MARYLAND DEPARTMENT OF TRANSPORTATION

The Maryland Department of Transportation was created as a principal executive department in 1971. It was formed by the consolidation of independent State agencies, each responsible for a specific means of transportation. MDOT is the only transportation department in the country that directly provides its citizens with the complete range of modal choices. MDOT provides Maryland citizens with a transportation network encompassing aviation, highways and bridges, marine, mass transit, motor vehicle, bicycle and pedestrian facilities, and railroad.

MDOT's core mission is to facilitate the safe and efficient movement of people and goods across all major transportation modes. To perform its mission and achieve the Department's vision, MDOT must:

- Operate, maintain and preserve the State's existing transportation facilities
- Plan and implement system improvements
- Provide convenient administrative services to Maryland's vehicle owners and operators

The Transportation Secretary's Office (TSO) establishes transportation policies and oversees the following five modal administrations.

<u>State Highway Administration (SHA)</u> – Responsible for planning, designing, building and maintaining the State's highways and bridges.

<u>Motor Vehicle Administration (MVA)</u> – Responsible for licensing drivers; registering and titling motor vehicles; administering a compulsory automobile insurance enforcement program; managing vehicle emissions inspection and driver safety programs; and regulating motor vehicle dealers, vehicle rental companies, and driver education schools.

<u>Maryland Transit Administration (MTA)</u> – Responsible for constructing, operating, and maintaining the Baltimore metropolitan area transit system, which consists of metro, light rail, and bus services. It is responsible for commuter services in the State's suburban areas, including commuter rail service to Baltimore and Washington. MTA provides technical and financial assistance to systems in small urban and rural areas, provides grants to county and municipal transit operators, and operates programs for elderly and disabled riders.

<u>Maryland Port Administration (MPA)</u> – Responsible for stimulating waterborne commerce through the Port of Baltimore. This includes promoting the capabilities and resources of the Port, both domestically and internationally; developing and maintaining Port facilities; and ensuring that the navigable waters of the State are safe for efficient commercial navigation.

<u>Maryland Aviation Administration (MAA)</u> – Responsible for maintaining and operating Baltimore/Washington International Thurgood Marshall Airport and Martin State Airport. It is also responsible for fostering, developing, and regulating aviation within the State.

MARYLAND DEPARTMENT OF TRANSPORTATION FINANCING

The Transportation Trust Fund was created in 1971 as a dedicated fund to support MDOT. The use of an integrated trust fund gives Maryland flexibility to meet varying transportation service and infrastructure needs.

The Fund supports all activities of the Department, which include debt service expenses, the modal agency operations, and capital projects. This integrated approach eliminates concern for individual funding constraints because funds from all sources are available for all modes. It also promotes planning of multi-modal solutions for transportation problems.

Transportation revenues are not inflation sensitive. Historically, significant growth only results from statutory increases to the specific rates. Periodic statutory rate increases are necessary for transportation revenues to keep pace with expenditures that grow both with inflation and as systems and services are expanded. Revenues and expenditures are each more than $3 billion a year.

Sources of Revenue – Revenues deposited into the Trust Fund are not earmarked for specific programs. The disbursement of funds to projects and programs is made in consultation with state and local elected officials. About 86% of the total revenues remain with the Department of Transportation. Fourteen percent is allocated to local governments and the general fund through the Highway User Revenue Account. At the close of the fiscal year, unexpended funds remain in the Trust Fund. They do not revert to the State's General Fund. The sources of revenue include the following.

Motor Vehicle Fuel Tax – Includes the 23.5 cents per gallon gasoline, 24.25 cents per gallon diesel fuel, and 7 cents per gallon aviation fuel.

Motor Vehicle Registration/Miscellaneous and Other Fees – Includes fees collected for registering vehicles; issuing driver licenses; issuing licenses for car dealers, wreckers, title service agents, and driving school instructors; and other miscellaneous fees.

Motor Vehicle Titling Tax – The titling tax of 6% on the fair market value of motor vehicles, less an allowance for trade-in, is applied to new and used car sales and vehicles of new residents.

Sales and Use Tax - : During the 2007 special legislative session, the General Assembly increased the sales and use tax rate from 5% to 6%, with MDOT receiving 6.5% of net proceeds effective July 1, 2008. During the 2008 legislative session MDOT's share was reduced to 5.3% for five fiscal years. The 6.5% distribution resumes in FY 2014.

Corporate Income Tax – After required distributions, MDOT receives 24% of the 8.25% corporate income tax collected by the Office of the Comptroller.

Operating Revenues – Include MTA rail and bus fares; MPA terminal operations and other port-related revenues; MAA flight activities, rent and user fees, parking, airport concessions, and other aviation-related fees.

Federal Funds – Must be authorized by the U.S. Congress. The Safe, Accountable, Flexible, Efficient Transportation Act: A Legacy for Users (SAFETEA-LU) authorized highway, transit, rail and safety programs through Federal Fiscal Year 2009. SAFETEA-LU has been extended by Congress from September 30, 2009 until December 31, 2010 while it debates the policies and financing mechanisms to be contained in the next act. Since Federal Fiscal Year 2004, Maryland has received approximately $585 million annually for highways and $140 million annually for transit formula programs. Through the Airport Improvement Program, the Federal Aviation Administration provides federal entitlement and discretionary funding for airport projects.

Bond Proceeds – The level of bonds issued depends on the net revenues of the Department. Bonds are issued to support the cash flow requirements of the planned capital program while maintaining debt service and coverage requirements. From time to time, the Department (through conduit issuers) issues debt supported by specific revenues and/or for the benefit of a specific project.

Other Sources – Includes earned interest from trust funds, reimbursements, and miscellaneous revenues.

Motor fuel tax and titling tax are the two largest sources of revenue. Federal aid also covers a significant portion of MDOT's capital program.

How Funds are Used – All Department expenditures are made through the Transportation Trust Fund. The Department's funds are allocated by the Secretary of Transportation and approved by the Governor and General Assembly. The Department uses its funds to support expenditures of the capital and operating programs.

Debt Service – Expenditures fluctuate with the issuance of bonds to support the timing of the capital program. Bond issuances are programmed to reflect net revenue coverage at a minimum of 2.5 times maximum annual debt service.

Operating Expenditures – Expenditures increase historically as additional facilities are constructed and the system and services expand. These expenses grow with inflation.

Capital Program – Expenditures are cyclical, based on the timing of revenue increases, federal legislation, and project cash flows.

Local Governments and General Fund –By law, a portion of the Trust Fund revenues is divided among the Department, other State agencies, and local governments. Funds in the Gasoline and Motor Vehicle Revenue Account, which consist of portions of the gas, titling, and corporate income taxes and registration fees, have historically been distributed 70% to MDOT and 30% to Baltimore City, the counties, and municipalities after deduction were made for certain General Fund purposes, including environmental, fuel tax collection, and state police programs. Based on legislation passed during the 2010 General Assembly, the funds in the Gasoline and Motor Vehicle Revenue Account are distributed as follows.

	FY10	FY11	FY12	FY13 on
MDOT	70.0%	68.5%	71.5%	71.5%
General Fund	19.5%	23.0%	20.4%	19.3%
Baltimore City	8.6%	7.9%	7.5%	7.5%
Counties & Municipalities	1.9%	.6%	.6%	1.7%
Total	100.0%	100.0%	100.0%	100.0%

Forecast – Two times a year MDOT publishes the Maryland Consolidated Transportation Program (CTP). The CTP contains a financial forecast of revenues and operating and capital expenditures over a six-year time period. The forecast is a planning tool that enables MDOT to evaluate its long-term financial resources, identify projects to be funded, and develop a plan to cover required operating and capital expenditures. It helps MDOT establish priorities to balance capital needs with available funding. MDOT uses the forecast to plan debt issuances, ensuring that debt-financed projects do not exceed the permitted statutory level.

MDOT DEBT FINANCING

Consolidated Transportation Bonds – MDOT is authorized by statute to issue Consolidated Transportation Bonds (CTBs). CTBs are fixed rate bonds with maturities of up to 15 years that are issued to finance the cost of one or more transportation facilities. They are a type of revenue bond in that there is a specific revenue source, but the revenue is not specific to one project. They are supported by certain taxes and fees in the Transportation Trust Fund but are NOT backed by the full faith and credit of the State of Maryland. The aggregate amount of outstanding and unpaid principal balance for these bonds is restricted by statute.

Certificates of Participation – MDOT may also issue Certificates of Participation (COPs) in which MDOT enters into a lease agreement with a Trustee to lease an asset over a specified period of time. The rate is determined by the sale of the certificates to investors. The lease payments pay the debt service principal and interest on the leased assets. COPs are fixed rate issuances secured by the lease payments. Typically maturities are up to 25 years. COPs are nontraditional (i.e., not CTBs). Currently, nontraditional debt limits are established in the annual budget language.

Major Steps in Bond Selling Process:

- Forecast financing needs
- Letter of Intent signed by Secretary (based on FY budget)
- Work with financial advisor and bond counsel to structure bond issuance
- Obtain Board of Public Works approval
- Obtain bond rating from rating agencies
- Secure trustee (if necessary) and printer
- Publish summary of notice of sale in a circulation among banks and investment bankers (at least 10 days prior to sale)
- Publish Preliminary Official Statement and Notice of Sale electronically to solicit bids for sale (approximately two weeks prior to sale)
- Sale (electronic)
- Award bidder with best true interest cost
- Finalize Official Statement and other documents
- Closing
- Bond Administration (includes bond spent-out verification, covenant compliance, debt service payments, etc.)