater cost and schedule certainty, supplementing in-house staff, innovative technology applications, specialized expertise, and access to private capital.

Loan funds and other financing tools can facilitate local and private investment in transportation. Revolving loan funds (RLFs) have been established by many states to help fund transportation infrastructure (State Infrastructure Banks (SIBs) are RLF programs for transportation initially authorized by federal legislation). The primary benefit of providing loans to projects is that loan repayments are recycled for future projects. A SIB or RLF needs capitalization funds to get started and a strong pool of potential borrowers with repayment options to be successful. In addition to SIBs or RLFs at the state level, Congress is considering a variety of proposals for a national infrastructure bank (NIB). For Maryland, a NIB could provide a flexible financing source for projects of national interest, but securing funds would be highly competitive.

The Commission recommends the following actions with regard to potential expansion of the use of partnership mechanisms and financing tools to facilitate such partnerships:

- Public-Private Partnerships ***(Actions 18, 19, 20, 21)***
  - Establish centralized enabling P3 legislation outlining efficient and timely reviews
    - Retain existing definition of P3s but add key distinctions between different types
    - Present a clear statement of motives with respect to P3s
    - Present a clear statement of expected/required benefits with respect to P3s
    - Establish an efficient and timely legislative review process
    - Set firm guidelines for confidentiality and public disclosure
    - Establish clear parameters for P3 evaluation framework and agreement structures
  - Revise transportation P3 process to provide the most effective framework for evaluating and implementing a wide range of transportation P3 projects.
  - Identify future P3 opportunities and integrate P3 screening analysis into existing transportation decision-making process early in project development.
  - Consider P3s for a broad range of project types such as highways, transit, freight mobility, aviation, IT systems, and real estate/joint development.
  - Engage specialized expert assistance.

- Loan Funds and Financing Tools ***(Actions 22, 23)***
  - Assess market demand for loans.
  - Seek to identify potential capitalization sources (federal, state, local, and private) to provide initial capital for a RLF or SIB.
  - Pursue statutory authority to loan funds to localities either through a SIB or RLF program or for one-off loans.
  - Pursue State legislative authority to establish a SIB and receive any federal capitalization if changes to the federal SIB program are enacted. Prepare to take advantage of any NIB legislation by identifying projects that could be candidates for federal loans.

Looking to the Future

In addition to the recommendations contained in its Final Report, the Commission encourages MDOT to continue to identify and evaluate opportunities to ensure long-term funding sustainability and to stay engaged in related developments at the national level. These areas of study include:

- Development of revenue mechanisms that are directly tied to use of the transportation system, and that take into account the transition to alternative fuels (e.g., electric vehicles) and enhanced fuel economy (e.g., hybrid vehicles), commonly referred to as mileage-based or vehicle miles traveled (VMT) charges

- Consideration of energy taxes as an alternative or additional funding approach in conjunction with electric vehicle penetration

- Development of revenue mechanisms to help fund critical freight infrastructure, such as container fees, weight-distance taxes, and other freight-related charges