

An Interim Report to the Governor and  
Maryland General Assembly

by the

Blue Ribbon Commission on Transportation Funding

(SB 229/HB 710, Chapters 525 & 526,  
2010 Laws of Maryland)



January 1, 2011

The Maryland Department of Transportation

## Introduction

The 2010 legislature of the Maryland General Assembly adopted, and Governor O’Malley signed into law, SB 229/HB 710, Chapters 525 and 526, 2010 Laws of Maryland, which establishes a Blue Ribbon Commission on Transportation Funding (Commission) and requires an interim report of its findings and recommendations on or before January 1, 2011 to the Governor and, subject to § 2–1246 of the State Government Article, the General Assembly. Specifically, this law requires that the Commission shall review, evaluate, and make recommendations concerning:

- (1) the current State funding sources and structure of the Maryland Transportation Trust Fund;*
- (2) short- and long-term transit construction and maintenance funding needs;*
- (3) short- and long-term highway construction and maintenance funding needs;*
- (4) short- and long-term pedestrian and bicycle facility construction and maintenance funding needs;*
- (5) options for public-private partnerships, including partnerships with local governments, to meet transportation funding needs;*
- (6) the structure of regional transportation authorities and the ability of these authorities to meet transportation needs in various regions of the State;*
- (7) the impact of economic development and smart growth on transportation funding; and*
- (8) options for sustainable, long-term revenue sources for transportation.*

## Blue Ribbon Commission Membership

The Blue Ribbon Commission is a twenty-eight (28) member Commission representing various transportation, environment and economic interests from around the State of Maryland, as required by law and outlined in the table below. Governor O’Malley appointed Mr. Gus Bauman as Chairman of the Commission and the Maryland Department of Transportation (MDOT) provides staff support.

<b>Legislative Membership Requirements</b>	<b>Name</b>
Washington Metropolitan Area Transit Authority (1)	Elizabeth “Betty” Hewlett
Business Community; two of whom represent statewide or regional organizations (3)	Gus Bauman (Chair)
	Donald C. Fry
	Mark Friis
Transit Community (2)	Michele Whelley
	Gary Messman
Environmental Community; one of whom with a background in Smart Growth (2)	Robert J. Etgen
	Fred Tutman
American Automobile Association (1)	Lon Anderson
Freight Rail Industry (1)	Jennifer W. Macdonald
Motor Carrier Industry (1)	Don Bowman
Maryland Association of Counties (2)	Ken Ulman

<b>Legislative Membership Requirements</b>	<b>Name</b>
	Edith Patterson
Transportation Construction Industry (1)	Stella May Miller
Maryland Municipal League (2)	Judith F. Davis
	Diane Foster
Labor Unions (2)	Jackie Jeter
	Dennis Martire
Rural Areas of the State (2)	Sharon Clark
	Monty Pagenhardt
Senators (2)	Robert Garagiola
	Nathaniel McFadden
Delegates (2)	Tawanna P. Gaines
	Carolyn J. B. Howard
Secretary of Transportation	Beverley Swaim-Staley
Secretary of Budget and Management	T. Eloise Foster
Secretary of Business and Economic Development	Christian S. Johansson
Secretary of Planning	Richard E. Hall

## Background

Chapter 526 was approved by the 2010 Maryland General Assembly and the law took effect July 1, 2010 and will be in effect for a period of two years, through June 30, 2012. The law requires an interim report to the Governor and General Assembly on or before January 1, 2011. A final report of the Commission's findings and recommendations is due to the Governor and General Assembly on or before November 1, 2011. All meeting details and other information regarding the Blue Ribbon Commission are posted on the MDOT web site ([www.mdot.maryland.gov/planning/BRC](http://www.mdot.maryland.gov/planning/BRC)).

## Overview of Commission Activities

Since the Blue Ribbon Commission on Maryland Transportation Funding was established on July 1, 2010, the Commission has held four meetings, beginning with the inaugural meeting on September 27, 2010. As of the submittal of this Interim Report, the Commission has been active for approximately three months.

Over the course of its initial deliberations, the Commission has had the opportunity to hear from various State officials and outside experts on subject matters directly relevant to its charge. The Commission meetings have enabled significant knowledge transfer to the members as well as occasions for more in-depth discussion. Additionally, the Commission has been provided with background reading and follow-up material as requested in the course of the deliberations. These materials can be found on the Blue Ribbon Commission web site (<http://www.mdot.maryland.gov/planning/BRC>).

## The Challenge to the Commission

Over recent years, due to the State's financial actions, the Transportation Trust Fund has been effectively depleted. In order to maintain the State's economic viability and business competitiveness, it is essential that the Fund be replenished and protected if Maryland is to have a first-rate highway, road, and transit system for its people and for its economy to grow.

## Key Themes of the Presentations to the Commission

Following is a review of the key themes addressed in presentations made before the Commission in its early deliberations and a synopsis of preliminary discussions.

### **Maryland's Approach to Provision of Transportation Projects and Services**

#### ***Maryland Transportation Planning Overview***

- Maryland's transportation program is driven by a series of short- and long-term plans.
- Critical issues to address in Maryland transportation planning include: transportation system safety; passenger and freight mobility and accessibility; growth and economic development; congestion and demand management; and environmental impacts such as water and air quality.

#### ***Roles, Responsibilities, Emerging Issues of Modal Administrations***

- Maryland Aviation Administration – Security changes as a result of December 25<sup>th</sup> terrorist act, uncertainty of federal funding, and fuel cost.
- Maryland Port Administration – competing ports, shifts in trade patterns created by improvements to the Panama Canal, dredged material placement options and capacity, maintaining market share, continuing green port initiatives, and public-private partnerships.
- Maryland Transit Administration – expansion of rail transit network, role of economy on ridership, growth of mandated paratransit services, MARC capacity and reliability, safety and security mandates, customer information enhancements, northeast corridor passenger rail improvements.
- Motor Vehicle Administration – implementation of federal mandates, increasing usage of alternate delivery channels, maintaining customer visit time, and antiquated information technology infrastructure.
- State Highway Administration – targeted traffic safety programs, asset management, managing increasing congestion, facilitating rapid growth in freight, sustainability/climate change, and increased customer service expectations.
- Maryland Transportation Authority – lower growth in traffic volumes, growing system preservation costs, congestion management pricing more common, all electronic tolling becoming industry norm, and environmental stewardship and sustainability.
- Washington Metropolitan Area Transit Authority – safety as priority, maintaining the system in a state of good repair, meeting the increasing demand for service – ridership growth, transit oriented development, and Metro's image.

## **Transportation Funding – In Maryland and Nationally**

### ***Maryland Transportation Funding Overview***

- While modeled after the U.S. Department of Transportation, MDOT is relatively unique nationally in its broad organizational structure and scope of responsibilities.
- Transportation funding is structured through the Transportation Trust Fund and the Transportation Authority Fund.
- The Transportation Trust Fund receives funding from motor fuel tax, motor vehicle titling tax, corporate income tax, rental vehicle sales tax, sales and use tax, operating revenues from transit, port, and aviation fares and fees, federal funds, and various other income sources.
- Since the creation of MDOT and the Transportation Trust Fund in 1971, there have been limited increases to the tax rates and fee levels that contribute to the Transportation Trust Fund.
- All MDOT expenditures are made through the Transportation Trust Fund, including for debt service, operating costs, the capital program, and support to local governments.
- Historically, transfers between the Transportation Trust Fund and the General Fund have occurred. Transfers from the local government portion of the Transportation Trust Fund to the General Fund also have been made, totaling \$947.4 million.
- The Transportation Authority Fund is funded with toll revenues with toll rates being increased on certain facilities in 2001, 2003, and 2009.
- Both the Transportation Trust Fund and the Transportation Authority Fund are supported by bonding programs.

### ***Overview of Local Government Role in Provision of Transportation and Funding Sources for Transportation in Maryland***

- In the last two years, 95 percent of the Highway User Revenues that the State provides to local governments have been cut.
- Sources of revenue available to local government are limited, especially for municipalities, and authority from the State is required to levy new taxes or fees.
- Local options for addressing transportation needs, such as tax increment financing (TIF) and transportation impact fees, are somewhat constrained due to the economic downturn as well as the upfront and ongoing costs related to the complex nature of administering such funding approaches.

### ***Federal Transportation Funding Trends***

- National funding for transportation is at a crossroads – national transportation funding is operating on short-term extensions and the Highway Trust Fund is projected to become insolvent by FY 2013.
- Congress and the Administration face difficult choices, with long-term proposals unclear at this time.
- Federal transportation funding levels in the short-term will likely be substantially less than in previous years, adding pressure to states to meet transportation needs.
- Costs of preservation of existing system are significant and some new capacity is necessary for demographic realities and for economic health.

- Difference between funding and financing – i.e., *both* underlying revenue sources and mechanisms to leverage those revenues key to solving the problem; finance mechanisms alone are not sufficient.
- Maryland will be affected by these national funding choices; but states should not “wait for the Feds,” as states will likely need to lead the way.

#### ***Overview of Transportation Funding Approaches by Other States***

- Nationally, states fund approximately 40 percent of surface transportation costs, local governments and transit agencies 35 percent, and the federal government holds a minority share at just over 20 percent.
- State revenue approaches, implemented to varying degrees by states, include motor fuel excise taxes, sales tax on motor fuel, petroleum franchise or business taxes, vehicle registration and license fees, vehicle personal property taxes, excise tax on vehicle sales, tolls, transit fees, container fees, customs duties, portions of state sales tax, miscellaneous taxes and fees (lottery, cigarette, room tax, rental car fees), and general revenues, among others.
- States take a variety of approaches to funding transportation that include unique packages of revenues and debt issuances practices.
- Twenty-one states have Transportation Trust Funds, 31 have Highway Trust Funds, and 7 have both.
- In FY 2010, 21 states implemented transportation general fund spending cuts, indicative of the economic downturn.

#### **Economics of Transportation**

##### ***National Perspective on the Economics of Transportation***

- There is a high economic value of protecting infrastructure investments, recognizing strategic value of federal and state investments, and their economic development consequences.
- International gateways and intermodal facilities are strategic assets and ground access to and among them is critical.
- Congestion and reliability are becoming increasingly important considerations in business competitiveness.

##### ***Movement of People***

- Connecting people to work necessitates the understanding of work schedules of industries.
- Employers seek employees that are ‘ready to work’ meaning not only that they have the skills but at least as importantly that they can get to work reliably on time and are able to take care of personal appointments outside of work hours.
- While the majority of commuters do so by car, commuters express interest in commuting by public transportation. Employers are working to facilitate this as an option through the provision of shuttle bus services from train and bus terminals.

### **Logistics, Goods & Services Movement**

- Reliability of the supply chain is a critical component for industrial and business success.
- Delays in transportation cost Maryland businesses significantly. Reliable transportation is noted as being a critical component to business location decisions and ongoing success.
- As a result of statewide growth in freight intensive industries, and corresponding growth across the country, the tonnage of freight transported into, out of, within, and through Maryland is estimated to increase by about 105 percent by 2035, comprising about 1.4 billion total tons.
- Projected economic growth in the State and throughout the nation will lead to increased freight traffic and a corresponding acceleration of road and bridge infrastructure deterioration, a worsening of congestion, and heightened safety and community livability concerns. As congestion increases on key freight corridors, shippers, carriers, and logistics providers will shift to alternate routes, directly affecting mobility for both people and goods – and indirectly, jobs - statewide.
- Improving intermodal freight movement that provides economic and environmental benefits, especially shifts from truck to rail or water for longer haul movements, should be encouraged.

### **The Environment and Transportation**

#### ***The Social Environment – Smart Growth and Transportation Funding/Investment in Maryland***

- Projected growth in population, jobs, and households will necessitate an approach to development that preserves resources and saves transportation dollars.
- Currently, over 70 percent of Maryland commuters drive alone and, more generally, vehicle miles traveled growth is outpacing population growth.
- Through “smart growth”, driving rates and distances decline, thereby demanding less of the transportation system.

#### ***The Natural Environment – Air and Water Pollution in Maryland Related to Transportation***

- Ozone, particulate matter and greenhouse gases are the primary air pollutants of concern in Maryland (45 percent of ozone, 33 percent of particulate matter, and
- 33 percent of greenhouse gas pollution are attributable to the transportation sector in the State).
- Maryland’s primary water pollution concern is protecting the Chesapeake Bay and land use is critical to water protection. Maryland will soon face mandatory requirements and the potential for withholding of federal funding if reduction targets are not met.
- Pollution from the lack of water quality controls on existing stormwater and septic systems is significant and requires extensive action to address. Investments in public transportation can be important elements of a strategy to reduce air pollution.
- Large costs are expected to be associated with retrofitting existing development to reduce water pollution associated with stormwater runoff.

## Preliminary Conclusions from Presentations and Next Steps

Although very early in the Commission's deliberations, from the presentations made to date, it is clear we face a fiscal crisis in our State transportation system. This crisis is producing profound negative effects on mobility, not just at the State level but also at the local level. Presentations by a wide range of national, State, and local experts reveal that inadequate state and federal funding and periodic manipulation of the State's Transportation Trust Fund is having severe impacts on system performance as well as any hopes for new transportation system capacity for Maryland's people and economy. The federal government is concurrently addressing difficult choices with regard to transportation funding and long-term proposals are unclear. A range of proposals warrant consideration, including replenishing and protecting the Transportation Trust Fund and innovative and strategic approaches that will further long-term mobility goals. The Blue Ribbon Commission will soon complete its information gathering and then move into full deliberation in order to make its recommendations.

Over the next 10 months, the Commission anticipates responding to the remaining elements of Chapters 525 and 526, holding work sessions to discuss transportation funding strategies with the Commission members and allowing for public input at key points in the process. The following is a summary of what has been presented to the Commission to date and the 2011 Commission work plan with key activities highlighted.

<b>Blue Ribbon Commission Work Plan</b>		
<b>TOPICS COVERED IN 2010 ('YEAR ONE')</b>		
Meeting #1	September 27, 2010	Current State funding sources and structure of the Maryland Transportation Trust Fund
Meeting #2	October 18, 2010	Relationship of transportation and the economy
Meeting #3	November 15, 2010	<ul style="list-style-type: none"> <li>• Relationship of transportation and the environment</li> <li>• Overview on federal funding</li> <li>• Overview of other State funding</li> </ul>
Meeting #4	December 14, 2010	<ul style="list-style-type: none"> <li>• Local government transportation funding needs and opportunities</li> <li>• History of Transportation Trust Fund increases and transfers</li> <li>• Review of Interim Report and Draft 'Year Two' Work Plan</li> </ul>
<b>TOPICS TO BE COVERED IN 2011 ('YEAR TWO')</b>		
<ul style="list-style-type: none"> <li>• Growth policy issues and impact on transportation funding</li> <li>• Uses of Transportation Trust Fund and Transportation Authority Fund dollars today and in the future, including cost saving opportunities, Public-private partnerships, Public-public partnerships, and value capture opportunities</li> <li>• Structure of regional transportation authorities and their ability to meet needs</li> <li>• Options for sustainable, long-term revenue sources for Maryland transportation</li> <li>• Finance mechanisms and opportunities to leverage available funding</li> </ul>		