

J00A01
The Secretary's Office
Maryland Department of Transportation

Operating Budget Data

(\$ in Thousands)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Operations	\$23,267	\$25,019	\$27,932	\$4,664	\$27,731	-\$201
Contractual Services	26,316	28,107	28,793	\$2,477	30,397	1,605
Grants	10,266	10,383	12,163	\$1,896	12,546	383
Contingent & Back of Bill Reductions	0	0	0	\$0	-100	-100
Adjusted Grand Total	\$59,850	\$63,508	\$68,887	\$9,037	\$70,574	\$1,686
Special Funds	53,974	56,128	60,754	\$6,780	62,601	1,847
Contingent & Back of Bill Reductions	0	0	0	\$0	-100	-100
Adjusted Special Funds	\$53,974	\$56,128	\$60,754	\$6,780	\$62,501	\$1,747
Federal Funds	5,629	7,036	7,818	\$2,189	8,073	255
Reimbursable Funds	247	344	316	\$69	0	-316
Adjusted Grand Total	\$59,850	\$63,508	\$68,887	\$9,037	\$70,574	\$1,686
Annual % Change		6.1%	8.5%		2.4%	

- The fiscal 2005 allowance for the Secretary's Office (TSO) increases by nearly \$1.7 million (2.4%). The majority of these increases are attributable to increases in support services contracts in the Office of Transportation Technology Services (OTTS).
- Grants-in-aid increase 3% over the fiscal 2004 working appropriation.
- The fiscal 2005 allowance does not include any reimbursable funds. The Department of General Services previously provided reimbursable funds to defray some of the costs of TSO's Minority Business Enterprise Program; however, these funds have been eliminated.

Note: Numbers may not sum to total due to rounding.

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PAYGO Capital Budget Data

(\$ in Thousands)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>	<u>FY 04-05</u> <u>% Change</u>
Special Funds	\$19,253	\$14,331	\$38,566	\$17,209	-\$21,356	-55.4%
Contingent & Back of Bill Reductions	0	0	0	-4	-\$4	
Adjusted Special Funds	\$19,253	\$14,331	\$38,566	\$17,205	-\$21,361	-55.4%
Federal Funds	1,826	1,028	18,136	7,415	-\$10,721	-59.1%
Adjusted Grand Total	\$21,079	\$15,359	\$56,702	\$24,620	-\$32,082	-56.6%

- The fiscal 2005 capital allowance decreases by \$32 million (56.6%). These decreases are due to cash flow changes in ongoing projects.
- The numbers shown in this exhibit are taken from the Governor's Budget Book. However, the special fund allowance is overstated by \$717,000 and the federal fund allowance is understated by \$717,000.
- Nearly 50% of TSO's entire fiscal 2005 capital allowance is to be expended on projects intended to reduce mobile source emissions in the Baltimore and Washington regions.

Operating and PAYGO Personnel Data

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Regular Positions	342.0	332.0	329.0	-13	329.0	0.0
Contractual FTEs	6.5	4.2	7.0	1	7.0	0.0
Total Personnel	348.5	336.2	336.0	-13	336.0	0.0

Vacancy Data: Regular Positions

Turnover Expectancy	8.23	2.50%
Positions Vacant as of 12/31/03	7.00	2.13%

- The fiscal 2005 allowance includes 329 regular full-time positions; this number is unchanged from the fiscal 2004 appropriation.
- The Governor's budget book incorrectly reports the number of contractual positions for fiscal 2003, 2004, and 2005. The numbers shown in the exhibit above are the correct numbers. Five contractual positions were cut from TSO's legislative appropriation in November 2003, yielding a total of seven contractual positions in the fiscal 2004 working appropriation; this number is unchanged in the fiscal 2005 allowance. The impact of these cuts was minimal as the positions performed functions that were no longer required or that were assumed by regular staff members.

Analysis in Brief

Major Trends

TSO Is Meeting Its Performance Objectives: Data provided by the Secretary's Office indicate that TSO is effectively managing the transportation funding stream, including maintaining the required debt service coverage levels, expending the capital funding appropriated by the legislature in a timely fashion, and providing sufficient funding for system preservation needs. TSO is also meeting the performance objectives of the Minority Business Enterprise program and is in the process of initiating a required disparity study.

Issues

Estimates of Damage Caused to MDOT Facilities from Hurricane Isabel Near \$24 Million: While all of MDOT's modal administrations suffered some amount of damage from Hurricane Isabel, the most extensive damage was sustained by Maryland Port Administration properties, including the World Trade Center and the dredged material placement sites. **The Department of Legislative Services (DLS) recommends that the Maryland Department of Transportation (MDOT) discuss with the committees the status of hurricane recovery efforts, including the current condition and occupancy level of the World Trade Center. MDOT should also discuss current hurricane-related damage cost estimates as well as the status of damage claims filed with insurance agencies and federal agencies.**

Promulgation of New Air Quality Standards Likely to Impact Transportation Planning in Maryland: The Environmental Protection Agency (EPA) is in the process of promulgating new air quality standards for ozone and fine particulate matter (PM_{2.5}). The promulgation of these standards is likely to significantly affect the transportation planning process in Maryland by establishing stringent new air quality standards that the State will be required to meet in order to continue to receive federal transportation funding. **TSO should update the committees on the anticipated impact the implementation of these standards will have on transportation planning in Maryland and on the steps it is taking to prepare for the implementation of these standards.**

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Operating Budget Recommended Actions

	<u>Funds</u>
1. Reduce funding for a grant to the Pride of Baltimore.	\$ 36,000
2. Delete funds for a grant to the Department of Business and Economic Development.	35,000
3. Add annual language limiting operating grants-in-aid.	
Total Reductions	\$ 71,000

Capital Budget Recommended Actions

	<u>Funds</u>
1. Delete funds for a grant to support redesign of Center Plaza.	\$ 400,000
Total Reductions	\$ 400,000

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Budget Analysis

Program Description

The Secretary's Office (TSO) provides overall policy direction and management to the Maryland Department of Transportation (MDOT). Units within the office provide support in the areas of finance, procurement, engineering, audits, administrative services, planning and capital programming, human resources, and Minority Business Enterprise (MBE) certification; executive staff support is also provided for management services, public affairs, the general counsel's office, and policy and governmental relations. Within TSO, the Office of Transportation Technology Services provides centralized computing, network, infrastructure, and general information technology services for MDOT. TSO also makes grants to various entities for transportation-related purposes.

Performance Analysis: Managing for Results

The administration's Managing for Results (MFR) initiative provides a context for evaluating an agency's performance or outcomes rather than its resources or inputs. The MFR framework also serves as a planning tool that identifies appropriate results and aids the agency in concentrating limited resources on the attainment of those results. The current performance data for four of TSO's key performance objectives are presented below.

Performance Measures for Transportation Funding

Most of TSO's performance measures assess the office's management of transportation funding, including its management of debt sales, its ability to expend the amount of funding appropriated by the legislature, and its ability to program sufficient capital funding to meet MDOT's system preservation needs. The data presented below indicate that the department is meeting its objectives in these areas.

- **Objective 1:** *Maintain a bond coverage ratio where net revenues are at least 2.5 times the maximum annual debt service in each year of a six-year program.*

By statute, the total amount of consolidated transportation bond debt outstanding cannot exceed \$1.5 billion. In addition, net revenues (minus annual operating expenditures) and pledged taxes must both exceed the maximum annual debt service by at least 2.0. As a matter of policy, MDOT uses a minimum coverage test of 2.5 times the maximum annual debt service.

MDOT expects to sell an unprecedented \$370 million in bonds in fiscal 2004; bond sales of \$205 million are anticipated in fiscal 2005. Data on the annual coverage ratio presented in **Exhibit 1**

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indicate that despite these high levels of bond sales, net revenues will continue to be at least 2.5 times the maximum annual debt service requirements.

Exhibit 1
Bond Coverage Ratio Under the Net Revenues Test

	2002 Actual	2003 Actual	2004 Est.	2005 Est.
Measure: Bond coverage ratio of net revenues to maximum annual debt service.	4.6	4.3	2.6	2.8

Source: Maryland Department of Transportation

- **Objective 2** *Maintain a capital program expenditure rate of 90% or better.*

By determining whether funds forecasted for expenditure in a particular year are actually spent as planned, this measure assesses the ability of MDOT to manage its construction program and anticipate delays in construction schedules. The data presented in **Exhibit 2** indicate that MDOT exceeded this objective in fiscal 2003.

Exhibit 2
Capital Program Expenditures Rate

	2002 Actual	2003 Actual	2004 Est.	2005 Est.
Measure: Actual expenditures as a percent of forecasted capital expenditures.	90%	95%	90%	90%

Source: Maryland Department of Transportation

- **Objective 3** *Adequately fund system preservation needs in the Consolidated Transportation Program at \$472 million in fiscal year 2005.*

As shown in **Exhibit 3**, in fiscal 2003, expenditures on system preservation are estimated to have totaled \$441 million, a drop of 30% below system preservation expenditures in fiscal 2002. However, system preservation expenditures constituted 31% of total capital expenditures in fiscal 2003, thus exceeding the recommendation of the Commission on Transportation Investment that at least 25% of the capital program be spent on system preservation.

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MDOT anticipates spending \$489 million on system preservation in fiscal 2004, which would constitute approximately 29% of the entire capital working appropriation for the year and represent nearly an 11% increase in spending on system preservation above fiscal 2003 expenditures. While expenditures on system preservation are anticipated to drop to \$472 million in fiscal 2005, expenditures at that level would constitute nearly 33% of the capital allowance.

Exhibit 3
Capital Spending on System Preservation Needs

	2002 Actual	2003 Est.	2004 Est.	2005 Est.
Measure: System preservation funding levels in the CTP (\$ in millions).	\$634	\$441	\$489	\$472

Source: Maryland Department of Transportation

Performance Measures for MDOT's Minority Business Enterprise Program

MDOT certifies businesses as Minority Business Enterprises (MBE); upon certification, MBEs are eligible to participate in any State (and many local) procurements. MDOT is required by law to process certifications within 90 days; MDOT has also set a performance objective of completing 100 reassessments annually. The data presented in **Exhibit 4** indicate that the department has met the 90-day processing goal but has not met the annual recertification goal through 2003.

- **Objective** *Reduce in-state certification processing time from 180 days to 90 days by June 30, 2002, and maintain that level.*
 - **Objective** *Complete 100 MBE recertification assessment case reviews per year by June 30, 2003 and maintain it.*
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Exhibit 4
Performance Data for Minority Business Enterprise Program

	2002 Actual	2003 Actual	2004 Est.	2005 Est.
Measure: Average number of days for MBE certification.	90	90	90	90
Measure: Number of MBE recertification reassessments completed annually.	73	85	100	100

Source: Maryland Department of Transportation

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MDOT is required to conduct a Disparity Study every five years to assess the compliance of its MBE program with the Supreme Court's Croson decision, which established standards that govern all non-federal minority, women, and disadvantaged business programs operated by public entities. MDOT will begin its next Disparity Study in the spring of 2004. This study, which is estimated to cost approximately \$1 million, is due to the General Assembly in September 2005. A Disparity Study Workgroup has been convened to recruit a consultant to perform the study and a contract is expected to be in place by the spring of 2004.

The fiscal 2004 appropriation for the Department of General Services included \$252,579 provided as reimbursable funds to TSO to support the MBE program. The Board of Public Works eliminated these funds in fiscal 2004 as part of cost containment reductions made in July. The Governor has chosen not to restore these funds in the fiscal 2005 allowance. As a result, the full cost of operating the MBE program – which is expected to average approximately \$1.8 million per annum during the fiscal 2003 to 2005 period – must now be funded from the Transportation Trust Fund.

Governor's Proposed Operating Budget

The fiscal 2005 operating allowance is approximately \$70.6 million, which is an increase of \$1.7 million (2.4%) over the fiscal 2004 working appropriation. The allowance for the Executive Direction Unit (which includes the Offices of Finance, Human Resources, Planning, Minority Business Enterprise and Equal Opportunity, Management Services, and Facility Services) increases by \$46,045 (less than 1%). The allowance for the operating grants-in-aid funded through the Secretary's Office increases by \$367,773 (3%); nearly 70% of this increase is provided by federal funds. The largest increase in TSO occurs in the operating allowance for the Office of Transportation Technology Services (OTTS), which increases by \$1.4 million (4%). Information on specific changes in the allowances for the units in the Secretary's Office is provided in **Exhibit 5**.

Exhibit 5
Governor's Proposed Budget
The Secretary's Office
(\$ in Thousands)

	<u>FY 03</u> <u>Actual</u>	<u>FY 04</u> <u>Approp.</u>	<u>FY 05</u> <u>Allowance</u>	<u>FY 04-05</u> <u>Change</u>	<u>FY 04-05</u> <u>% Change</u>
Special Funds	\$56,128	\$60,754	\$62,601	\$1,847	3.0%
Contingent & Back of Bill Reductions	0	0	-100	-100	
Adjusted Special Funds	\$56,128	\$60,754	\$62,501	\$1,747	2.9%
Federal Funds	\$7,036	\$7,818	\$8,073	\$255	3.3%
Reimbursable Funds	\$344	\$316	\$0	-\$316	-100.0%
Adjusted Grand Total	\$63,508	\$68,887	\$70,574	\$1,686	2.4%

Where It Goes:

Personnel Expenses

Increments and other compensation	\$318
Employee and retiree health insurance	320
Turnover adjustments	112
Other fringe benefit adjustments	-364
	386

Executive Direction

Fixed charges, including increase in capital lease payment to MEDCO for new headquarters building	167
Reductions in contractual services, including elimination of contract with United Youth Corps for roadside maintenance/landscaping.....	-525

Grants-in-Aid

Increases in operating grants-in-aid	368
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Office of Transportation Technology Services

Contractual services, including increase in the support contract for the department's financial management system and increase in the contracts for communications equipment.....	2,129
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Where It Goes:

Travel, including predominantly travel to off-site training courses.....	169
New and replacement computer-related hardware and software	-1,007

Other Changes -1

Total **\$1,686**

Note: Numbers may not sum to total due to rounding.

Executive Direction

Within TSO's Executive Direction units, there is a net increase of approximately \$167,000 in fixed charges. The capital lease payment paid by TSO to the Maryland Economic Development Corporation (MEDCO) for TSO's new headquarters building increases by just over \$195,000; this increase is partially offset by small decreases in other fixed charges such as subscriptions and association dues.

The allowance for contractual services decreases by nearly \$525,000. The largest decrease (\$469,380) results from the elimination of a contract with the United Youth Corps of Maryland (a job training program for at-risk youth sponsored by the Department of Natural Resources) for such services as landscaping, refuse removal, and mowing and trimming along State highways and at Martin State Airport. Additional smaller decreases are seen in the allowances for education and training contracts and applications software purchase agreements.

Grants-in-aid

TSO is expected to issue a combined total of \$12.5 million in grants in fiscal 2005. Federal funding for the operating grants-in-aid provided through TSO increases by \$255,281 (3.3%) over the fiscal 2004 working appropriation, while special funding for these grants increases by \$112,492 (2.6%), yielding the total increase of \$367,773 in grants-in-aid. **Exhibit 6** lists the operating grants-in-aid funded in the fiscal 2005 allowance.

The grants provided to the State's seven metropolitan planning organizations (MPO) increase by \$259,945; only 11% of this increase is provided by State funds. The allowance for the payments-in-lieu of taxes paid by the State to local jurisdictions for properties at the Port of Baltimore is unchanged. The grant formerly provided by TSO to Morgan State University for the Commercial Vehicle Information Systems project (CVISN) has been eliminated.

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The grant provided by the State to the Pride of Baltimore, a nonprofit organization that operates the *Pride of Baltimore II* (a replica of an 1812-era topsail schooner), has been transferred from the budget of the Maryland Port Administration to TSO's grants-in-aid. The fiscal 2005 allowance for this grant is \$200,000.

Exhibit 6
Fiscal 2005 Recipients of Operating Grants-in-Aid

<u>Grant Recipient</u>	<u>Fiscal 2005 Grant Amount</u>
Cumberland Metropolitan Planning Organization	\$73,714
Salisbury Metropolitan Planning Organization	78,667
Hagerstown Metropolitan Planning Organization	118,377
Baltimore Metropolitan Planning Organization	4,414,517
Wilmington Metropolitan Planning Organization	59,025
Washington Metropolitan Planning Organization	2,942,616
Tri-County Planning Organization	55,000
Downtown Partnership	1,165,073
Maryland Department of Housing and Community Development (to support the Appalachian Regional Commission)	54,731
Maryland Office of Planning	258,230
Maryland Department of the Environment	43,651
Payments-in-Lieu of Taxes	1,604,472
Office of International Business, Maryland Department of Business and Economic Development	35,000
Pride of Baltimore	200,000
Baltimore City – Marine Fire Suppression Services	1,399,940
Total (All Funds)	\$12,503,013
Special Funds	\$4,430,018
Federal Funds	\$8,072,995

Source: Maryland Department of Transportation

Office of Transportation Technology Services

The fiscal 2005 allowance for OTTS totals \$36.1 million. OTTS' allowance for contractual services increases by \$2.1 million, which includes a large increase in the cost of IT operational support contracts; small offsetting increases and decreases occur in other types of contractual service costs, including the contracts for telecommunications, applications software, and training services. The overall increase in contractual service costs is partially offset by a decrease of just over \$1 million in the allowance for new and replacement equipment; no major IT equipment purchases are planned in fiscal 2005.

Impact of Cost Containment

The fiscal 2005 allowance reflects the elimination of \$100,485 (sub-object 0172), the appropriation for matching employee deferred compensation contributions up to \$600, contingent upon enactment of a provision in the budget reconciliation legislation.

PAYGO Capital Program

Program Description

TSO's capital program has historically consisted of projects that support the preservation of MDOT's headquarters' systems and that support air quality improvement initiatives in the Baltimore and Washington, DC metropolitan areas. TSO also provides capital grants to public and private entities for transportation-related purposes.

Fiscal 2004 to 2009 Consolidated Transportation Program

TSO's fiscal 2005 capital allowance is \$24.6 million, which is a decrease of \$32.1 million (56.6%) under the fiscal 2004 working appropriation. The Secretary's Office capital program comprises only about 2% of MDOT's fiscal 2005 capital allowance. **Exhibit 7** lists the capital projects currently programmed in TSO; this exhibit shows both projected fiscal 2005 funding for these projects as well as the total anticipated cost of each project.

Exhibit 7
Major Ongoing Secretary's Office Projects
(**\$ in Thousands**)

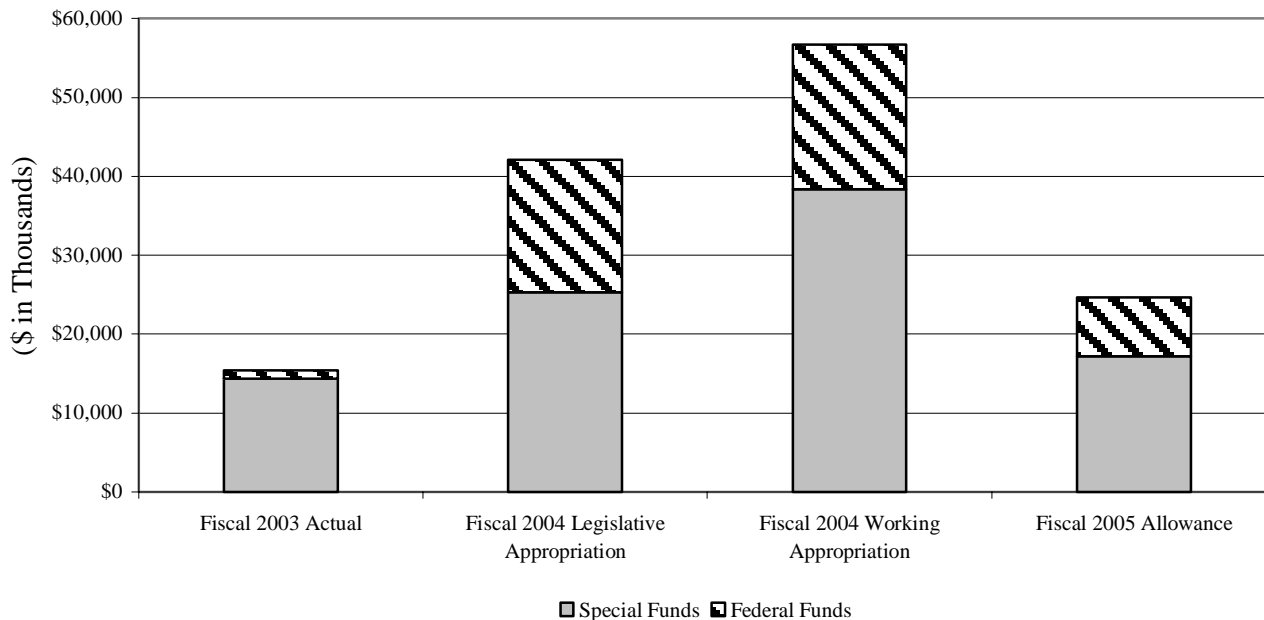
<u>Jurisdiction</u>	<u>Project Description</u>	<u>FY 2005</u>	<u>Total Project Costs</u>
Baltimore and Washington, DC	Transportation Emissions Reduction Program	12,279	61,340
Statewide	System Preservation and Minor Projects	11,100	ongoing
n/a	Capital Program Salaries and Wages	1,200	ongoing
	Total	\$24,579	\$61,340

Source: Maryland Department of Transportation, 2004 *Consolidated Transportation Program*

Fiscal 2004 and 2005 Cash Flow Analysis

Exhibit 8 shows the cash flow changes in the TSO's capital program between fiscal 2003 and 2005.

**Exhibit 8
Fiscal 2003 to 2005 Cash Flow Changes**



Source: Maryland Department of Transportation, 2004 *Consolidated Transportation Program*

Fiscal 2004 Working Appropriation

TSO's fiscal 2004 working appropriation increased by \$14.6 million (34.8%) over the fiscal 2004 legislative appropriation. This increase was due entirely to the roll-over of funding into fiscal 2004 that was originally planned for expenditure in fiscal 2003. This roll-over funding included more than \$6 million in funding for the Transportation Emissions Reduction Measures (TERMS) program as well as \$3 million for a grant issued to Carroll County for the Shepherd's Mill Road project. In addition, \$5.4 million in funding from the MEDCO grant for the new MDOT headquarters building remained unspent at the end of fiscal 2003. This funding is being held in the capital program and will be used to fund the construction during fiscal 2004 of the roadway running in front of the headquarters building. Any funding from this grant that remains unspent after the roadway is completed will revert to the TTF.

Fiscal 2005 Allowance

TSO's fiscal 2005 capital allowance decreases by \$32.1 million (56.6%) under the fiscal 2004 working appropriation; the federal fund allowance decreases by \$10.7 million (59.1%) under the

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fiscal 2004 working appropriation while the special fund allowance decreases by approximately \$21.4 million (55%). These decreases are due to cash flow changes in the TERMS project and to the completion of many one-time minor project grants in fiscal 2004 that are not replaced by new grants in fiscal 2005.

Transportation Emissions Reduction Measures

In fiscal 2005, nearly 50% of TSO's entire capital budget will be expended on the TERMS project. The TERMS project consists of a set of projects in both Washington and Baltimore that are intended to control emissions from mobile sources on an ongoing basis and thus contribute to the attainment of air quality standards. TERMS projects supplement regular mobile source emission control measures such as the Vehicle Emission Inspection Program (VEIP) in place in both regions. These projects are implemented to achieve emissions reductions over and above the amounts provided by regular control measures. Frequently, they are implemented to ensure that each region's transportation plans and programs conform to the air quality requirements of the federal Clean Air Act Amendments of 1990 and the Transportation Equity Act for the 21st Century – thus enabling the regions to continue to receive federal transportation funding.

In the Washington region, TERMS projects planned to continue into the fiscal 2004 to 2005 time period include the development of a new Compressed Natural Gas fueling station, the provision of new surface parking spaces at transit centers, the replacement of 55 Montgomery county buses, and the expansion of the Maryland Transit Administration's commuter bus services. Through TERMS, funding will also continue to be provided to support programs that promote the increased usage of transit and carpooling options that decrease the number of single-occupancy vehicles on the region's roads, including Commuter Choice Maryland and telework partnership programs. Washington region TERMS projects are intended to ensure that an additional reduction of 1.3 tons per day of nitrogen oxide from mobile sources is made prior to the start of the summer 2005 ozone season (April to October). This planned reduction is Maryland's contribution to the shared regional effort to reduce emissions throughout the Washington region by three tons per day.

In the Baltimore region, the TERMS project is expected to continue providing funding in fiscal 2005 and beyond for the telework partnership program, the Baltimore region Commuter Choice Maryland project, an ongoing rideshare program, the Downtown Partnership shuttle bus (federal funds only), improvements in the Gwyns Falls trail, and the construction of additional park and ride lots. As the regular emission control measures in place in Baltimore (VEIP, public transit etc.) have generally been effective in achieving the emission reductions required in that region, fewer TERMS projects have been needed to achieve supplemental emission reductions in that region.

Minor Projects

Approximately 45.1% (\$11.1 million) of TSO's fiscal 2005 capital allowance consists of minor projects and capital grants issued through TSO. The allowance for these minor projects and grants decreases by \$17 million (60.5%) under the fiscal 2004 working appropriation. The allowance is expected to consist of six minor projects/grants, including several ongoing consulting contracts, the

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replacement of some IT hardware/software for capital management programs, and miscellaneous equipment purchases.

One new grant is planned to support the redesign of the Center Plaza in Baltimore City. This plaza, located on the north side of Fayette Street between Charles Street and Park Avenue, is owned by the City of Baltimore but serves as a major transit transfer hub. In addition to the redesign work, the plaza needs additional waterproofing and walkway improvements. TSO's allowance includes \$400,000 to fund part of the cost of renovating Center Plaza.

Issues

1. Estimates of Damage Caused to MDOT Facilities from Hurricane Isabel Near \$24 Million

While MDOT is still finalizing its estimate of the cost of damages to MDOT facilities caused by Hurricane Isabel, these costs are currently estimated to exceed \$23.9 million. **Exhibit 9** provides preliminary estimates of the costs of hurricane-related damage repairs for each MDOT mode, while **Exhibit 10** provides preliminary estimates of the amount of money that is likely to be provided to each agency to cover storm-related damages from each source, including insurance, the Federal Emergency Management Agency (FEMA), the Federal Highway Administration, and the Army Corps of Engineers. As Exhibit 10 illustrates, it appears at this time that up to 78% of the damage costs arising from Hurricane Isabel may be covered by some type of insurance or by reimbursements provided by various federal agencies.

Exhibit 9 Estimates of Damage Caused to Modal Administrations by Hurricane Isabel (January 2004)

	<u>Debris Removal</u>	<u>Emergency Protective Measures</u>	<u>Roads and Bridges</u>	<u>Water Control</u>	<u>Building and Equipment</u>	<u>Public Utilities</u>	<u>Parks and Recreation</u>	<u>Misc.</u>	<u>Totals</u>
TSO - HQ	\$1,475	\$7,372							\$8,847
MAA	35,000	82,600	\$77,200		\$1,614,000	\$46,200			1,855,000
MdTA	15,000		1,519,700					\$35,000	1,569,700
MPA	345,000	45,000		\$260,000	8,000,000		\$50,000	5,000,000	13,700,000
MTA	1,536	43,413			19,113				64,062
MVA		1,355			13,145				14,500
SHA	6,200,000		500,000						6,700,000
Subtotals	\$6,598,011	\$179,740	\$2,096,900	\$260,000	\$9,646,258	\$46,200	\$50,000	\$5,035,000	\$23,912,109

Source: Maryland Department of Transportation

Exhibit 10
Estimates of Reimbursements for Damages Caused by Hurricane Isabel
(January 2004)

	<u>Total Expense</u>	<u>State Self Insurance</u>	<u>Commercial Insurance</u>	<u>FEMA</u>	<u>FHWA</u>	<u>Army Corps of Engineers</u>	<u>State Balance</u>
TSO - HQ	\$8,847			\$6,635	\$0	\$0	\$2,212
MAA	1,855,000		\$150,000	1,220,466	0	0	484,534
MdTA	1,569,700			1,177,275	0	0	392,425
MPA	13,700,000	\$1,600,000	3,500,000	762,500	0	3,750,000	4,087,500
MTA	64,062			48,047	0	0	16,016
MVA	14,500			10,875	0	0	3,625
SHA	6,700,000			552,750	5,963,000	0	184,250
Total	\$23,912,109	\$1,600,000	\$3,650,000	\$3,778,548	\$5,963,000	\$3,750,000	\$5,170,561

Source: Maryland Department of Transportation

Among MDOT's modal administration, the Maryland Port Administration (MPA) incurred the most damage from the hurricane. MPA's World Trade Center (WTC) in Baltimore's Inner Harbor suffered nearly \$7.7 million in damage due to the hurricane's storm surge, which dumped nearly three million gallons of water into the WTC's basement, destroying most of its electrical, mechanical, and telecommunications systems and rendering the building unfit for occupancy for more than one month. In addition to the cost of repairing the WTC, MPA lost more than \$530,000 in rent while tenants were away from the building.

The WTC is one among several State-owned properties located in flood plains that were damaged by the hurricane. As the State is eligible to receive only \$5 million in total insurance reimbursements for all flood plain properties, MPA will share part of this settlement on a pro-rata basis with the other flood plain properties. MPA will be eligible for reimbursements from FEMA of up to 75% of the costs not covered by insurance. After all insurance and FEMA claims are settled, the MPA will likely be responsible for between \$1.5 million and \$2.5 million of the cost of repairing the WTC.

In addition to the damage suffered by the WTC, MPA's dredge material placement sites suffered an estimated \$5 million in damage. It is anticipated at this time that the Army Corps of Engineers will cover up to 75% of the cost of repairing these sites; however, the remaining 25% of the costs of repairing the sites is not eligible for FEMA reimbursements and will have to be covered by the MPA.

DLS recommends that MDOT discuss with the committees the status of hurricane recovery efforts, including the current condition and occupancy level of the World Trade Center.

MDOT should also discuss current hurricane-related damage cost estimates as well as the status of damage claims filed with insurance agencies and federal agencies.

2. Promulgation of New Air Quality Standards Likely to Impact Transportation Planning in Maryland

Background

Transportation Planning Requirements under the Clean Air Act

The Clean Air Act of 1970 introduced air quality standards that regulated emissions from both mobile and stationary sources of six specific pollutants: ozone, nitrogen dioxide (NO₂), carbon monoxide (CO), sulfur dioxide (SO₂), particulate matter (PM), and lead.

With the enactment of a revised Clean Air Act in 1990, a region's federal transportation funds were directly tied to its efforts to attain these standards. States in non-attainment of the standards for a particular pollutant are required to develop State Implementation Plans (SIP) that explain in detail how the region will attain the standards. Further, a state's transportation plans must be analyzed to ensure that they "conform" to the plans outlined in the SIP for achieving air quality standards. Specifically, the plans are tested to ensure that construction of planned capital projects will not result in the release of more emissions into the air than are allowed under the SIP.

All regions of Maryland are in attainment of air quality standards for SO₂, lead, NO₂, and a type of particulate matter known as "PM coarse." Maryland attained the CO standard in the early 1990s and all Maryland areas had been re-designated as attainment areas by 1996. Maryland has put maintenance plans in place to ensure that the State continues to meet CO air quality standards; if the State does not experience any violations of CO air quality standards between now and 2015, the State will not be required to develop any additional maintenance plans.

Non-attainment of Ozone Standards in Maryland under the 1-Hour Standard

Three regions of Maryland are currently classified as "severe"¹ non-attainment areas for ozone, which is formed through the interaction of other pollutants, primarily volatile organic compounds and nitrogen oxides (NO_x). These non-attainment regions are the Maryland portion of the Washington Non-Attainment Region (including Montgomery, Prince George's, Calvert, Charles, and Frederick counties), the Baltimore Non-Attainment Region (including Baltimore City and Baltimore, Anne Arundel, Howard, Carroll, and Harford counties), and Cecil County, which participates in the Philadelphia-Wilmington-Trenton Non-attainment Region. Kent County and Queen Anne's County on Maryland's Eastern Shore are classified as "marginal" non-attainment regions.

¹ The classification scale includes five categories of non-attainment: marginal, moderate, serious, severe, and extreme. Classifications are based on the extent to which a region exceeds air quality standards for a particular pollutant.

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The classification of these Maryland counties as non-attainment regions was based on the ozone standard known as the 1-hour standard. Under this standard, a region is not to reach or exceed concentrations of 0.12 parts per million at an individual air quality monitor on more than three days during a three-year period.

With their classification as “severe” non-attainment regions, the Washington and Baltimore regions and Cecil County have been required to implement an Enhanced Vehicle Emissions Inspection Program (VEIP), demonstrate a 3% reduction in total emissions per year, and implement other interventions designed to reduce emissions from both mobile and stationary sources. All three regions are also required to submit regular revisions to their SIPs and to conduct regular tests of their transportation plans to ensure they conform to the requirements of the SIP; the current timeline for the submission of SIP revisions and the conduct of conformity tests in Maryland is presented in **Exhibit 11** below.

Exhibit 11
Timeline for Compliance with Ozone
Air Quality Requirements under the 1-Hour Standard

<u>“Severe” Non-Attainment Region</u>	<u>SIP Revision Due Date</u>	<u>Next Test of Transportation Plans for Conformity Due Date</u>	<u>Attainment of 1-Hour Ozone Standard Requirement Date</u>
Washington Non-attainment Region	March 2004	January 2004 ¹	November 2005
Baltimore Non-attainment Region	February 2004	February 2004 ²	November 2005
Cecil County	March 2004	June 2004 ³	November 2005

¹ To ensure that those portions of the SIP that affect the process of testing transportation plans for conformity were in place prior to the required due date of the next conformity test, the Washington region developed its SIP revisions in two phases. The first phase was approved by the EPA and the region performed its conformity test by the required January deadline.

² The conformity test on the Baltimore Region transportation plan has been performed and passed by the Baltimore Region Transportation Board; it will become effective as soon as recently submitted mobile source budgets (which have been revised via a SIP amendment) are approved by the EPA.

³ The regional analysis is underway and completion is anticipated by the June 2004 deadline.

Source: Maryland Department of Transportation

All regions of Maryland are working to attain the 1-hour ozone standard by November 2005 as required under current law. Stationary sources of polluting emissions (which include sources such as power plants and large manufacturing plants) have installed equipment required under federal regulations to reduce their emission of pollutants that contribute to the formation of ozone. It is anticipated that the non-attainment regions in Maryland will experience a reduction in the number of ozone exceedance days (“Code Red” air quality days) during the 2004 ozone season. It is projected

that these and other ongoing interventions will enable the State to attain air quality standards by the 2005 deadline or within the one-year extension periods as allowed under the Clean Air Act.

New Air Quality Standards to Be Promulgated by the Environmental Protection Agency

The Environmental Protection Agency (EPA) is in the process of promulgating new air quality standards for ozone and fine particulate matter (PM_{2.5}, also known as PM fine). The promulgation of these standards is likely to significantly affect the transportation planning process in Maryland by establishing stringent new air quality standards that the State will be required to meet in order to continue to receive federal transportation funding. The new standards are described in detail below.

8-Hour Ozone Standard

The EPA has promulgated a new 8-hour standard for ozone that will replace the 1-hour standard currently in use. Under the 8-hour standard, an area will be in non-attainment if its fourth highest daily maximum 8-hour ozone average in a year, averaged over three consecutive years, is higher than the allowed standard (currently 0.085 parts per million).

Those counties that are designated as non-attainment counties will be required to submit SIPs and perform regular conformity tests on their transportation plans just as was done under the 1-hour standard. Additional mitigation measures may be required to ensure that the counties achieve sufficient annual emissions reductions to enable them to attain the 8-hour standard by the required date. The timeline for implementation of the 8-hour ozone standard is presented in **Exhibit 12**.

Exhibit 12
Timeline for Implementation of the 8-Hour Ozone Standard

<u>Required Steps</u>	<u>Due Date</u>
States recommend regions that should be identified as non-attainment regions.	July 15, 2003
EPA formally designates non-attainment regions.	April 2004
EPA finalizes implementation rules for the 8-hour standard attainment process.	Spring 2004
Non-attainment regions must complete regional conformity analyses of transportation plans using procedures that comply with implementation rules for the 8-hour ozone standard.	May 2005
State Implementation Plans for attaining 8-hour ozone standard must be in place.	April 2007
States must attain 8-hour standard.	2007-2019 (Depending on non-attainment classification level)

Source: Maryland Department of Transportation

It is likely that the EPA will finalize regulations that eliminate the need for an area that is in non-attainment of the 1-hour standard to be undertaking air quality planning procedures for both the old 1-hour standard and the new 8-hour standard. Under these new rules, the EPA is likely to require states in non-attainment of the 1-hour standard to continue the regulatory programs in effect under the 1-hour standard but to migrate to a planning process that is focused on attainment of the 8-hour standard. The conformity testing process is not considered a regulatory program; therefore, the conformity testing standards and process may change under the 8-hour standard.

The EPA is currently identifying the regions throughout Maryland that will be designated as non-attainment regions under the 8-hour standard. At the present time, it is likely that Baltimore City and the following counties will be designated as non-attainment regions under the new standard: Anne Arundel, Baltimore, Carroll, Harford, Howard, Cecil, Calvert, Charles, Frederick, Montgomery, and Prince George's.

The Maryland Department of the Environment, in cooperation with MDOT and officials in Kent, Queen Anne's, and Washington counties, has been working to have these counties declared Early Action Compact areas. Under this designation, officials will have the opportunity to submit an Early

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Action Plan (EAP) for each county that explains how the county will reduce emissions to attain the 8-hour standard by 2007; the non-attainment designation that would otherwise be assigned to these counties will be deferred for the duration of the EAP. Assuming that the counties are able to fulfill the specifications of their EAPs by 2007 and have clear air quality data during 2005, 2006, and 2007, they will not be designated as non-attainment regions under the 8-hour standard.² This would eliminate or postpone the need for the State to impose additional economic and development restrictions in these areas as required by the Clean Air Act; it would also eliminate the need for these areas to develop a transportation plan conformity testing process to qualify for federal transportation funds.

PM_{2.5} Standard

While Maryland is considered an attainment area for PM coarse (PM₁₀), recent studies have revealed that fine particulate matter (PM_{2.5}) is more of a danger to human health than is the coarse matter. Therefore, the EPA established a monitoring program for PM_{2.5} in 1999 and is developing an attainment process for this pollutant that will mirror the process currently in use for ozone under the 1-hour standard. As **Exhibit 13** shows, the development of the attainment process for PM_{2.5} is not as advanced as is the development of the attainment process for ozone under the 8-hour standard.

Exhibit 13 Timeline for Implementation of the PM_{2.5} Standard

<u>Required Steps</u>	<u>Due Date</u>
States recommend regions that should be identified as PM _{2.5} non-attainment regions.	February 15, 2004
EPA finalizes implementation rules for the PM _{2.5} attainment process.	December 2003 (Delayed until 2004)
EPA formally designates non-attainment regions.	December 2004
State Implementation Plans for attaining PM _{2.5} standards must be in place.	2007
States must attain PM _{2.5} standards.	2015

Source: Maryland Department of Transportation

² If the Early Action Compact Areas fulfill the requirements of the EAPs but these interventions do not result in attainment of the required air quality standards by 2007, the counties would be designated as non-attainment regions in 2007.

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It is likely that several regions in Maryland will be designated as being in non-attainment of the PM_{2.5} air quality standards, though preliminary identification of such areas has not yet been finalized (such areas are likely to be similar to those designated as non-attainment regions under the 8-hour ozone standard). Those areas that are designated as non-attainment regions will be required to develop SIPs for PM_{2.5} and test their transportation plans for conformity with the SIPs as is done under the 1-hour ozone standard and as is likely to be done under the 8-hour ozone standard. Many controls put in place to mitigate ozone emissions will also help reduce PM_{2.5} pollution levels, though it may still be necessary for the State to implement some controls specific to PM_{2.5}.

Given the significant new air quality standards and attainment processes likely to be implemented by the EPA in fiscal 2005 and coming years, TSO should update the committees on the anticipated impact the implementation of these standards will have on transportation planning in Maryland and on the steps it is taking to prepare for the implementation of these standards.

Operating Budget Recommended Actions

	<u>Amount Reduction</u>
1. Reduce funding for a grant to the Pride of Baltimore. This reduction would still provide for a grant totaling \$164,000, which is the amount of the grant provided by the Maryland Port Administration to the Pride in fiscal 2004.	\$ 36,000 SF
2. Delete funds for a grant to the Department of Business and Economic Development's Office of International Business. This is not a core activity of the Department of Transportation and should not be supported from the Transportation Trust Fund.	35,000 SF
3. Add the following language: <u>. provided that no more than \$4,430,018 may be expended for operating grants-in-aid, except for:</u>	
(1) <u>any additional special funds necessary to match unanticipated federal fund attainments;</u> <u>or</u>	
(2) <u>any proposed increase either to provide funds for a new grantee or to expand funds for an existing grantee; and</u>	
(3) <u>the department provides notification to the budget committees to justify the need for additional expenditures due to either provision (1) or (2) above, and the committees provide review and comment or 45 days elapse from the date such notification is provided to the committees.</u>	

Explanation: This annual language caps the level of special funds provided for operating grants-in-aid. The cap may be increased to match unanticipated federal dollars or to provide new or expanded grant funding upon notification of the budget committees.

Information Request	Author	Due Date
Explanation of need for additional special funds for grants-in-aid	MDOT	As needed
Total Special Fund Reductions		\$ 71,000

Capital Budget Recommended Actions

	<u>Amount Reduction</u>
1. Delete funds for a grant to Baltimore City to support redesign of Center Plaza. Baltimore City, which owns the Plaza, receives local highway user funds that could be utilized to fund the redesign of the Plaza.	\$ 400,000 SF
Total Special Fund Reductions	\$ 400,000

Current and Prior Year Budgets

**Current and Prior Year Budgets
The Secretary's Office
(\$ in Thousands)**

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2003					
Legislative Appropriation	\$0	\$56,364	\$7,249	\$256	\$63,869
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	840	0	120	960
Cost Containment	0	-924	0	0	-924
Reversions and Cancellations	0	-152	-213	-32	-397
Actual Expenditures	\$0	\$56,128	\$7,036	\$344	\$63,508
Fiscal 2004					
Legislative Appropriation	\$0	\$60,754	\$7,818	\$253	\$68,825
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	63	63
Working Appropriation	\$0	\$60,754	\$7,818	\$316	\$68,888

Note: Numbers may not sum to total due to rounding.

Major Changes in Current and Prior Year Appropriations

In fiscal year 2003, nearly \$924,000 was withdrawn from TSO's operating appropriation as part of MDOT's cost containment action; the majority (\$893,858) of these reductions were made in OTTS, while smaller reductions were made in operating grants-in-aid. These decreases were offset by the addition of approximately \$960,000 to TSO's budget through amendments that funded

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software licensing, maintenance fees, and support service costs for products run on MDOT's mainframe computer platform, and funded additional security costs, including the hiring of a part-time Security Advisor to develop security plans for MDOT and the modal administrations and strengthen security coordination efforts with federal authorities.

**Object/Fund Difference Report
MDOT The Secretary's Office**

<u>Object/Fund</u>	<u>FY03 Actual</u>	<u>FY04 Working Appropriation</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	318.00	316.00	316.00	0	0%
02 Contractual	3.00	6.00	4.00	-2.00	-33.3%
Total Positions	321.00	322.00	320.00	-2.00	-0.6%
Objects					
01 Salaries and Wages	\$ 21,805,704	\$ 21,728,098	\$ 22,215,037	\$ 486,939	2.2%
02 Technical & Spec Fees	180,222	305,284	239,260	-66,024	-21.6%
03 Communication	481,656	716,524	788,996	72,472	10.1%
04 Travel	246,691	341,919	495,490	153,571	44.9%
06 Fuel & Utilities	183,680	205,000	235,000	30,000	14.6%
07 Motor Vehicles	76,041	144,805	200,404	55,599	38.4%
08 Contractual Services	28,106,878	28,792,768	30,397,311	1,604,543	5.6%
09 Supplies & Materials	245,607	338,803	263,485	-75,318	-22.2%
10 Equip - Replacement	2,403	725,121	3,000	-722,121	-99.6%
11 Equip - Additional	154,023	317,502	23,103	-294,399	-92.7%
12 Grants,Subsidies,Contr	10,382,542	12,162,549	12,545,684	383,135	3.2%
13 Fixed Charges	1,642,670	3,108,926	3,267,448	158,522	5.1%
Total Objects	\$ 63,508,117	\$ 68,887,299	\$ 70,674,218	\$ 1,786,919	2.6%
Funds					
03 Special Fund	\$ 56,128,252	\$ 60,754,065	\$ 62,601,223	\$ 1,847,158	3.0%
05 Federal Fund	7,036,192	7,817,714	8,072,995	255,281	3.3%
09 Reimbursable Fund	343,673	315,520	0	-315,520	-100.0%
Total Funds	\$ 63,508,117	\$ 68,887,299	\$ 70,674,218	\$ 1,786,919	2.6%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.

**Fiscal Summary
MDOT The Secretary's Office**

<u>Unit/Program</u>	<u>FY03 Actual</u>	<u>FY04 Legislative Appropriation</u>	<u>FY04 Working Appropriation</u>	<u>FY03 - FY04 % Change</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 % Change</u>
01 Executive Direction	\$ 19,642,474	\$ 21,977,101	\$ 22,040,042	12.2%	\$ 22,086,087	0.2%
02 Operating Grants-In-Aid	10,355,452	12,135,240	12,135,240	17.2%	12,503,013	3.0%
03 Facilities and Capital Equipment	14,531,797	41,160,557	55,524,557	282.1%	24,624,383	-55.7%
07 Office of Transportation Technology Services	33,510,191	34,712,017	34,712,017	3.6%	36,085,118	4.0%
08 Major IT Development Projects	827,445	911,000	1,177,000	42.2%	0	-100.0%
Total Expenditures	\$ 78,867,359	\$ 110,895,915	\$ 125,588,856	59.2%	\$ 95,298,601	-24.1%
Special Fund	\$ 70,459,688	\$ 86,015,622	\$ 99,319,622	41.0%	\$ 79,810,606	-19.6%
Federal Fund	8,063,998	24,627,714	25,953,714	221.8%	15,487,995	-40.3%
Total Appropriations	\$ 78,523,686	\$ 110,643,336	\$ 125,273,336	59.5%	\$ 95,298,601	-23.9%
Reimbursable Fund	\$ 343,673	\$ 252,579	\$ 315,520	-8.2%	\$ 0	-100.0%
Total Funds	\$ 78,867,359	\$ 110,895,915	\$ 125,588,856	59.2%	\$ 95,298,601	-24.1%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.

Budget Amendments for Fiscal 2004
Maryland Department of Transportation
The Secretary's Office – Operating

<u>Status</u>	<u>Amount</u>	<u>Fund</u>	<u>Justification</u>
Approved	\$27,941	RF Operating	Federal grant via Maryland Emergency Management Agency for State domestic preparedness and emergency management communication software
Pending	\$35,000	RF Operating	Federal grant via Maryland Emergency Management Agency for State domestic preparedness and emergency management communication software
Projected	(\$59,183)	SF Operating	Transfer funding to the State Highway Administration to cover a portion of the total project of \$173,160 for the development of Regional Protection Action Plan undertaken by the Baltimore Metropolitan Council
Projected	\$13,100	SF Operating	Increase appropriation to cover estimated cost of Hurricane Isabel expenses, including debris removal; and cover cost of some emergency protective measures (\$11,500), of which a portion (\$9,800) will be reimbursed by MEMA.

Source: Maryland Transportation Department

Budget Amendments for Fiscal 2004
Maryland Department of Transportation
The Secretary's Office – Capital

<u>Status</u>	<u>Amount</u>	<u>Fund</u>	<u>Justification</u>
Pending	\$180,000	SF Capital	Re-align the fiscal 2004 appropriation for Major IT Development projects with expected cash flows as shown in the draft <i>Consolidated Transportation Program</i> (CTP)
	\$202,000	FF Capital	
Pending	\$12,407,000	SF Capital	Adjust the amendment appropriation to reflect anticipated expenditures as shown as in the fiscal 2004-2009 final CTP
	\$ 1,841,000	FF Capital	

Source: Maryland Transportation Department