J00A01
The Secretary's Office
Maryland Department of Transportation

Operating Budget Data

($ in Thousands)

	FY 06 Actual	FY 07 Working	FY 08 Allowance	FY 07-08 Change	% Change Prior Year
Special Fund	$59,425	$67,762	$65,444	-$2,319	-3.4%
Federal Fund	5,103	10,253	9,684	-569	-5.6%
Total Funds	**$64,528**	**$78,016**	**$75,128**	**-$2,888**	**-3.7%**

- The fiscal 2008 allowance decreases $2.9 million, or 3.7% compared to the fiscal 2007 working allowance; however, adjusting for one-time actions relating to employee and retiree health insurance, the 2008 allowance increases by $3.5 million, or 4.9%.

- The largest increase in the fiscal 2008 allowance totals $2.3 million for information technology (IT) expenditures either for contracted services or maintenance agreements in the Office of Transportation Technology Services.

Paygo Capital Budget Data

($ in Thousands)

	Fiscal 2006	Fiscal 2007		Fiscal 2008	
	Actual	Legislative	Working	Request	Allowance
Special	$22,041	$16,638	$34,508	$11,804	$12,868
Federal	$823	$1,200	$2,845	$600	$7,495
Total	**$22,865**	**$17,838**	**$37,353**	**$12,404**	**$20,363**

- The fiscal 2007 working appropriation increased by $19.5 million due to project and grant delays which resulted in cash flow carry over from fiscal 2006 moving into fiscal 2007.

- Spending in the fiscal 2008 allowance decreases by $17.0 million due to a number of system preservation projects ending in fiscal 2007.

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

For further information contact: Jonathan D. Martin Phone: (410) 946-5530

Operating and PAYGO Personnel Data

	FY 06 Actual	FY 07 Working	FY 08 Allowance	FY 07-08 Change
Regular Operating Budget Positions	317.00	316.00	316.00	0.00
Regular PAYGO Budget Positions	16.00	16.00	19.00	3.00
Total Regular Positions	**333.00**	**332.00**	**335.00**	**3.00**
Operating Budget Contractual FTEs	4.46	3.50	5.00	1.50
PAYGO Budget Contractual FTEs	0.60	1.00	1.00	0.00
Total Contractual FTEs	**5.06**	**4.50**	**6.00**	**1.50**
Total Personnel	**338.06**	**336.50**	**341.00**	**4.50**
Vacancy Data: Regular Positions				
Turnover, Excluding New Positions		19.34	6.12%	
Positions Vacant as of 12/31/06		33.00	9.97%	

- The fiscal 2008 allowance includes the addition of three new positions in the capital program to implement an environmental compliance program to insure that the department adheres to State and federal environmental regulations.

- The agency added a net of 1.5 contractual full-time equivalents (FTEs) from fiscal 2007 to 2008. This includes one FTE to perform background checks on potential employees and a half FTE to assist in bond issuances.

- Turnover expectancy is set at 6.12%, requiring 19.34 vacant positions. As of January 1, 2007, the agency had 33 vacant positions. Of these vacancies, 5 positions have been vacant over 12 months, and 13 have been vacant since September 1, 2006.

Analysis in Brief

Major Trends

Vacancy Rates Departmentwide Increase: The Secretary's Office attempts to maintain a departmentwide vacancy rate of 5.0%; however, in fiscal 2006 the vacancy rate reached 5.6%. However, the number of long-term vacancies decreased during the fiscal year.

System Preservation Funding Totals $600 Million: One Managing for Results goal is to adequately fund system preservation needs in the Consolidated Transportation Program. The department typically achieves this goal, and in fiscal 2007, system preservation funding totals $600 million; however, the *Consolidated Transportation Program* shows funding at $746 million.

Debt Ratios Are within Prudent Limits: To insure that the department is fiscally prudent, two bond coverage ratio tests are used as a measure. For fiscal 2008, as well as historically, the department has managed its financial resources in a financially prudent level, with a net income coverage test of 3.8 times in fiscal 2008 – well above the 2.5 limit.

Issues

What Is the State Center Project?: Currently the department is working with other State agencies on a project to redevelop the State Center property in Baltimore City. This issue will review the State Center project in Baltimore and the potential implications for the State both financially and in terms of the State workforce. **The Department of Legislative Service (DLS) recommends that committee narrative be added that would require a report be submitted regarding the status of the State Center project similar to the report that was requested last year so that the committees may be made aware of any potential State obligations regarding the project.**

Performance Contracting: Contracts represent a large portion of the agency's budget and require the same standard of performance that is required of State agencies. The major contracts are reviewed in this issue to determine if the opportunity exists to include performance incentives in contracts to help insure better performance. **DLS recommends that the agency comment on the potential of performance contracting for IT related contracts as well as across each of the modes.**

Operating Budget Recommended Actions

		Funds
1.	Reduce funds for the purchase of replacement sedans.	$ 36,781
2.	Reduce funds for the purchase of LTVs.	31,282
3.	Reduce funds for out-of-state travel.	16,375
4.	Reduce funds for in-state conferences.	13,750
5.	Adopt committee narrative requesting a report regarding the status of the State Center project and its effect on the State budget and employees.	
6.	Add annual budget language to cap special fund grants pending budget committee review.	
	Total Reductions	**$ 98,188**

PAYGO Budget Recommended Actions

		Funds	Positions
1.	Delete three new positions.	$ 119,485	3.0
	Total Reductions	**$ 119,485**	**3.0**

Budget Analysis

Program Description

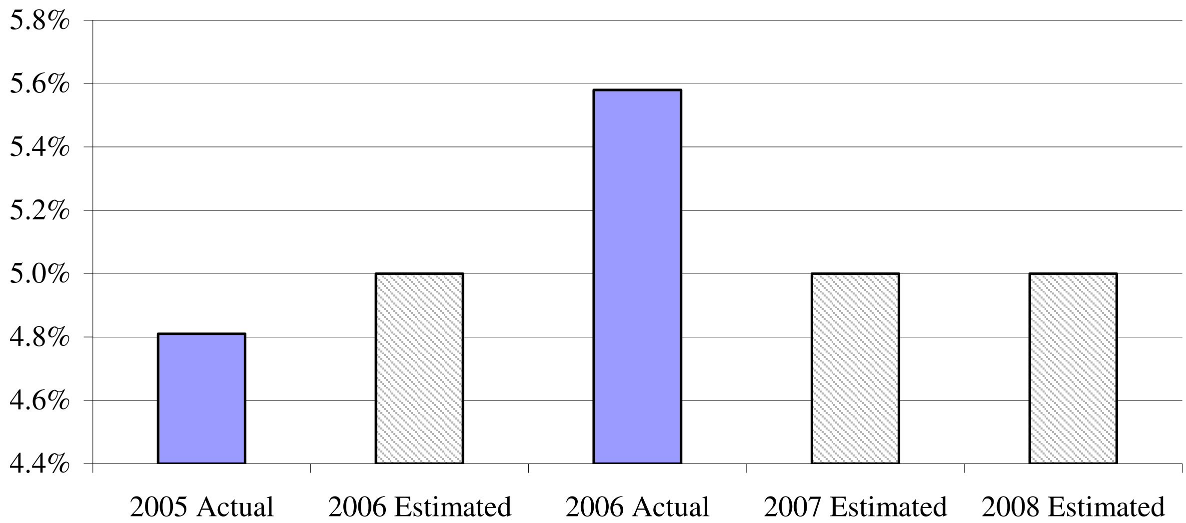
The Secretary's Office (TSO) provides overall policy direction and management to the Maryland Department of Transportation (MDOT). Units within the office provide support in the areas of finance, procurement, engineering, audits, administrative services, planning and capital programming, human resources, freight logistics, and Minority Business Enterprise 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 (OTTS) provides centralized computing, network, infrastructure, and general information technology (IT) services for MDOT. TSO also makes grants to various entities for transportation-related purposes.

Performance Analysis: Managing for Results (MFR)

TSO has the goal of achieving an average vacancy rate of 5.0% or less by the end of fiscal 2006. As shown in **Exhibit 1**, the department achieved the vacancy rate goal in fiscal 2005; however, the rate increased in fiscal 2006 to 5.6%. The number of long-term vacancies, or vacancies over 12 months decreased from 43 in July 2005 to 16 in June 2006. This indicates that while the agency was diligent in reducing the number of long-term vacancies, the department had difficulties filling short-term vacancies.

This difficulty in filling short-term vacancies is reflected in the department's goal of filling 65.0% of positions within 6 months of their vacate date. Once again this goal was achieved in fiscal 2005; however, in fiscal 2006 the number decreased to 62.4%**.**

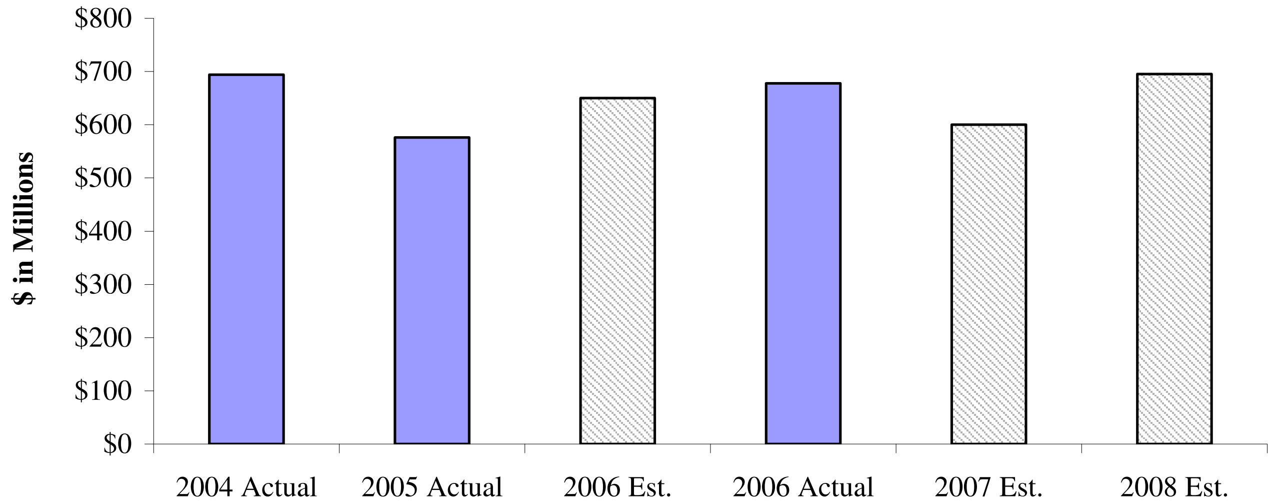
Exhibit 1
Departmentwide Vacancy Rate



Source: Maryland Department of Transportation

In addition, TSO has a number of goals to ensure the ongoing financial and operational success of the Transportation Trust Fund and the State's transportation network. Goal 2 of TSO's MFR submission is that system preservation needs to be adequately funded in the *Consolidated Transportation Program* (CTP) at $600 million in fiscal 2007. As seen in **Exhibit 2**, this goal was achieved with funding at $600 million in fiscal 2007 and $695 million estimated in fiscal 2008. As shown in the exhibit, the department has typically achieved its goal in relation to system preservation. However, it should be noted that the *Consolidated Transportation Program* shows system preservation funding at $746 in fiscal 2007 and $778 in fiscal 2008. The reason for the discrepancy is due to a timing issue from when the CTP is finalized and when MFR information is submitted.

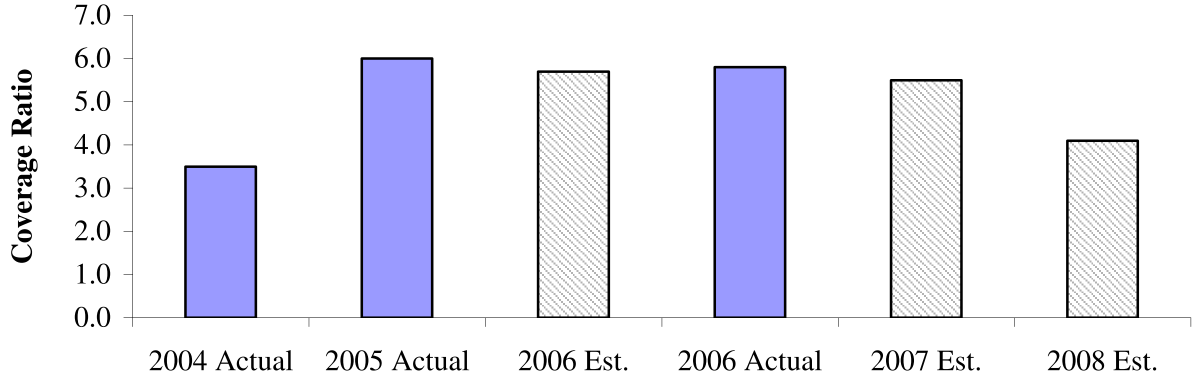
Exhibit 2
System Preservation Funding Levels
($ in Millions)



Source: Maryland Department of Transportation

Goal 3 in the TSO's MFR submission is to provide stable funding for transportation while remaining fiscally prudent. MDOT uses two debt service coverage tests for consolidated transportation bonds based on either pledged taxes, or net revenues to the Transportation Trust Fund. The agency must maintain at least 2.0 times coverage of maximum debt service per its bond agreements but uses an administrative level of 2.5. Since the pledged tax coverage rate is typically far above 2.0, the net revenues test is the limiting factor. **Exhibit 3** indicates that net revenues are sufficient to maintain a coverage ratio of 5.5 times in fiscal 2007 and is estimated to be 4.1 times in fiscal 2008. It should be noted that the forecast of revenues and expenditures for the Transportation Trust Fund indicate that the bond coverage ratio will be 5.8 times in fiscal 2007 and 3.8 times in fiscal 2008. The reason for the discrepancy is due to information not being updated in the final MFR submission.

Exhibit 3
Bond Coverage Ratio



Source: Maryland Department of Transportation

Governor's Proposed Budget

The Governor's proposed budget decreases by $2.9 million, or 3.7% compared to the fiscal 2007 working appropriation. Absent one-time actions relating to overbudgeted health insurance funds, the fiscal 2008 allowance increases $3.5 million or 4.9%. **Exhibit 4** provides a summary of the major changes in the Governor's fiscal 2008 allowance.

One-time Health Insurance Actions

The fiscal 2007 working appropriation includes a number of one time actions regarding overbudgeted health care funds that artificially inflate the working appropriation and depress the growth of the fiscal 2007 appropriation. Specifically, the Secretary's Office has overbudgeted funds for health insurance for fiscal 2007 from all the modes in its budget. These excess funds, totaling roughly $6.1 million, were restricted and to be used to fund the fiscal 2007 cost-of-living adjustment ($634,000) as well as being transferred to the dedicated purpose account for future retiree health insurance payments ($5.5 million). Further depressing the growth of the fiscal 2008 allowance is that funds for retiree health insurance for fiscal 2008 were not included in the allowance due to the existence of a large fund balance for the health insurance account resulting in a decrease of approximately $1.0 million from the working appropriation.

Exhibit 4
Governor's Proposed Budget
MDOT The Secretary's Office
($ in Thousands)

How Much It Grows:	Special Fund	Federal Fund	Total
2007 Working Appropriation	$67,762	$10,253	$78,016
2008 Governor's Allowance	65,444	9,684	75,128
Amount Change	-$2,319	-$569	-$2,888
Percent Change	-3.4%	-5.6%	-3.7%

Where It Goes:

Personnel Expenses	
Employee retirement system contribution	$405
Increments and other compensation	219
Reclassification for human resource positions within the Secretary's Office	145
Miscellaneous adjustments	126
Health insurance costs decline due to one-time savings	-6,949
Turnover adjustments	-642
Other fringe benefit adjustments	157
Executive Direction	
Increase for the purchase of 11 replacement vehicles	155
Increase in fee for administrative hearings per DBM instructions	151
Increase in payroll for contractuals due to addition of 1.5 positions	149
Increase due to MDOT's share of the operating and maintenance costs of eMaryland Marketplace	137
Increase in electricity costs per DBM instructions	121
Increase in legal consulting to implement environmental management system	100
Increase in payment to contract litigation unit for the Attorney General's Office	90
Increase in supplies and materials for MDOT headquarters	85
Increase in in-state and out-of-state travel for conferences	59
Decrease in debt service payments for MDOT headquarters	-205
Decrease in the contract for Washington Representative Services	-110
Operating Grants-in-aid	
Increase in funding to the Baltimore Metropolitan Planning Organization	170
Increase in funding for Washington Metropolitan Planning Organization	132

Where It Goes:

Office of Technology Services	
Increase in contracts to support, maintain, and enhance departmentwide IT network	2,286
Increase in maintenance agreement contract for terminal equipment	455
Increase for the leasing and acquisition of software	105
Decrease for DBM paid telecommunications	-243
Other Changes	
Other	14
Total	**-$2,888**

DBM: Department of Budget and Management

IT: Information Technology

MDOT: Maryland Department of Transportation

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

Executive Direction

The Executive Direction unit decreases by $5.5 million compared to the fiscal 2007 working appropriation; however, absent one-time health insurance actions, the budget grows approximately $0.6 million. Approximately $432,000 of this increase is due to personnel increases for the reclassification of human resource positions, increments, and other miscellaneous adjustments. Other increases include $155,000 for the purchase of 11 replacement vehicles, $151,000 due to increased fees associated with the Office of Administrative Hearings, $150,000 for the addition of 1.5 full-time equivalent positions and associated benefits, and $100,000 for legal support services for an environmental management system. These increases were offset by a $200,000 reduction in debt service payments for the new MDOT headquarters.

Operating Grants-in-aid

Operating grants-in-aid increase by $274,000, or 2.0% in the fiscal 2008 allowance, largely due to increased federal funds. **Exhibit 5** provides a summary of the amount of operating grants-in-aid, by special and federal funds, included in the fiscal 2008 allowance. The major increases are for the level of federal aid received by the Baltimore and Washington Metropolitan Planning Organizations (MPO).

Office of Transportation Technology Services

OTTS increases by a net of $2.3 million in fiscal 2008. Most of this increase ($2.3 million) is for labor costs in a recently negotiated contract, upgrades in hardware, and continued ongoing support and maintenance of MDOT's department information technology network. Other increases include $455,000 for an increase in the contract to maintain terminal equipment.

Exhibit 5
Recipients of Operating Grants-in-aid
Fiscal 2008

Grant Recipient	Special Funds	Federal Funds	Total Funds
Cumberland MPO	$11,518	$95,300	$106,818
Salisbury MPO	12,815	105,093	117,908
Hagerstown MPO	18,861	155,404	174,265
Baltimore MPO	624,643	5,227,007	5,851,650
Wilmington MPO	6,992	55,932	62,924
Washington MPO	496,697	4,045,404	4,542,101
Tri-County Planning Organization	55,000	0	55,000
DBED (to support the Appalachian Regional Commission)	57,468	0	57,468
Maryland Department of Planning	258,230	0	258,230
Payments In Lieu of Taxes	1,005,222	0	1,005,222
Pride of Baltimore	164,000	0	164,000
Baltimore City – Marine Fire Suppression Services	1,399,940	0	1,399,940
Grand Total	**$4,111,386**	**$9,684,140**	**$13,795,526**

DBED: Department of Business and Economic Development

MPO: Metropolitan Planning Organizations

Source: Maryland Department of Transportation

PAYGO Capital Program

Program Description

TSO's capital program has historically consisted of projects that support the preservation of MDOT's headquarters systems and 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 2007-2012 Consolidated Transportation Program

The fiscal 2008 allowance for the capital program in TSO totals $20.4 million. Most of the allowance funds system preservation as well as minor projects with the largest of these being the federally required transportation enhancement program which totals $8.3 million. Other large system preservation projects include:

- $3.7 million for consultant services for a number of legislatively mandated studies (MFR, Southern Maryland Transportation Study, Attainment Report, etc.); and
- $3.6 million for network hardware and software replacement costs.

Exhibit 6
Major Ongoing TSO Projects
($ in Millions)

Jurisdiction	Project Description	FY 2008	Total Project Costs
Baltimore and Washington, DC	Transportation Emissions Reduction Program	$3.6	$19.5
Statewide	System Preservation and Minor Projects	15.0	64.7
n/a	Capital Salaries, Wages, and Other Costs	1.8	11.1
n/a	Development and Evaluation	0.0	0.3
	Total	**$20.4**	**$95.6**

Source: Maryland Department of Transportation, 2007-2012 *Consolidated Transportation Program*

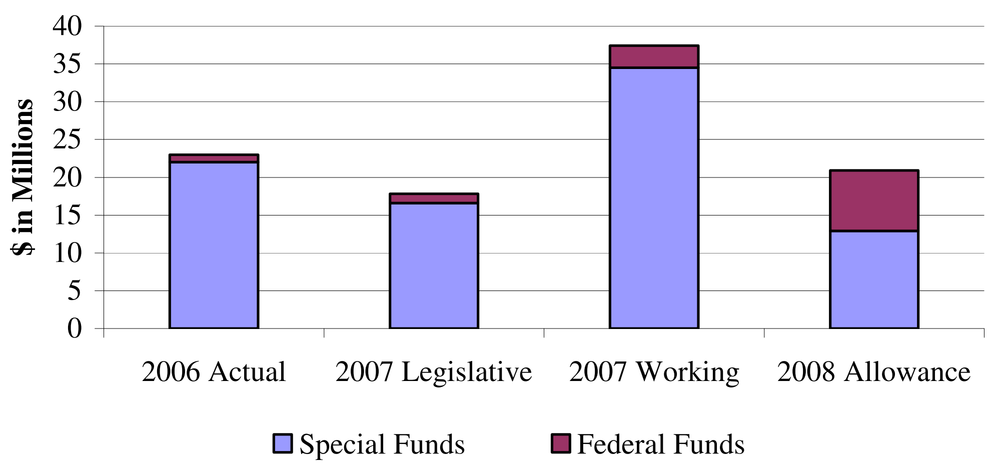
Fiscal 2007 and 2008 Cash Flow Analysis

The fiscal 2007 working appropriation increases $19.5 million compared to the legislative appropriation as indicated in **Exhibit 7**. The increase is due to cash flow changes in a number of system preservation projects and grants from fiscal 2006 that were carried over into fiscal 2007 and beyond.

The fiscal 2008 allowance is $17.0 million less than the fiscal 2007 working appropriation. This decrease is due to a number of system preservation and minor projects ending in fiscal 2007. These projects include:

- $5.7 million for a mainframe computer upgrade;
- $5.0 million for the Key Highway extension;
- $3.8 million for a Baltimore Rail study; and
- $3.3 million for payment to retain airline business at BWI Marshall Airport.

Exhibit 7
Cash Flow Changes
Fiscal 2007-2008



Source: Maryland Department of Transportation, 2007-2012 *Consolidated Transportation Program*

Operating Budget Issues

1. Performance Contracting

Over the last few years, the State has taken steps to better evaluate the outcomes produced by its programs. The Department of Budget and Management (DBM) is spearheading this effort through its Managing for Results initiative which attempts to link State spending to outcomes. DBM has required every agency to develop a mission, vision, key goals, objectives, and performance measures for each budgetary program. For the State's emphasis on results and accountability to be effective, it must permeate throughout the agency, as well as among vendors doing business on the State's behalf. Managers in public agencies and vendors delivering services on the State's behalf must be equally aware of the relevant goals and objectives and share responsibility for producing the desired outcomes. The best way to ensure that vendors focus on the State's objectives is to link payments or continuation of the contract to specific performance measures.

A majority of the contracts in the Secretary's Office are for IT related purposes. MDOT has its own computer server that is used by all of the modes and is budgeted in the Secretary's Office. The IT program is operated through a number of contracts with several IT firms who are responsible for the maintenance of the hardware as well as the various operating programs used by the department. The IT related contracts used by the department are typically multi-year commitments with a vendor to provide ongoing support to various IT products.

One tool the Secretary's Office may use to insure that performance meets or exceeds standards spelled out in each of the contracts is to implement performance contracting. Performance contracting provides financial incentives to the contractor to meet or exceed standards that are defined in the contract. IT related contracts, for the most part, are excellent candidates for performance contracting as there are clear deliverables that may be defined in the contract.

DLS reviewed each of the three IT contracts in the Secretary's Office over $1 million. In reviewing the contracts, DLS found that performance standards were defined in each of the contracts. There were also direct reporting and oversight requirements built into each of the contracts. These reporting requirements insure that the agency has control and understanding of how the contractor is performing in relation to the terms defined in the contract and meeting the needs of the department.

However, the contracts do not include any financial performance incentives. Managing for Results measures for the agency include that the network is available 99% of the time and that mainframe computers are available 98% of the time. In fiscal 2005 and 2006 each of these measures exceeded the MFR measure and essentially achieved 100% availability.

DLS recommends that the agency comment on the potential of performance contracting for IT related contracts across each of the modes.

PAYGO Capital Issues

1. What Is the State Center Project?

In the spring of 2006, the State announced a project to revitalize State Center in Baltimore City. State Center refers to an area of five buildings in mid-town Baltimore City, generally bordering Preston Street, that house a large number of State agencies. The complex is comprised of approximately 25-acres with close proximity to the State Center Metro stop and the Cultural Center light rail station. The city of Baltimore and the State are working together to "assess the opportunities to revitalize the State office complex through greater use of transit oriented development."

The Department of General Services (DGS), MDOT, and the Department of Planning (MDP), the entities responsible for the project, have identified a number of objectives for the project which include the development of financially viable projects using public/private sector funding sources; creation of new revenue sources for the public sector; an increase in transit ridership; and the provision of housing for a mix of incomes. The State Center project is to be integrated with other ongoing local redevelopment efforts including McCulloh Homes and Maryland General Hospital.

Timeline of Events

MDOT, DGS, MDP, and Baltimore City commissioned a preliminary visioning initiative with a planning team to review the potential of a transit-oriented development focusing on existing State-owned property adjacent to the State Center Metro station. In December 2004, the planning consultant team began to review the State Center area. Simultaneously a community input process was undertaken. This community feedback served as the basis for a five-day meeting amongst community leaders, government officials, and other stakeholders to develop alternative development concepts and scenarios.

Based upon these meetings, the consultant developed a potential development program covering 100 acres of land. This program included more than 3,000 new housing units, 1.2 million square feet of office/institutional space, 500,000 square feet of retail space, and a 200-room hotel. A draft *State Center Transit Oriented Development Strategy* was published in March 2005 which provided a framework for the long-term development of State-owned and surrounding properties. After this process was completed, a State Center Neighborhood Alliance was created with the support of the fortieth and forty-fourth district General Assembly delegations. The group has continued to meet on a monthly basis to discuss issues regarding the proposed redevelopment.

DGS in association with MDOT, MDP, city of Baltimore, and neighborhood stakeholders sought an experienced master developer of mixed use projects for the redevelopment of State Center. In September 2005, a request for qualifications was sent out to solicit and select a master developer. A master developer is defined as a development entity or entities with the capacity and demonstrated experience to acquire State-owned properties and handle all aspects of the development process. An evaluation panel selected a development team that is headed by Struever Brothers, Eccles, and Rouse with several other entities partnering together.

Issues

Language in the fiscal 2007 budget requested a report that would address a number of issues regarding the proposed State Center development. The following is a summary of those responses:

Future Ownership: The proposed State Center development includes a number of private activities which fall outside the mission of government. As such, there is a question regarding the future ownership of the State Center complex. DGS has commissioned a report from the Staubach Company to assess the market and other issues that affect future State tenancy in the complex. DGS is also working with a development analyst to determine how best to "relife" the 300 and 301 West Preston Street buildings. Given that the development team is in the early phases of due diligence there has been no determination regarding the ownership of the State Center complex.

Impact on State Agencies: The redevelopment of State Center will have an impact on State agencies. The report indicates that the development will result in either renovation of existing space in the complex or relocating new office space in new buildings. In either case, the new office environment will offer more modernized office space and facilities. Once again, the process is not far enough along where specific agencies that may be impacted can be identified. However, it is anticipated that existing State agencies will remain in the complex. Part of the development process will entail determining the location of State agencies during redevelopment. In addition, the construction of the Department of Health and Mental Hygiene lab has been deferred until fiscal 2012. The current lab at of 201 Preston Street must remain in operation until the new facility is completed. This will delay the State Center project.

Potential Cost to the State: One concern is how much of the cost of this project will be borne by the State. A task order issued by DGS to the Stuabach company estimated that the total project could cost $740 million. The report indicates that until a final development plan and Master Development Agreement are completed, the cost of the project to the State is unknown.

Impact of the Project: The report indicates that the development project will likely increase the city's tax base due to major improvements on land previously owned by the State. In addition, the local neighborhoods are quite interested in the impact the development could have in redeveloping and revitalizing the surrounding neighborhood.

Conclusion

It is anticipated that a Master Development Agreement will not be completed until the summer of 2008, which will then be subject to approval by the Board of Public Works. Based upon the report submitted, the development plan is still in the initial phase and as such there is little information regarding what the potential impacts of the project may be. Given the size of the project and the potential impact on State agencies, **the Department of Legislative Services (DLS) recommends that committee narrative be added that would require a report be submitted regarding the status of the State Center project similar to the report that was requested last year so that the committees may be made aware of any potential State obligations regarding the project. The report should address the impact of the delayed construction of the new State lab.**

Operating Budget Recommended Actions

		Amount Reduction	
1.	Reduce funds for the purchase of replacement sedans. This reduction allows for the purchase of four replacement sedans and an increase of $19,572 over the fiscal 2006 actual expenditure. The remaining vehicle purchases can be deferred because they will not meet the 100,000 mile vehicle replacement policy of the Department of Budget and Management in fiscal 2008.	$ 36,781	SF
2.	Reduce funds for the purchase of LTVs. This reduction allows for the purchase of two replacement vehicles and is an increase of $31,282 over the fiscal 2006 actual expenditure.	31,282	SF
3.	Reduce funds for out-of-state travel. The allowance provides for an increase of $21,525, or 32% compared to the fiscal 2007 working appropriation. This reduction allows for an increase of $5,150, or 8% in out-of-state travel.	16,375	SF
4.	Reduce funds for in-state conferences. The allowance for in-state travel increases by $20,190 or 42.1%. This reduction provides for a $6,440 increase or 13.4% and more accurately reflects historical expenditures.	13,750	SF

5. Adopt the following narrative:

State Center Report: The budget committees request that the Maryland Department of Transportation, working with the Department of General Services (DGS), submit a report that explains the short- and long-term plan for the redevelopment of State Center in Baltimore City. The report should include information regarding the future ownership of the State Center complex, the State agencies that will be impacted by the redevelopment of State Center and how they will be impacted, estimated redevelopment and other ancillary costs to the State for the proposed redevelopment, and an assessment of the impact that this proposed redevelopment project will have on Baltimore City and State operations in general. The report shall be submitted to the budget committees by November 17, 2007. The report shall also discuss what impact delaying construction of the current State lab will have on the development of State Center.

Information Request	Authors	Due Date
Report on State Center development	MDOT DGS	November 17, 2007

6. Add the following language to the special fund appropriation:

, provided that no more than $4,111,386 of this appropriation may be expended for operating grants-in-aid, except for:

(1) any additional special funds necessary to match unanticipated federal fund attainments; or

(2) any proposed increase either to provide funds for a new grantee or to expand funds for an existing grantee; and

Further provided that no expenditures in excess of $4,111,386 may occur unless 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.

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 to 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 **$ 98,188**

PAYGO Budget Recommended Actions

		Amount Reduction		Position Reduction
1.	Delete three new regular positions. The Secretary's Office (TSO) capital budget includes three new positions to implement a department environmental management system. Currently TSO has a vacancy rate of 10.87% with five positions that have been vacant over a year. Consistent with the Spending Affordability Committee recommendation of not adding new positions to agency's with a vacancy rate over 8%, the department can reclassify existing vacant positions from across TSO rather than add three new positions.	$ 119,485	SF	3.0
	Total Special Fund Reductions	**$ 119,485**		**3.0**

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets

The Secretary's Office
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2006					
Legislative Appropriation	$0	$58,727	$7,008	$0	$65,735
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	1,819	730	0	2,549
Reversions and Cancellations	0	-1,121	-2,635	0	-3,756
Actual Expenditures	**$0**	**$59,425**	**$5,103**	**$0**	**$64,528**
Fiscal 2007					
Legislative Appropriation	$0	$67,331	10,254	$0	$77,585
Budget Amendments	0	431	0	0	431
Working Appropriation	**$0**	**$67,762**	**$10,254**	**$0**	**$78,016**

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

Fiscal 2006

Fiscal 2006 actual expenditures for TSO totaled $64,528,053, $1,206,532 million less than the legislative appropriation of $65,734,585.

Special funds increased by a net of $698,144 with a $1,819,206 increase through budget amendments and $1,121,062 million in cancellations. The amendments included the following:

- $471,464 to consolidate all telecommunication costs for each mode under TSO;
- $421,479 to reallocate funds related to positions transfers after the budget submission;
- $362,359 to fund increased costs related to health insurance;
- $302,423 to fund the 1.5% cost-of-living adjustment for State employees in fiscal 2006;
- $199,981 for operating grants-in-aid to fund the Baltimore City Marine Fire Suppression Grant, Maryland Department of Planning, and a payment in lieu of taxes for the World Trade Center;
- $61,500 due to a contract increase for professional auditing services.

Special fund cancellations totaled $1,121,062 and were the result of $1,068,677 being cancelled due to prior year accruals being too high for metropolitan planning organizations and payments in lieu of taxes. In addition $52,385 was cancelled due to actual health insurance expenditures being less than budgeted.

Federal funds decreased by a net $1,904,676 with an increase of $730,000 in budget amendments and cancellations of $2,634,676. The budget amendment increase of $730,000 is due to increased federal aid from the federal transportation authorization for metropolitan planning organizations. Cancellations totaling $2,634,676 resulted from metropolitan organizations not expending all available federal funds which can be carried over to later fiscal years.

Fiscal 2007

The fiscal 2007 legislative appropriation for special funds increased $431,232 for the transfer of funds from the Department of Budget and Management for the cost-of-living adjustment and other salary benefits provided for in the fiscal 2007 budget.

Appendix 2

Audit Findings

Audit Period for Last Audit:	June 30, 2003 – June 30, 2005
Issue Date:	July, 2006
Number of Findings:	8
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

Finding 1: The office did not conduct audits of the Washington Area Metropolitan Transit Authority (WMATA) expenditures or obtain internal audits performed by WMATA.

Finding 2: The office did not adequately monitor WMATA's use of State funds for the construction of the Metrorail extension.

Finding 3: Credit for certain interest earnings, totaling at least $6.5 million, was not received as required.

Finding 4: Severance and compensatory leave payments to senior-level employees were not always made in accordance with established policy or State regulations.

Finding 5: The office did not adequately procure information technology equipment and services and obtain certain supporting documentation.

Finding 6: The office did not adequately monitor grant disbursements and ensure that grantees complied with all reporting requirements.

Finding 7: The office did not receive certain loan repayments and had not established adequate control over its collections.

Finding 8: Approximately $1.6 million was incorrectly accrued rather than reverted to the Transportation Trust Fund.

Object/Fund Difference Report
MDOT The Secretary's Office

Object/Fund	FY06 Actual	FY07 Working Appropriation	FY08 Allowance	FY07-FY08 Amount Change	Percent Change
Positions					
01 Regular	317.00	316.00	316.00	0	0%
02 Contractual	4.46	3.50	5.00	1.50	42.9%
Total Positions	**321.46**	**319.50**	**321.00**	**1.50**	**0.5%**
Objects					
01 Salaries and Wages	$ 23,063,607	$ 30,982,086	$ 24,441,467	-$ 6,540,619	-21.1%
02 Technical and Spec Fees	705,270	209,881	455,854	245,973	117.2%
03 Communication	1,015,644	1,396,354	1,126,797	-269,557	-19.3%
04 Travel	262,697	411,960	470,750	58,790	14.3%
06 Fuel and Utilities	272,125	287,530	383,935	96,405	33.5%
07 Motor Vehicles	107,093	74,428	243,706	169,278	227.4%
08 Contractual Services	26,888,559	27,280,717	30,482,761	3,202,044	11.7%
09 Supplies and Materials	344,287	265,559	351,045	85,486	32.2%
10 Equip – Replacement	22,550	9,500	14,330	4,830	50.8%
11 Equip – Additional	165,100	26,897	31,500	4,603	17.1%
12 Grants, Subsidies, and Contributions	8,366,909	13,547,355	13,821,276	273,921	2.0%
13 Fixed Charges	3,314,212	3,523,506	3,304,497	-219,009	-6.2%
Total Objects	**$ 64,528,053**	**$ 78,015,773**	**$ 75,127,918**	**-$ 2,887,855**	**-3.7%**
Funds					
03 Special Fund	$ 59,424,836	$ 67,762,301	$ 65,443,778	-$ 2,318,523	-3.4%
05 Federal Fund	5,103,217	10,253,472	9,684,140	-569,332	-5.6%
Total Funds	**$ 64,528,053**	**$ 78,015,773**	**$ 75,127,918**	**-$ 2,887,855**	**-3.7%**

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

Appendix 3

Fiscal Summary
MDOT The Secretary's Office

Program/Unit	FY06 Actual	FY07 Wrk Approp	FY08 Allowance	Change	FY07-FY08 % Change
01 Executive Direction	$ 22,702,308	$ 29,867,158	$ 24,406,814	-$ 5,460,344	-18.3%
02 Operating Grants-in-aid	8,350,007	13,521,605	13,795,526	273,921	2.0%
03 Facilities and Capital Equipment	22,776,969	36,453,195	19,725,758	-16,727,437	-45.9%
07 Office of Transportation Technology Services	33,475,738	34,627,010	36,925,578	2,298,568	6.6%
08 Major IT Development Projects	87,638	900,000	637,000	-263,000	-29.2%
Total Expenditures	**$ 87,392,660**	**$ 115,368,968**	**$ 95,490,676**	**-$ 19,878,292**	**-17.2%**
Special Fund	$ 81,466,058	$ 102,270,496	$ 78,311,536	-$ 23,958,960	-23.4%
Federal Fund	5,926,602	13,098,472	17,179,140	4,080,668	31.2%
Total Appropriations	**$ 87,392,660**	**$ 115,368,968**	**$ 95,490,676**	**-$ 19,878,292**	**-17.2%**

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

Appendix 5

Budget Amendments for Fiscal 2007

Maryland Department of Transportation
The Secretary's Office – Operating

Status	Amendment	Fund	Justification
Pending	$431,233	Special	This amendment funds the cost-of-living adjustment granted to all eligible State employees.

Source: Maryland Department of Transportation

Appendix 6

Budget Amendments for Fiscal 2007

Maryland Department of Transportation
The Secretary's Office – Capital

Status	Amendment	Fund	Justification
Pending	$27,325	Special	This amendment funds the cost-of-living adjustment granted to all eligible State employees.
Projected	$17,843,000	Special	Adjusts the amended appropriation to agree with the anticipated expenditures for the current year as reflected in the fiscal 2007-2012 final CTP.
	1,645,000	Federal	
	$19,488,000		

Source: Maryland Department of Transportation