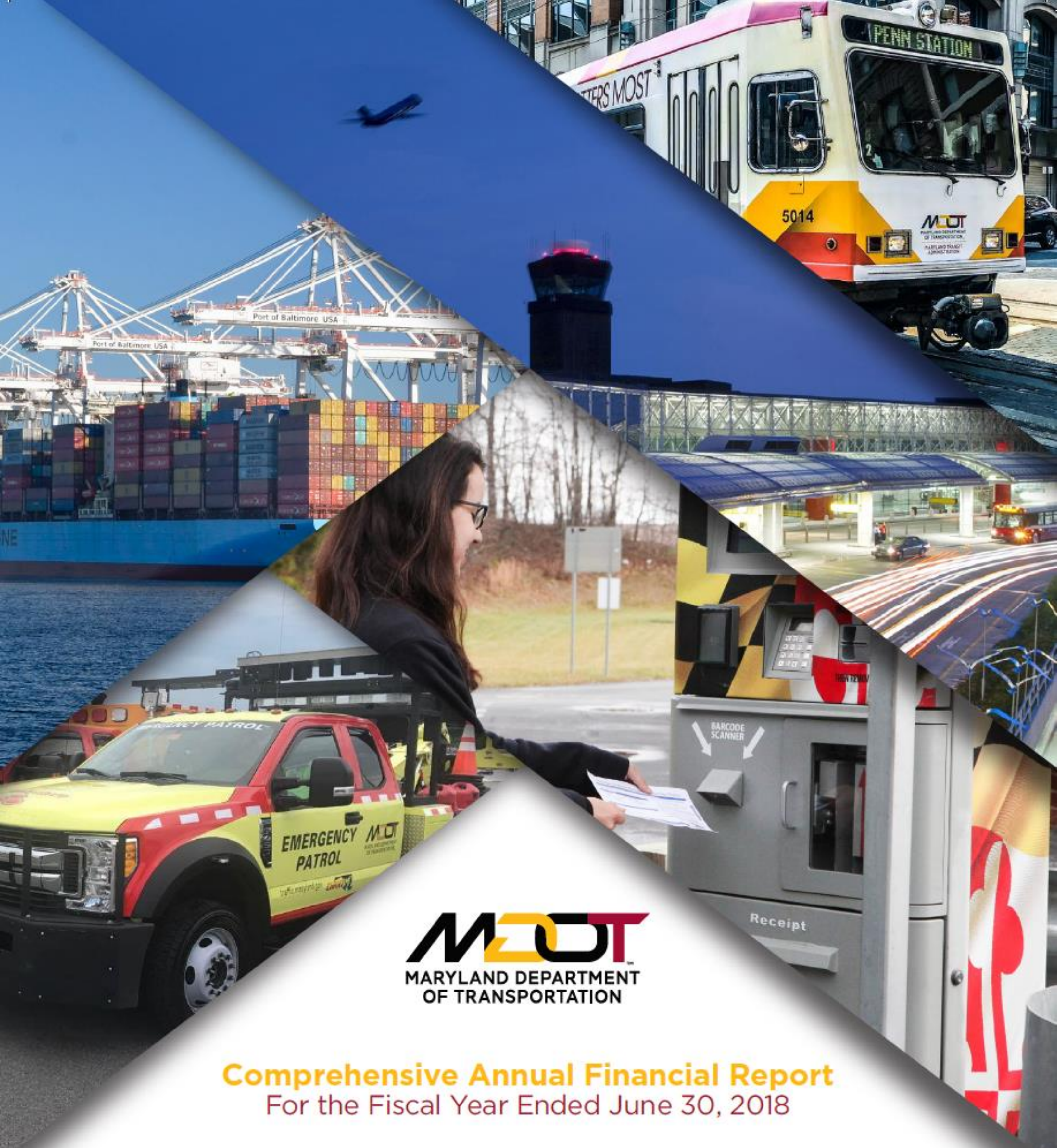
MARYLAND DEPARTMENT OF TRANSPORTATION

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2018

Larry Hogan, Governor
Boyd K. Rutherford, Lt. Governor • Pete K. Rahn, Secretary



MARYLAND DEPARTMENT
OF TRANSPORTATION

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

Prepared by the Secretary's Office – Office of Finance

Jaclyn Hartman, Director/CFO
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MARYLAND DEPARTMENT OF TRANSPORTATION

Mission

The Maryland Department of Transportation is a customer-driven leader that delivers safe, sustainable, intelligent and exceptional transportation solutions in order to connect our customers to life's opportunities.

Vision

The Maryland Department of Transportation strives to achieve our vision of a world class multimodal transportation system that supports a vibrant economy and an excellent quality of life for all Marylanders.

Goals

- Safety & Security-Enhance the safety of transportation system
- System Preservation-Preserve and maintain the State's existing transportation infrastructure and assets
- Quality of Service-Maintain and enhance the quality of the service experienced by users of Maryland's transportation system
- Environmental Stewardship-Ensure the delivery of the State's transportation infrastructure program conserves and enhances Maryland's natural, historical and cultural resources
- Community Vitality-Provide options for the movement of people and goods that support communities and quality of life
- Economic Prosperity-Support a healthy and competitive Maryland economy

MARYLAND DEPARTMENT OF TRANSPORTATION
A Department of the STATE OF MARYLAND
Comprehensive Annual Financial Report
For the Year Ended June 30, 2018

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INTRODUCTORY SECTION

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MARYLAND DEPARTMENT OF TRANSPORTATION

Larry Hogan
Governor
Boyd K. Rutherford
Lt. Governor
Pete K. Rahn
Secretary

December 13, 2018

Pete K. Rahn
Secretary
Maryland Department of Transportation
7201 Corporate Center Drive
Hanover, MD 21076

Dear Secretary Rahn:

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Maryland Department of Transportation (Department) for the fiscal year ended June 30, 2018, which includes the financial statements of the Department. The data, as presented, is reported in a manner designed to present fairly the financial position and changes in financial position of the Department. All disclosures necessary to enable the reader to gain a maximum understanding of the Department's financial affairs have been included. This CAFR is a complete set of financial statements presented in conformity with accounting principles generally accepted (GAAP) in the United States of America and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the Department. Consequently, management assumes full responsibility for the completeness and reliability of all information presented within this report. To provide a reasonable basis for making these representations, the Department's management has established a comprehensive internal control framework designed to protect the Department's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Department's financial statements in conformity with GAAP. Since the cost of internal controls should not outweigh their benefits, the Department's comprehensive framework of internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert to the best of our knowledge and belief, that this financial report is complete and reliable in all material respects.

The Department, in conjunction with the State of Maryland (State), requires an audit of the Department's basic financial statements by a firm of licensed certified public accountants. The Department has complied with this requirement, and the independent audit report of SB & Company, LLC is presented on page 25 of this report. The goal of the independent audit is to provide reasonable assurance that the Department's financial statements for the fiscal year ended June 30, 2018, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; evaluating the key internal controls and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Department's basic financial statements as of and for the fiscal year ended June 30, 2018, are fairly presented in conformity with GAAP.

The independent audit of the Department's basic financial statements is part of a broader, federally mandated "Single Audit" designed to meet the special needs of the federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the basic financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the State of Maryland's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Department's MD&A can be found on page 28 of this report.

Profile of the Maryland Department of Transportation

The Department has the responsibility for most State-owned transportation facilities and programs. This responsibility includes the planning, financing, construction, operation and maintenance of various modes of transportation and effecting various related licensing and administrative functions. Through its transportation infrastructure that allows drivers and freight to traverse the State by road, rail, ship, and air, and its driver and vehicle licensing services, the Department touches the lives of Marylanders every day. An efficient transportation system directly impacts the viability of a region as a place that people want to live, work, and raise families, which is critical to attracting and retaining a competitive workforce and providing businesses with a competitive advantage.

The Department includes the Secretary's Office (TSO), which provides overall policy direction, guidance, and support to the Department's five business units and one authority: the Maryland Aviation Administration (MAA), the Maryland Port Administration (MPA), the Maryland Transit Administration (MTA), the Motor Vehicle Administration (MVA), the State Highway Administration (SHA), and the Maryland Transportation Authority (MDTA). In addition, Maryland's share of funding for the Washington Metropolitan Area Transit Authority (WMATA) is paid through the Department. (Note: The MDTA and

WMATA are separate entities with separate fiscal operations and management and are not financially accountable to the Department. Both entities are excluded from the Department's financial statements and produce their own financial statements.) WMATA is the tri-jurisdictional agency that operates transit service in the Washington DC metropolitan area. The Department brings together all of the State's transportation business units into one organization that allows business units to work together seamlessly and leverage one another's strengths. This unified approach provides the State with the ability to develop coordinated and balanced multi-modal solutions to transportation across the State.

Maryland Aviation Administration

The MAA owns and operates the Baltimore/Washington International Thurgood Marshall (BWI Marshall) Airport and Martin State Airport and supports public-use airports across the State of Maryland. The core mission of the MAA is the operation and support of airports in Maryland to provide residents, businesses and travelers with the highest levels of service, safety and economic benefit. BWI Marshall Airport is the twenty-second busiest airport in the United States and the busiest in the Washington-Baltimore region, serving more than 26 million passengers per year. Air service includes an average of more than 650 daily commercial flights and nonstop service to nearly 90 domestic and international destinations. BWI Marshall Airport and Southwest Airlines recently celebrated its 25 year anniversary with the announcement of plans to construct Southwest's first aircraft maintenance facility in the Northeast. BWI Marshall Airport is a major transportation resource and economic development engine for the State of Maryland and the entire National Capital region, producing a total economic impact of $9.3 billion. The airport and visitors support more than 106,000 jobs throughout the State.

Maryland Port Administration

In calendar year 2017, the Helen Delich Bentley Port of Baltimore's public and private marine terminals handled 38.4 million tons of cargo with a value of $53.9 billion. This ranks the Port as the twelfth largest port in the United States in terms of foreign cargo tonnage and ninth largest in terms of total dollar value of cargo. One of the busiest and most diverse cargo ports in the United States, Maryland's Port of Baltimore ranks first in the nation for autos and light trucks, roll on/roll off heavy farm and construction machinery, and imported sugar and ranks second for exported coal. Since welcoming its first super-post-Panamax container ships from the newly expanded Panama Canal in Summer 2016, container traffic at Maryland's Port of Baltimore has grown by 14%. Maryland's Port of Baltimore is one of only a few ports on the east coast of the United States with the necessary 50-foot channel and berth to accommodate these larger ships. The public marine terminals, managed by MPA, handled a record 10.7 million tons of general cargo, including a record 596,672 containers, an 11% increase from the previous record set in calendar year 2016. Among the nation's ports, Maryland's Port of Baltimore is also one of the busiest cruise ports on the East Coast and is home to two of the largest cruise lines in the world. Business at Maryland's Port of Baltimore generates about 13,600 direct jobs, while about 127,600 jobs in Maryland are linked to port activities. Maryland's Port of Baltimore is responsible for nearly $3 billion in personal wages and salary and $310 million in state and local tax revenues.

Maryland Transit Administration

The MTA operates one of the largest multi-modal transit systems in the United States with a goal to provide safe, efficient and reliable transit across Maryland with world-class customer service. The MTA operates local busses (CityLink and LocalLink), commuter busses, Light RailLink, Metro SubwayLink, Maryland Area Regional Commuter (MARC) train service, and a comprehensive paratransit system (MobilityLink). The MTA also manages the Taxi Access system and directs funding and statewide assistance to locally operated transit systems in each of Maryland's 23 counties, Annapolis, Baltimore City and Ocean City. In June 2017, the MTA launched a complete overhaul of the core bus service operated throughout the Baltimore region. BaltimoreLink redesigned Baltimore's regional bus system to create an interconnected transit system that incorporates local bus, Light RailLink, and Metro SubwayLink, as well as provide dedicated bus lanes, transfer facilities, and transit signal priority. Since implementation, on-time performance has improved from 59% in the fall of 2016 to 68% in May 2018 – a 15% improvement. In partnership with Baltimore City, more than 5.5 miles of dedicated bus lanes were installed, and travel times have improved by up to 25%. The installation of transit signal priority sensors on the entire bus fleet and at nearly 50 intersections throughout Baltimore allows busses to move more rapidly throught congested areas of Baltimore City. In June 2018, the MTA launched a partnership with the Transit app, allowing customers to receive real time arrival information for CityLink, LocalLink, and Express BusLink in the BaltimoreLink fleet.

Motor Vehicle Administration

The MVA provides premier customer service to all Marylanders at 24 offices and 18 vehicle emissions inspection stations conveniently located throughout the State. Last year, the MVA processed more than 11 million transactions. The MVA is committed to delivering premier customer service, offering more online service options, increasing customer convenience, and decreasing customer wait times. The MVA is truly becoming a "one stop shop" for government services. Since the program began on October 1, 2017 to the end of the fiscal year ended June 30, 2018, the Department of Natural Resources service centers in the MVA's Essex, Salisbury, Frederick, and Bel Air branch offices completed a total of 1,981 transactions. The MVA also introduced Transportation Security Administration (TSA) PreCheck and Transportation Worker Identification Credential (TWIC) card services at several locations. Since July 2017, 22,153 TSA PreChecks have been completed and 3,786 customers have completed enrollment to receive a TWIC Card at MVA branch offices. The MVA is home to the Maryland Highway Safety Office and is committed to decreasing traffic fatalities Statewide through the implementation of a comprehensive Strategic Highway Safety Plan.

State Highway Administration

The SHA operates, maintains and rebuilds the major highways (numbered, non-toll routes) in Maryland's 23 counties – more than 17,000 lane-miles and 2,572 bridges. SHA's Coordinated Highways Action Response Team (CHART) monitors traffic 24/7 and provides emergency patrols that assist with incident responses, disabled vehicles, and traffic management operations for special and weather-related events. In January 2018, CHART marked a major milestone of assisting its one millionth driver. CHART is collectively saving commuters 38 million hours of delay and over $1.4 billion, all while enhancing safety. SHA roads carry 67% of the State's 60 billion miles of annual travel, and 85% of its truck freight, providing economic opportunity, mobility, and access for people, businesses, goods, and service throughout Maryland. The SHA has over 470 active construction projects underway with approximately $3.6 billion in active work that is competitively awarded to private entities, sustaining thousands of jobs in the highway industry for contractors, suppliers, engineering firms, and small and minority businesses. The State highway system supports Marylanders' quality of life by connecting communities, schools, recreation, and local and world travel through BWI Marshall Airport and Maryland's Port of Baltimore.

Maryland Transportation Authority
Maryland's eight toll facilities are operated by the MDTA and include four bridges, two tunnels, and two turnpikes. MDTA's toll facilities are the William Preston Lane, Jr. Memorial (Bay) Bridge (US 50/301), the Francis Scott Key Bridge (I-695), the Governor Harry W. Nice Memorial Bridge (US 301), the Thomas J. Hatem Memorial Bridge (US 40), the Fort McHenry Tunnel (I-95/I-395), the Baltimore Harbor Tunnel (I-895), the John F. Kennedy Memorial Highway (I-95), and the Intercounty Connector (MD 200). The MDTA Board consists of eight members who are appointed by the Governor with the advice and consent of the Maryland Senate. The Secretary of Transportation presides as the MDTA's Chairman. The MDTA acts on behalf of, but is separate from, the Department. The MDTA prepares a separate CAFR, which is available on the MDTA website at http://mdta.maryland.gov/About/Finances/Financial_Statements_and_Annual_Reports.html.

Washington Metropolitan Area Transit Authority
WMATA operates the third largest rail system and the seventh largest bus network in the United States. WMATA was created in 1967 by an interstate compact in which Maryland, Virginia, and Washington DC participate. In accordance with Section 10-205 of the Transportation Article of the Annotated Code of Maryland, Maryland's share of WMATA's operating and capital expenses are paid as a grant from the Department to the Washington Suburban Transit Commission through the Transportation Trust Fund (TTF). Services include a Metrorail network of 6 lines, 91 stations, and 117 miles of track; a Metrobus system covering over 11,000 stops across 1,500 square miles in Maryland, Virginia, and Washington DC; and the MetroAccess paratransit system. In fiscal year 2018, 289.4 million trips were taken on WMATA's system, including 175.8 million Metrorail trips, 111.2 million Metrobus trips, and 2.3 million MetroAccess trips. WMATA is a wholly separate entity from the Department and prepares a separate CAFR, which is available at https://www.wmatabonds.com/wmata-bonds-dc/financial-documents/i2812.

Transportation Trust Fund

The TTF was established in 1971 as a nonlapsing special fund to establish a dedicated fund to support the Department. The use of this integrated trust fund approach allows Maryland tremendous flexibility to meet varying transportation service and infrastructure needs. The continuing commitment to these needs has provided Maryland with the excellent infrastructure system necessary to support the economic growth of the State.

All funds dedicated to the Department are deposited in the TTF, including motor fuel taxes, vehicle excise (titling) taxes, motor vehicle fees (registrations, licenses and other fees), a portion of the State's corporation income taxes, a portion of the State's sales and use tax on rental vehicles, operating revenues (e.g., transit fares, port fees, airport fees), federal-aid, and bond proceeds. Certain TTF revenues are shared with local governments and other State agencies based on statutory requirements. All activities of the Department are supported by the TTF, including debt service, maintenance, operations, administration, and capital projects. Unexpended funds at the close of each fiscal year do not revert to the State's General Fund but remain in the TTF.

Funds in the TTF are dedicated to transportation. In 2014, a Constitutional amendment was overwhelmingly approved by Maryland voters that limits the use of the TTF to debt service on transportation bonds and for constructing and maintaining the State's transportation system. Except for transfers for local transportation aid or to the MDTA, funds from the TTF may not be transferred to the State's General Fund or any other fund unless the Governor declares a fiscal emergency and the General Assembly approves legislation by a three-fifths vote of both chambers concurring with the use or transfer of funds. In addition, State law requires that any funds diverted or transferred from the TTF must be repaid within five years.

Accounting records for the TTF are maintained by the Comptroller of Maryland, and all cash and investments of the TTF are held by the State Treasurer, except for revolving cash accounts. Accounting records for the TTF, for operational and management purposes are maintained by the Department's Office of Finance. Although the accounts maintained by the Department on a budgetary basis generally conform to GAAP, there are certain departures from these principles that are dictated by statutory requirements and historical practices. The principal departures are the exclusion of non-budgeted activities and classification of fund-type.

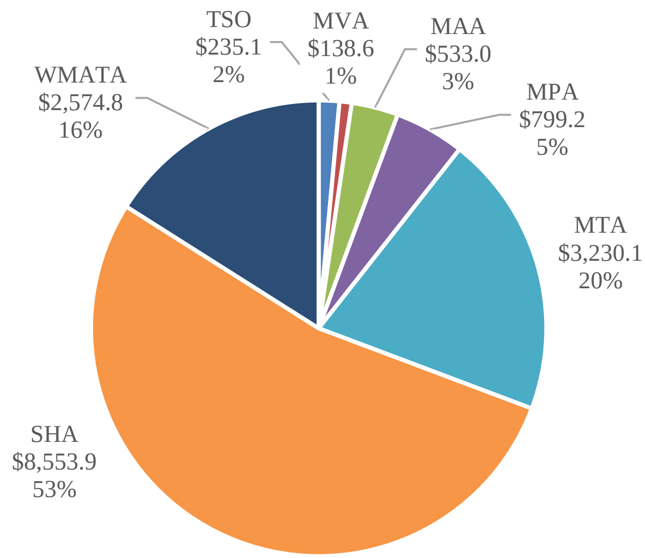
Long-term Planning

The Department's strategic approach is presented through the annual State Report on Transportation, which is comprised of three documents: (1) the Department sets a 20-year vision for the transportation system through the Maryland Transportation Plan; (2) the six-year plan for transportation capital projects is produced annually as the Consolidated Transportation Program (CTP); and (3) the Department evaluates and reports the performance of Maryland's transportation system through the Annual Attainment Report on Transportation System Performance, focusing on the goals established in the Maryland Transportation Plan. The Maryland Transportation Plan was last published in January 2014 and will be updated in January 2019 following an extensive outreach process with the public, local jurisdictions, and State agencies. In addition, the Department evaluates its performance quarterly through the Department's Excellerator performance management system to ensure that the Department is delivering on its commitments to its customers and responding quickly to emerging trends to improve performance and decision-making.

The Department publishes the draft CTP in September of each year and the final CTP in January of the next calendar year. Projects included in the Department's draft CTP for fiscal years 2019-2024 require $16.0 billion in funding over the next six years. Funding for the draft CTP includes $8.5 billion in State funds (the revenues and bond proceeds of the Department), $5.7 billion in federal funds, and $1.9 billion in other funds. Other funds include other funding sources not received through the TTF, such as passenger facility charges, customer facility charges, certain federal funds received directly by WMATA, and certain funding from the MDTA.

The CTP includes capital projects across the Department that create, expand, or significantly improve transportation facilities or services across the State. Project activities may include planning, environmental studies, design, right-of-way acquisitions, construction, or the purchase of essential equipment related to the facility or service. The CTP also includes Maryland's share of capital funding, and certain federal funding, for WMATA. In accordance with State law, the Department developed a project-based scoring system to rank major highway and transit capacity projects. The scoring system evaluates projects against nine goals and twenty-three measures using a combination of project data, modeling analysis, and qualitative questionnaires. Projects are then ranked based on score. Project rankings, along with other factors, help to decide which projects are funded in the six-year capital program.

FY 2019-2024 Draft Consolidated Transportation Program
$16.0 Billion



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

Relevant Financial Policies
The Department's annual budget serves as the foundation for its financial planning and control. The Maryland Constitution requires the Governor to submit, and the General Assembly to adopt, a balanced budget containing a complete plan of proposed expenditures and estimated revenues for the ensuing fiscal year, including a plan of proposed expenditures and estimated revenues for the Department. The General Assembly may not amend the budget to affect payment of State debt or otherwise to change its provisions, except to increase or decrease the appropriations relating to the General Assembly or the Judiciary, or to delete or reduce other appropriations submitted by the Governor. The General Assembly may authorize an appropriation apart from the budget bill, but it may only do so by a separate supplementary appropriation bill limited to a single object or purpose and providing for levying a specific tax or taxes in that bill sufficient to fund the appropriation.

The Department's expenditures are made in accordance with appropriations provided for in the annual budget, except that the Department may submit to the Governor a budget amendment and, if the Governor approves the amendment, the Department may make disbursements in accordance with the budget amendment. By budget amendment, the Department may increase or decrease the amount of the appropriation for any project or transfer funds from one project or administration to another. All amendments approved by the Governor are required to be reported to the next session of the General Assembly. A schedule showing budget and actual expenditures is presented as required supplementary information on page 80 of this report.

The Department updates its six-year financial plan at least twice per year in conjunction with the submission to the legislature of the draft CTP in September and the final CTP in January. These two forecasts are submitted to the legislature to support the funding of the CTP. For internal planning purposes, additional financial plans are developed throughout the year to reflect year-to-date revenue attainment and spending, alternative planning horizons, or sensitivity testing. The financial plan accounts for all of the Department's revenues, planned expenses, debt service, and the issuance of bonds to help fund the capital program. Revenue forecasts are based on historical attainment, econometric modeling, independent forecasts of certain variables, and a consensus process with the State's Board of Revenue Estimates and legislative staff.

The Department issues Consolidated Transportation Bonds (CTB) to help fund its capital program. The Department maintains strong credit ratings of AAA from Standard and Poor's, Aa1 by Moody's, and AA+ by Fitch Ratings. These ratings are in part based on strong debt oversight at both the Department and at the State. State debt oversight includes the Capital Debt Affordability Committee, composed of the State Treasurer, the State Comptroller, the Secretary of the Department of Budget and Management, the Secretary of Transportation, and one member of the public appointed by the Governor. The Committee annually reviews all tax-supported debt, including the Department's tax-supported debt, to ensure affordability. New debt issuances must mature within 15 years and must be authorized by the Board of Public Works, which is composed of the Governor, the State Treasurer, and the State Comptroller.

State law and the Department's debt practices limit Consolidated Transportation Bond (CTB) issuances with three criteria: a debt outstanding limit and two coverage tests. State law establishes a maximum debt outstanding limit for CTBs of $4.5 billion and requires the Maryland General Assembly to establish an annual debt limit in the budget bill. For fiscal year 2018, the annual debt outstanding limit was established at $3.0 billion; the debt outstanding as of June 30, 2018 was $2.9 billion. The two coverage tests are established in the Department's bond resolutions and require that annual pledged taxes and net income from the prior year each equal at least 2.0 times the maximum level of future debt service payments on all CTB debt outstanding and expected to be issued. The Department maintains a management practice that requires minimum coverage of 2.5 times maximum future debt service. In fiscal year 2018, the ratio of pledged taxes was 5.48 and the ratio of net income was 3.19.

The net income coverage test is the ratio of all prior year's income (excluding federal capital, bond proceeds, and third-party reimbursements) minus prior year operating expenses, debt service payments, deductions for certain nontransportation agencies, and local transportation aid to maximum future annual debt service. The pledged taxes coverage test measures annual net revenues from vehicle excise, motor fuel, rental car sales tax, and corporation income taxes (excluding refunds and all statutory deductions) as a ratio of maximum future annual debt service. If either of these coverage ratios fall below the 2.0 times level, the Department is prohibited under its bond covenants from issuing additional debt until the ratios are once again at the minimum 2.0 times level.

Major Initiatives

The Department embraces one unified mission statement across all of its business units that serves as the guiding light for all of the Department's operations and interactions with its customers. The Department positions itself as a "customer-driven leader that delivers safe, sustainable, intelligent, and exceptional transportation solutions in order to connect our customers to life's opportunities". A few of the major accomplishments and initiatives that help the Department achieve this mission are listed below.

- BaltimoreLink created an interconnected transit network that is improving service quality and reliability, ensuring that customers have more frequent access to a more connected transit system, and aligning the transit network with existing and emerging job centers. Since its launch, on-time performance and safety have improved, while the number of customer complaints have decreased, despite the customer service number now appearing on all bus signs. The flexibility of BaltimoreLink allows the MTA to respond to the demands of the region and needs of its customers.
- The I-270 Innovative Congestion Management project will utilize innovation to address traffic congestion along the I-270 corridor. This innovative procurement approach offered a $100 million contract to the winning bidder that offered the transportation solution that would move the most people the farthest and the fastest along this heavily traveled corridor. The winning solution will save drivers approximately 30 minutes every day by deploying smart traffic systems and lane redesign to address 14 bottlenecks along the corridor.
- The Department continues its focus on providing premier customer service by making services as easy and accessible as possible. In May 2017, the Department launched the new OneStopShop that allows customers to address most of their transportation transactions at one centralized website. On the OneStopShop website, customers can renew their vehicle registration and driver's license, check the status of their flight at BWI Marshall Airport, buy a Charm Card for the MTA's Baltimore transit system, find information on cruises at Maryland's Port of Baltimore, purchase an E-ZPass for use at Maryland toll facilities, and many more services. Similarly, MVA branches are now providing additional services all under one roof, including making E-ZPass purchases; buying hunting, fishing, and crabbing licenses; and obtaining TSA PreCheck or Transportation Worker Identification Credentials.
- In August 2017, a ground-breaking ceremony was held for a public-private partnership to design, build, operate, finance, and maintain a 16-mile light rail project in Montgomery and Prince

George's counties. The Purple Line will provide direct connections between three lines on the existing Metrorail system, all three MARC commuter rail lines, Amtrak's Northeast Corridor, and local transit options. Construction is currently underway with substantial completion in 2022. The 36-year performance-based agreement includes a 6 year design and construction period followed by a 30 year operations and maintenance period.

- Following on Maryland's transportation public-private partnership successes with the Purple Line, the Seagirt Marine Terminal, and two travel plazas along Interstate 95, in September 2017, Governor Larry Hogan announced the Traffic Relief Plan. Currently in the planning stages, the largest piece of this project will seek a partnership with the private sector to provide much needed congestion relief along Interstate 270 and the Capital Beltway.
- To continue to deliver a transportation system that meets these needs, accommodates the more than 60 billion vehicle miles traveled in Maryland in calendar year 2017, and allows the Department to deliver on its commitment to connect its customers to life's opportunities, the Department focuses its efforts on improving and maintaining its infrastructure. In the fall of 2018, the Department had 816 capital projects underway at a value of $8.8 billion. Since early 2015, SHA has paved, treated, and improved more than 8,500 lane miles – over 50% – of the State road system. In addition, of the 69 structurally deficient bridges identified in June 2015, all are in some stage of design, rehabilitation, or replacement.

Economic Outlook

The TTF is credited with all transportation taxes and fees, federal transportation funds, and bond proceeds and it is the primary source of funding for transportation spending across the State. The Department typically prepares financial plans for a six-year period that coincides with the six-year capital program. Revenue forecasting relies on the condition and outlook for the State as a whole, as well as the condition and outlook for each major revenue source.

Maryland Economy

Maryland's economy continued its recovery this year with most of Maryland's economic indicators showing positive growth. Although employment growth has slowed, Maryland continues to show strength in the Transportation/Utilities, Professional and Business Services, and Education and Health Services sectors. The unemployment rate has been under 4.5% all year and is forecasted at 4.2% for 2018.

Maryland trailed the national recovery primarily because of federal budget uncertainty. This fiscal drag eased as federal policymakers started to address budget issues. Maryland's outlook assumes it will see improvement in employment and income growth throughout the coming year.

Transportation Revenues
The following represent the major State-sourced revenue sources for the TTF.

- Motor Fuel Tax: As of July 1, 2018, the motor fuel tax rates are 35.3 cents per gallon for gasoline and 36.05 cents per gallon for diesel fuel. These rates include three components: a base rate of 23.5 cents per gallon for gasoline and 24.25 cents per gallon for diesel fuel; an annual inflation adjustment based on the average percentage growth in the Consumer Price Index for All Urban Consumers, currently 2.1 cents per gallon for both gasoline and diesel fuel; and a sales and tax use equivalent rate of 5% on the average retail price of gasoline, currently 9.7 cents per gallon for both gasoline and diesel fuel. Modest growth is forecasted over the six-year financial plan as increases in the tax rate and vehicle miles traveled are offset by more fuel efficient vehicles and increased teleworking. This revenue source is projected to provide $7.1 billion over the six-year period.
- Motor Vehicle Titling Tax: The titling tax of 6% of the fair market value of motor vehicles, less an allowance for trade-ins, is applied to new and used vehicles sold and to vehicles of new residents. This revenue source follows the cycle of auto sales with periods of decline and growth. This revenue source is projected to provide $5.5 billion over the six-year period.
- Motor Vehicle Fees: This includes a number of fees for various vehicle and licensing services. The six- year forecast assumes revenues will increase an average of 1.5% every two-year cycle. This revenue source is projected to provide $4.0 billion over the six-year period.
- Corporation Income Tax: The Department receives 17.2% of the State's 8.25% corporation income tax. The State's Board of Revenue Estimates forecasts these revenues for both the State and the Department. This revenue source is projected to provide $1.1 billion for the Department over the six-year period.
- Operating Revenues: The activities of MAA, MPA, and MTA generate operating revenues. MTA rail and bus fares became indexed to inflation beginning in fiscal year 2015. This revenue source is projected to provide $2.9 billion over the six-year period, including $1.5 billion from the MAA, $329 million from the MPA, and $1.1 billion from the MTA,

Awards and Acknowledgements
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Maryland Department of Transportation for its CAFR for the fiscal year ended June 30, 2017. This was the eighteenth consecutive year that the Department received this prestigious award. To be awarded a Certificate of Achievement, the Department must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Department believes that this CAFR continues to meet the Certificate of Achievement Program's requirements and we will again submit it to the GFOA to determine its eligibility for another certificate.

The preparation of this CAFR could not have been accomplished without the professionalism and dedication demonstrated by financial staff across the Department at each of the business units and at the Office of Finance. Their expertise and hard work is sincerely appreciated. Special thanks to Brandie Karfonta, who has the primary responsibility for department-wide year-end closing activities, the annual financial audit, and preparing this report.

Sincerely,

Jaclyn D. Hartman
Chief Financial Officer

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Maryland Department of Transportation

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

MARYLAND DEPARTMENT OF TRANSPORTATION
Organizational Chart

Governor

Secretary

Deputy Secretaries

EXECUTIVE STAFF

- Chief of Staff
- Office of the Attorney General
- Office of Audits
- Office of Finance
- Office of Public Affairs
- Office of Strategic Customer Service

BOARDS AND COMMISSIONS

- Capital Debt Affordability Committee
- Maryland Aviation Commission
- Maryland Economic Development Corporation
- Maryland Port Commission
- Maryland Transportation Authority
- Maryland Transportation Commission

TRANSPORTATION BUSINESS UNITS

- Maryland Aviation Administration
- Maryland Port Administration
- Maryland Transit Administration
- Motor Vehicle Administration
- State Highway Administration

OPERATING STAFF

- Office of Administration and Coordination of Minority and Small Business Programs
- Office of Diversity and Equity
- Office of Environment
- Office of Fleet, Facilities and Administrative Services
- Office of Freight and Multimodalism
- Office of Governmental Affairs
- Office of Homeland Security
- Office of Human Resources
- Office of Minority Business Enterprise
- Office of Assistant Secretary for Operations
- Office of Planning and Capital Programming
- Office of Procurement
- Office of Real Estate and Economic Development
- Office of Transportation Technology Services
- Office of Assistant Secretary for Transportation Policy Analysis & Planning, Bicycle and Pedestrian Access

MARYLAND DEPARTMENT OF TRANSPORTATION
List of Principal Department Officials
For the Year Ended June 30, 2018

Title	Name
Secretary of Transportation..	**Pete K. Rahn**
Deputy Secretary of Transportation	**James F. Ports, Jr.**
Deputy Secretary of Transportation	**R. Earl Lewis, Jr.**
State Highway Administrator...	**Gregory I. Slater**
Maryland Port Executive Director...	**James J. White**
Motor Vehicle Administrator	**Christine E. Nizer**
Maryland Transit Administrator	**Kevin B. Quinn, Jr.**
Maryland Aviation Executive Director...................................	**Ricky D. Smith, Sr.**
Principal Counsel, Assistant Attorney General	**Cheryl A.C. Brown-Whitfield**
Chief Financial Officer	**Jaclyn D. Hartman**

FINANCIAL SECTION

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Mr. Pete K. Rahn, Secretary
Maryland Department of Transportation
Hanover, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Maryland Department of Transportation (the Department, a special revenue fund of the State of Maryland), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Department's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Department, as of June 30, 2018, and the respective changes in financial for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 section D to the financial statements, during the year ended June 30, 2018, the Department adopted new accounting guidance from Government Accounting Standards Board (GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of funding progress and employer contributions of the Maryland Transit Administration Other Post-employment Benefit Plan, schedule of changes in the net position liability and related ratios and schedule of employer contributions for the Maryland Transit Administration Pension Plan, schedules of the Department's proportionate share of the net pension liability and Department contributions for the Maryland State Retirement and Pension System, and the special revenue funds schedules of revenue, expenditures and changes in fund balance – budget and actual, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The statement of changes in assets and liabilities – agency funds, introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statement of changes in assets and liabilities – agency funds is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statements of changes in assets and liabilities – agency funds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Hunt Valley, Maryland
December 13, 2018

SB & Company, LLC

MARYLAND DEPARTME
NT OF TRANSPORTATION
Management's Discussion and Analysis

As management of the Maryland Department of Transportation (Department), we offer the citizens of Maryland and others interested in the Department's financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on page 7 of this report.

Financial Highlights

- The Department's net position totaled $14.3 billion in fiscal year 2018, an increase of $472.1 million from 2017. Net position refers to the amount that the assets and deferred outflows of resources of the Department exceeded its liabilities and deferred inflows of resources at the close of the fiscal year. Of this amount, $2.5 billion represents the unrestricted deficit, primarily due to the reporting of net pension liability, other postemployment benefits (OPEB) liability and the respective deferred amounts, and the increase in net investments in capital assets.
- The Department's governmental funds reported a combined ending fund balance, as of the close of the current fiscal year, of $19.1 million, a decrease of $189.5 million in comparison with the prior fiscal year.
- The Department's Consolidated Transportation Bonds debt outstanding as of June 30, 2018 totals $2.9 billion, which is below the annual debt limit of $3.0 billion established by the Maryland General Assembly for fiscal year 2018, and below the statutory debt cap of $4.5 billion. Debt outstanding increased by $333.3 million in 2018, as new bond issuances of $555.0 million were only partially offset by regularly scheduled debt service principal payments during the year totaling $221.7 million. Debt service coverage remains strong at 3.19, which is above the 2.0 requirement and above the 2.5 management policy.
- The Department maintains credit ratings of AAA from Standard & Poor's Corporation, AA+ from Fitch Ratings, and Aa1 from Moody's Investors Services, Inc.
- As a result of significant infrastructure investment, capital assets, net of accumulated depreciation, increased by $1billion, or 5%, from 2017.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements. The Department's basic financial statements are comprised of three components: (1) *government-wide financial statements*, (2) *fund financial statements*, and (3) *notes to the financial statements*. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Department's finances, in a manner similar to a private-sector business. The Statement of Net Position presents information on all of the Department's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as one of several useful indicators of the Department's financial position. The Statement of Activities presents information showing how the Department's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Department that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions. The governmental activities of the Department include the Secretary's Office (TSO), Maryland Aviation Administration (MAA), Maryland Port Administration (MPA), Maryland Transit Administration (MTA), Motor Vehicle Administration (MVA), and State Highway Administration, distributions to political subdivisions, distributions to other State agencies, and debt service. The government-wide financial statements include only the Department (a Special Revenue Fund of the State of Maryland), which has no component units and does not include the Maryland Transportation Authority (MDTA), which is a separate enterprise fund of the State of Maryland. The government-wide financial statements can be found starting on page 40 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Since the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Department maintains two individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the Special Revenue Fund and the Debt Service Fund. The Special Revenue Fund is considered to be a major fund. The basic governmental fund financial statements can be found starting on page 42 of this report.

The Maryland General Assembly authorizes an annual appropriated budget for the Department's Special Revenue Fund. A budgetary comparison schedule has been provided for the Special Revenue Fund to demonstrate compliance with this budget. The budgetary comparison schedule can be found on page 82 of this report.

Fiduciary funds
Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Department's own programs. The accounting used for the fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 46 and 47 of this report.

Notes to the financial statements
The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 48 of this report.

Changes in Governmental Accounting Standards
The Department has adopted the provision of Governmental Accounting Standards Board (GASB) Statement No. 75 during the year ended June 30, 2018, entitled *Accounting for Financial Reporting for Postemployment Benefits Other Than Pensions*. As part of GASB statement No. 75, the net OPEB Liability will be reported on the government-wide financial statements in the statement of net position. The liability is just over one-half the size of the current pension liability, $833,289,000, and will have its own set of deferred inflow and outflows. GASB 75 adoption required an adjustment to the net position at the beginning of the year. The restatement of the beginning net position as of July 1, 2017 was a decrease of $463,377,000.

The GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, GASB issued Statement No. 84, *Fiduciary Activities*, GASB Statement No. 87, *Leases*, GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. These statements may have a material effect on the Department's financial statements once implemented. The Department will be analyzing the effects of these pronouncements and plans to adopt, if applicable, by its effective date.

Other information
In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Department's progress in funding its obligation to provide pension benefits to its employees at the MTA, as well as the budget and actual comparison schedule. Required supplementary information can be found starting on page 77 of this report.

Government-wide Financial Analysis
As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the Department, assets and deferred outflows exceeded liabilities and deferred inflows by $14.3 billion at the close of the most recent fiscal year. By far the largest portion of the Department's net position reflects its investment in capital assets (e.g., land, buildings, equipment and infrastructure), less any still outstanding related debt used to acquire those assets. The Department uses those capital assets to provide services to the citizens of Maryland; consequently,

these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Department's net position increased by $472.1 million, prior to the restatement and adoption of GASB Statement No. 75 during the current fiscal year 2018, primarily due to an increase in program revenues from the prior year.

The following schedule reflects the Department's Net Position Summary.

Maryland Department of Transportation
Net Position
(amounts expressed in thousands)

Governmental Activities	**2018**	**2017**
Current and other assets	$ 1,051,835	$ 946,709
Capital assets	20,742,129	19,706,734
Total assets	21,793,964	20,653,443
Deferred amount on refunding bonds	19,532	24,941
Deferred amount related to pensions	367,707	455,431
	387,239	480,372
Long-term liabilities outstanding	6,472,791	5,877,889
Other liabilities	867,951	691,525
Total liabilities	7,340,742	6,569,414
Deferred service concession arrangement receipts	114,054	48,681
Deferred amount related to pensions	304,927	202,627
Deferred amount related to OPEB	99,631	-
	518,612	251,308
Net position:		
Net Investment in capital assets	16,838,969	16,210,472
Unrestricted deficit	(2,517,120)	(1,897,379)
Total net position	$14,321,849	$14,313,093

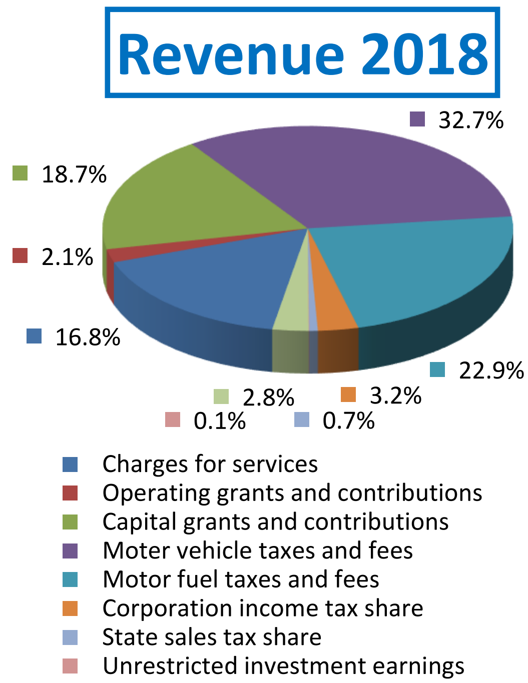
Governmental activities

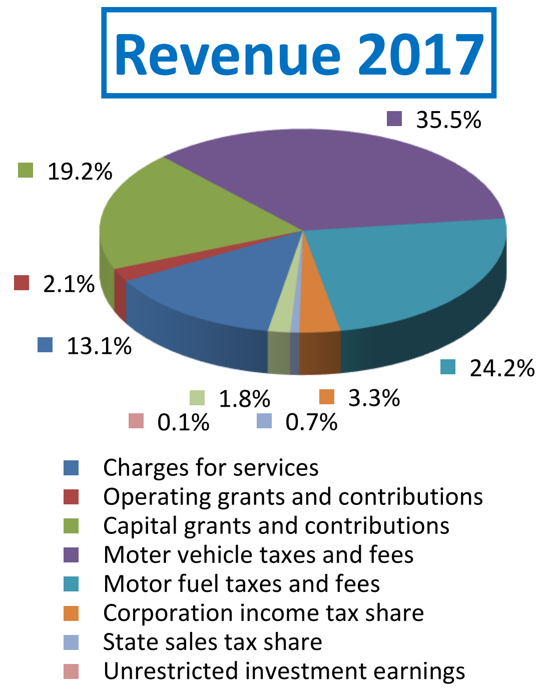
Governmental activities, which represent the Department's overall economic position, increased the Department's net position by $472,133,000. The key elements of the Department's governmental activities are as follows:

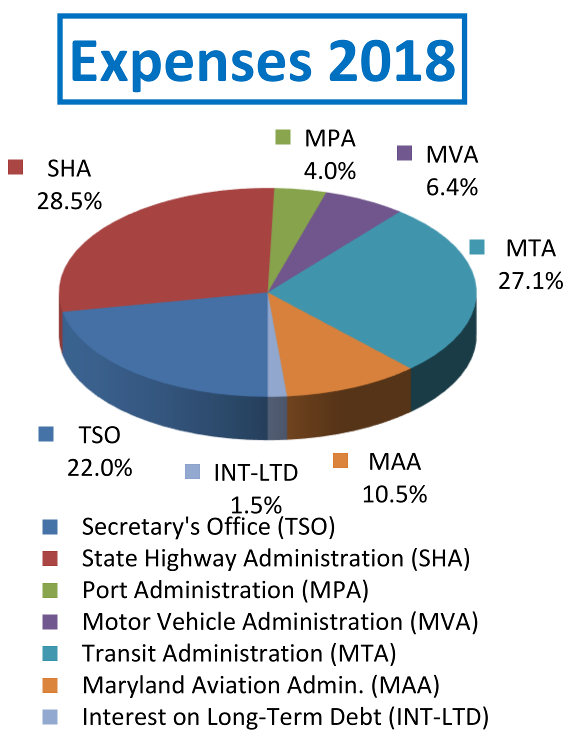
Maryland Department of Transportation
Statement of Activities
(amounts expressed in thousands)

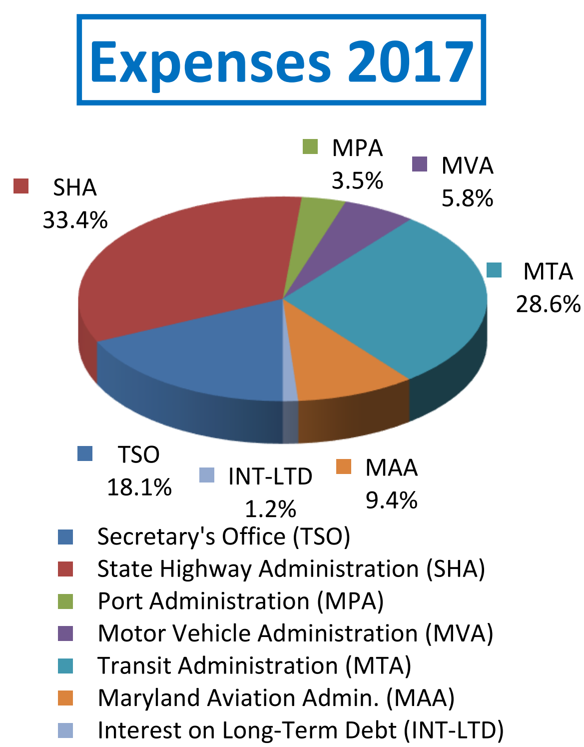
Governmental Activities	2018	2017
Revenues:		
Program revenues:		
Charges for services	$ 797,444	$ 628,135
Operating grants and contributions	99,533	94,499
Capital grants and contributions	885,245	858,187
General revenues:		
Motor vehicle taxes and fees	1,547,450	1,579,384
Motor fuel taxes and fees	1,084,195	1,078,312
Corporation income tax share	150,784	146,224
State sales tax share	31,691	31,566
Unrestricted investment earnings	2,322	627
Other	134,573	79,570
Total revenues	4,733,237	4,496,504
Expenses:		
Secretary's Office	938,626	652,965
State Highway Administration	1,213,310	1,203,216
Port Administration	171,714	126,432
Motor Vehicle Administration	272,318	208,783
Transit Administration	1,153,718	1,031,072
Aviation Administration	448,647	339,270
Interest on long-term debt	62,770	43,547
Total expenses	4,261,104	3,605,285
Increase in net position	472,133	891,219
Net position – July 1	14,313,093	13,421,874
Prior Period adjustment-adoption of GASB 75	(463,377)	-
Net Position-July 1, as restated	13,849,716	14,313,093
Net position – June 30	$14,321,849	$ 14,313,093

Below are the Department's revenues by source and expenses by function for fiscal years 2018 & 2017









Financial Analysis of the Government's Funds

As noted earlier, the Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the Department's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Department's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Department's governmental funds reported combined ending fund balances of $19.1 million, an increase of $189.5 million in comparison with the prior fiscal year. The Department's governmental funds increase is due primarily to increase in federal revenues. All of the Special Revenue Fund balance is non-spendable, restricted, committed, and/or assigned fund balance and indicates that it is not available for new spending because it has already been committed and/or assigned for the following purposes: (1) to maintain a separate nonspendable account for inventory activity and prepaid balances in the amount of $96.7 million and $144.2 million; (2) to maintain a separate committed account for contractual transportation obligations in the amount of $12.5 million; (3) to maintain a separate assigned account for specific agency activity balances in the amount of $0.8 million; and (4) to maintain a separate unassigned account for specific agency activity balances in the amount of $(235.1 million).

The Special Revenue Fund is the chief operating fund for the Department. As a measure of the Special Revenue Fund's liquidity, it may be useful to compare the total fund balance of $19.1 million to the total Department expenditures of $4.9 billion. The total fund balance represents 0.4% of the total fund expenditures.

Capital Asset and Debt Administration

Capital Assets

The Department's investments in capital assets for its governmental activities as of June 30, 2018, amounts to $20.7 billion (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, infrastructure and construction in progress. In the current fiscal year, the Department's investments in capital assets increased by $1.0 billion.

Some of the major capital asset events during the current fiscal year included the following:

- Construction continued in fiscal year 2018 on the expansion and upgrading of the airport facilities at the Baltimore/Washington International Thurgood Marshall (BWI Marshall) Airport. Construction in progress at MAA at the close of the current fiscal year increased by $34.2 million, buildings increased by $52.3 million, and infrastructure increased by $32.5 million in the current fiscal year.
- A variety of widening and/or expansion of existing and new highways and bridges were completed in fiscal year 2018; infrastructure assets for SHA at the close of the current fiscal

year reached $22.0 billion compared to $20.8 billion in the prior fiscal year, a 5.5% increase.

- Various transit projects in addition to construction of the Purple Line were ongoing in the current fiscal year, increasing construction in progress to $3.5 billion, up $480.3 million, or 15.9%, from the prior fiscal year.
- Construction projects at the MPA and MVA total $363.0 million in fiscal year 2018, which was an increase of $40.9 million, or 12.7% from the previous year.

The following schedule reflects the Department's Capital Assets Summary.

Maryland Department of Transportation
Capital Assets
(net of depreciation)
(amounts expressed in thousands)

Governmental Activities	June 30, 2018	June 30, 2017
Land	$ 2,828,647	$ 2,754,169
Buildings and improvements	1,817,182	1,691,442
Machinery and equipment	645,314	664,969
Infrastructure	9,784,767	9,466,071
Seagirt Assets	47,549	48,681
Construction in progress	5,618,670	5,081,402
Total	$ 20,742,129	$ 19,706,734

Additional information on the Department's capital assets can be found in Note 8 of this report.

Long-term debt

At the end of the current fiscal year the Department had total bonded debt outstanding of $2.9 billion, and represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

The following schedule reflects the Department's Outstanding Debt Summary.

Maryland Department of Transportation
Outstanding Debt
(amounts expressed in thousands)

Governmental Activities	June 30, 2018	June 30, 2017
Consolidated transportation bonds	$ 2,911,675	$ 2,578,385

The Department's Consolidated Transportation Bonds outstanding debt increased by 12.9%. from fiscal 2017 to 2018. New bond issuances of $425.0 million of Series 2017 (Second Issue) bonds and $130.0 million of Series 2018 bonds were offset by continued scheduled debt service principal payments made during the year, resulting in an overall increase in indebtedness in fiscal year 2018. The Department maintains an "AAA" rating with Standard & Poor's Corporation, an "AA+" rating with Fitch Ratings and an "Aa1" rating with Moody's Investors Services, Inc., for its Consolidated Transportation Bonds. As provided by law, the maximum outstanding aggregate amount of Consolidated Transportation Bonds may not exceed $4.5 billion. In addition, the Maryland General Assembly annually sets an outstanding limit for the upcoming fiscal year that is below that amount and based on the Department's existing debt outstanding and planned issuances. For fiscal year 2018, the annual debt outstanding limit was established at $3.0 billion. Additional information on the Department's long-term debt can be found in Note 10 of this report.

Capital Leases

At the end of the current fiscal year the Department had capital leases outstanding of $524.7 million, a decrease of $44.9 million from the previous year. This decrease is attributable to ongoing construction costs related to BWI Marshall Airport projects and continued scheduled capital lease payments for various outstanding leases for the MAA, the MPA, and the MTA. The following schedule reflects the Department's Capital Leases Summary.

Maryland Department of Transportation
Capital Leases
(amounts expressed in thousands)

Governmental Activities	June 30, 2018	June 30, 2017
Capital leases	$ 524,748	$ 569,659

The Department maintains an "AA+" rating with Standard & Poor's Corporation, an "Aa2" rating with Moody's Investors Services, Inc. and an "AA" with Fitch Ratings for certificates of participation which are included in capital lease obligations. Additional information on the Department's capital lease obligations can be found in Note 12 of this report.

Special Revenue Fund Budgetary Highlights

The Department's appropriations, between the original and final amended budget increased by $87.6 million for special funds and $56.9 million for federal funds during the current fiscal year. The increase in special and federal fund appropriations was due to a mid-year budget evaluation analysis throughout the Department. The Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual can be found on page 82 of this report.

Economic Factors and Next Year's Budgets and Rates

Maryland's economic indices remained positive this past fiscal year. Employment growth for the State of Maryland was 0.5% for the first three quarters of this year compared to 1.0% growth in 2017. The State's personal income is continuing to rise with a growth of 3.6% through the second quarter of 2018. Nationally, personal income grew by 4.5% for the same period.

Although growth has been uncharacteristically slow for a period of economic recovery, Maryland's economy continues to grow at a slow but steady pace, and growth is forecasted for the next several years. The unemployment rate, which peaked at 7.6% in 2010, is estimated to be 3.9% for 2018. Job growth continues in the professional and business services sector. The healthcare and leisure/hospitality and transportation/utilities sectors also are seeing job growth.

Maryland's economic health is heavily reliant on federal spending. The federal government sector, typically a positive driver to Maryland's economy, has in the recent past caused a level of uncertainty. The federal fiscal concerns eased with the passage of the omnibus spending package; however, looking forward there is considerable federal policy uncertainty. Depending on the impact of policy proposals, Maryland’s growth could be negatively, positively, or insignificantly impacted.

Restatement of Current Year Balances for New Governmental Accounting Standards

In the current fiscal year the Department implemented Statement No. 75 of the Governmental Accounting Standards Board which requires changes to the Department's OPEB accounting and reporting. Note 1 to the financial statements identifies these changes and adjustments to the beginning net position on the Government-wide Statement of Activities.

Requests for Information

This Comprehensive Annual Financial Report is designed to provide a general overview of the Department’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Ms. Jaclyn D. Hartman, Chief Financial Officer, Office of Finance, Maryland Department of Transportation, 7201 Corporate Center Drive, Hanover, MD, 21076.

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BASIC FINANCIAL STATEMENTS

MARYLAND DEPARTMENT OF TRANSPORTATION
Statement of Net Position
As of June 30, 2018
(amounts expressed in thousands)

		Total Governmental Activities
ASSETS:		
Cash and cash equivalents	$	1,525
Cash and cash equivalents - restricted		3,052
Taxes receivable, net		179,724
Intergovernmental receivable		460,504
Other accounts receivable		70,193
Due from other State agencies		95,913
Inventories		96,733
Prepaids		144,191
Capital assets not depreciated:		
Construction in progress		5,618,670
Land		2,828,647
Capital assets depreciated (net of depreciation):		
Buildings and improvements		1,817,182
Machinery and equipment		645,314
Infrastructure		9,784,767
Seagirt assets		47,549
Total assets		21,793,964
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amount for refunding bonds		19,532
Deferred amount for pensions		367,707
		387,239
LIABILITIES:		
Salaries payable		20,726
Accounts payable and other current liabilities		510,828
Accounts payable to political subdivisions		49,302
Due to other State agencies		134,304
Unearned revenue		118,220
Accrued interest payable		34,571
Noncurrent liabilities:		
Due within one year		311,899
Due in more than one year		6,160,892
Total liabilities		7,340,742
DEFERRED INFLOWS OF RESOURCES:		
Deferred service concession arrangement receipts		114,054
Deferred amount for pensions		304,927
Deferred amount for OPEB		99,631
		518,612
NET POSITION:		
Net investment in capital assets		16,838,969
Unrestricted deficit		(2,517,120)
Total net position		14,321,849

The notes to the financial statements are an integral part of this statement.

MARYLAND DEPARTMENT OF TRANSPORTATION
Statement of Activities
For the Fiscal Year Ended June 30, 2018
(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Changes in Net Positon: Total Governmental Activities
Governmental activities:					
Secretary's Office	$ 938,626	$ 3,721	$ 10,969	$ 11,570	$ (912,366)
State Highway Administration	1,213,310	67,394	14,325	554,412	(577,179)
Port Administration	171,714	157,474	73	9,765	(4,402)
Motor Vehicle Administration	272,318	11	12,157	246	(259,904)
Transit Administration	1,153,718	190,862	61,364	301,526	(599,966)
Aviation Administration	448,647	377,982	645	7,726	(62,294)
Interest on long-term debt	62,770	-	-	-	(62,770)
Total governmental activities	$ 4,261,104	$ 797,444	$ 99,533	$ 885,245	(2,478,882)
General revenues:					
Motor vehicle taxes and fees					1,547,450
Motor fuel taxes and fees					1,084,195
Corporation income tax share					150,784
State sales tax					31,691
Unrestricted investment earnings					2,322
Other revenue					134,573
Total general revenues					2,951,015
Change in net position					472,133
Net position, July 1, 2017, as restated					13,849,716
Net position, June 30, 2018					$ 14,321,849

The notes to the financial statements are an integral part of this statement.

MARYLAND DEPARTMENT OF TRANSPORTATION
Balance Sheet
Governmental Funds
As of June 30, 2018
(amounts expressed in thousands)

	Special Revenue	Other Governmental Fund Debt Service	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	$ 1,525	$ -	$ 1,525
Cash and cash equivalents - restricted	3,052	-	3,052
Taxes receivable, net	179,724	-	179,724
Intergovernmental receivable	460,504	-	460,504
Other accounts receivable	70,193	-	70,193
Due from other state agencies	90,663	-	90,663
Inventories	96,733	-	96,733
Prepaids	144,191	-	144,191
Total assets	1,046,585	-	1,046,585
LIABILITIES & FUND BALANCES:			
Liabilities:			
Salaries payable	20,726	-	20,726
Accounts payable	510,828	-	510,828
Accounts payable to political subdivisions	49,302	-	49,302
Due to other state agencies	134,304	-	134,304
Unearned revenue	24,688	-	24,688
Total liabilities	739,848	-	739,848
DEFERRED INFLOW OF RESOURCES			
Unavailable revenue	287,628	-	287,628
FUND BALANCES:			
Nonspendable fund balance:			
Inventories	96,733	-	96,733
Prepaid items	144,191	-	144,191
Restricted fund balance:			
Debt service	-	-	-
Committed fund balance:	12,547	-	12,547
Assigned fund balance:			
Unssigned fund balance:	(234,362)	-	(234,362)
Total fund balances	19,109	-	19,109
Total liabilities, deferred inflows and fund balances	1,046,585	-	1,046,585

The notes to the financial statements are an integral part of this statement.

MARYLAND DEPARTMENT OF TRANSPORTATION
Reconciliation of the Governmental Funds' Fund Balance
To the Statement of Net Position, Net Position Balance
As of June 30, 2018
(amounts expressed in thousands)

Amounts reported for governmental activities in the statement of net assets are different because:		
Amount in governmental funds, fund balance (page 42)	$	19,109
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund statements.		20,742,129
Accrued interest payable on bonds and capital leases		(34,571)
Long-term liabilities not due and payable in the current period and, therefore, are not reported in the fund financial statements, includes the following:		
Unavailable revenue		287,628
Advance rental payment		(93,532)
Deferred amount on refunding bonds		19,532
Bonds payable		(2,911,675)
Capital leases		(524,748)
Pollution liability		(156,161)
MTA OPEB liability		(833,289)
Net pension liability		(1,554,748)
Premium on bonds not liquidated with current financial resources		(329,420)
Workers' compensation costs		(70,733)
Energy savings liability		(42,795)
Compensated absences		(49,222)
Deferred outflows and inflows related to pensions and OPEB		(36,851)
Deferred service concession arrangement receipts		(114,054)
Net position of governmental activities		14,321,849

The notes to the financial statements are an integral part of this statement.

MARYLAND DEPARTMENT OF TRANSPORTATION
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2018
(amounts expressed in thousands)

	Special Revenue	Other Governmental Fund Debt Service	Total Governmental Funds
REVENUES:			
Taxes:			
Motor vehicle taxes and fees	$ 1,547,450	$ -	$ 1,547,450
Motor vehicle fuel taxes and fees	1,084,195	-	1,084,195
Revenue sharing of state corporation income tax	150,784	-	150,784
Revenue sharing of state sales tax	31,691	-	31,691
Federal reimbursements	847,267	-	847,267
Charges for services	571,999	-	571,999
Passenger facility charges	51,781	-	51,781
Customer facility charges	13,195	-	13,195
Special parking revenues	62,483	-	62,483
Investment earnings	2,322	-	2,322
Other	44,721	-	44,721
Total revenues	4,407,888	-	4,407,888
EXPENDITURES:			
Current:			
Department administration, operating, and maintenance expenditures:			
Secretary's Office	200,508	5,769	206,277
State Highway Administration	332,420	-	332,420
Port Administration	90,787	-	90,787
Motor Vehicle Administration	202,518	-	202,518
Transit Administration	813,531	-	813,531
Aviation Administration	335,378	-	335,378
Intergovernmental:			
Highway user revenue distributions and federal fund pass-thru to local subdivisions	294,319	-	294,319
Washington Metropolitan Area Transit Authority Grants	496,698	-	496,698
Debt service:			
Principal repayment	-	221,710	221,710
Interest	-	118,350	118,350
Issuance expenditures	595	-	595
Capital outlay	2,128,115	-	2,128,115
Total expenditures	4,894,869	345,829	5,240,698
Excess of expenditures over revenues	(486,981)	(345,829)	(832,810)
OTHER FINANCING SOURCES (USES):			
Issuance of debt	555,000	-	555,000
Premium on bonds	92,107	-	92,107
Advanced lease payments	(3,759)	-	(3,759)
Debt service transfer	(340,060)	340,060	-
Total other financing sources and uses	303,288	340,060	643,348
Net change in fund balances	(183,693)	(5,769)	(189,462)
Fund balances, July 1, 2017	202,802	5,769	208,571
Fund balances, June 30, 2018	$ 19,109	$ -	$ 19,109

The notes to the financial statements are an integral part of this statement.

MARYLAND DEPARTMENT OF TRANSPORTATION
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2018
(amounts expressed in thousands)

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 44)		$ (189,462)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlays	$ 2,194,621	
Loss on disposal of assets	(11,733)	
Depreciation expense	(1,147,493)	
		1,035,395
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Unavailable revenue	$ 117,681	
Amortization of advance rental payments	2,227	
Deferred inflows of resources for service concession	(66,505)	
		53,403
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to government funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net positon. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Premium on bonds	$ (92,107)	
Reductions of premium	45,130	
Principal repayment of bonds	221,710	
Debt Issued, transportation bonds	(555,000)	
Capital lease liability	44,911	
		(335,356)
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds.		
Accrued interest	$ (5,041)	
Compensated absences	993	
Energy savings liability	(760)	
Workers compensation	(2,650)	
State Net pension liability	157,262	
MTA Net pension liability	(4,302)	
MTA OPEB obligation	53,288	
Energy savings asset	3,295	
		202,085
Deferred financing inflows (outflows)		
Pension activity	$ (190,024)	
OPEB activity	(99,631)	
Refunding bonds	(5,409)	
Amortization of assets	1,132	
		(293,932)
Change in net positon of governmental activities (page 41)		$ 472,133

The notes to the financial statements are an integral part of this statement.

MARYLAND DEPARTMENT OF TRANSPORTATION
Statement of Fiduciary Net Position
Fiduciary Funds
As of June 30, 2018
(amounts expressed in thousands)

ASSETS		
Cash and cash equivalents	$ 5,877	$ 25,152
Investments:		
Equity securities pool	113,491	-
Fixed income pool	58,604	-
Alternative investments pool	111,140	-
Real estate pool	8,827	-
Total investments	292,062	-
Receivables:		
Accrued investment income	815	-
Investment sales proceeds	5,425	-
Total receivables	6,240	-
Total assets	304,179	25,152
LIABILITIES		
Due to others	-	24,544
Accounts payable and accrued liabilities	5,732	608
Total liabilities	5,732	25,152
		$ -
NET POSITION:		
Net Postion held in Trust for Pension Benefits	$ 298,447	

The notes to the financial statements are an integral part of this statement.

MARYLAND DEPARTMENT OF TRANSPORTATION
Statement of Change in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2018
(amounts expressed in thousands)

				Maryland Transit Administration Pension Plan Trust Fund
ADDITIONS:				
Contributions from employer			$	40,997
Contributions from employees				3,316
Investment earnings:				
Interest income	$	19,580		
Net appreciation in fair value of investments		970		
Net investment earnings				20,550
Total additions				64,863
DEDUCTIONS:				
Benefit payments				37,203
Administrative expenses				2,213
Total deductions				39,416
Change in net postion				25,447
Net positon, July 1, 2017				273,000
Net position, June 30, 2018			$	298,447

The notes to the financial statements are an integral part of this statement.

1. <u>Summary of Significant Accounting Policies</u>:

A. Reporting Entity:

The Maryland Department of Transportation (Department), a department of the State of Maryland, was established by statute in 1971. The Department is responsible for carrying out the Governor's policies in the area of transportation under statutory mandates, guidelines and constraints established by the Maryland General Assembly. The Department has the responsibility for most state-owned transportation facilities and programs, including planning, financing, construction, operation and maintenance of various modes of transportation and carrying out related licensing and administrative functions. The Department includes the Secretary's Office (TSO), which provides overall policy direction, guidance, and support to five business units and one authority: the Maryland Aviation Administration (MAA), the Maryland Port Administration (MPA), the Maryland Transit Administration (MTA), the Motor Vehicle Administration (MVA), the State Highway Administration (SHA), and the Maryland Transportation Authority (MDTA).

The accompanying financial statements include the Department, which has no component units. The MDTA is a separate entity with separate fiscal operations and management, and accordingly, is excluded from The Financial Reporting Entity of the Department, because it is not financially accountable to the Department, as required by generally accepted accounting principles (GAAP) in the United States of America to require inclusion in the reporting entity.

B. Government-Wide and Fund Financial Statements:

The Department's government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all non-fiduciary activities of the government. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. The Department's governmental activities are supported primarily by taxes, intergovernmental revenues and charges for services. Fiduciary funds are excluded from the Department's government-wide and fund financial statements, as fiduciary assets are not available for the Department's use. Separate financial statements are provided for the fiduciary fund, the MTA Employee Pension Plan Trust Fund.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The government-wide financial statements and the fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the financial statements as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability or obligation is incurred as a result of goods or services rendered, as under accrual accounting. However, under the modified accrual basis, debt service expenditures are recorded only when payment is due. Compensated absences, retirement and workers' compensation costs and claims, judgments and other liabilities not expected to be paid with current available resources are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Motor vehicle taxes, motor vehicle fuel taxes, charges for services, federal reimbursements, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Department.

The Department collects and receives various types of motor vehicle taxes and fees. These taxes and fees consist primarily of a portion of the motor vehicle fuel taxes, motor vehicle titling taxes and motor vehicle registration fees. The Department accrues the motor vehicle fuel taxes and titling taxes for the month of June that are unremitted as of year-end as a receivable. These taxes are considered measurable and available since they represent June collections that are remitted to the Department in July and thereafter by merchants who collect these taxes. Expenditure-driven federal grants are recognized as revenue when the qualifying expenditures have been incurred, all other grant requirements have been met and the reimbursement funding is available from the federal government.

The Department reports the following major governmental fund:

Special Revenue Fund:
Transactions related to resources obtained, the uses of which are restricted for specific purposes, are accounted for in the Special Revenue Fund. The Special Revenue Fund accounts for resources used for operations (other than debt service and pension activities) of the Department, including construction and improvement of transportation facilities and mass transit operations. Fiscal resources dedicated to transportation operations include the excise taxes on motor vehicle fuel and motor vehicle titles, a portion of the State's corporation income tax and the sales tax on short-term vehicle rentals, wharfage and landing fees, fare box revenues, bond proceeds, federal grants for transportation purposes, and other receipts of the Department's agencies. The Department's unexpended balances as of year-end do not revert to the State's General Fund. In addition, the various categories of Consolidated Transportation Bonds are serviced from the resources of the Department. The particular taxes and other designated revenues are dedicated to the payment of Consolidated Transportation Bonds and constitute the sole sources to which holders of Consolidated Transportation Bonds may legally look for repayment.

The Department reports the following non-major governmental fund:

Debt Service Fund:
Transactions related to the resources accumulated and payments made for principal and interest on long-term transportation debt of governmental funds are accounted for in the Debt Service Fund.

Additionally, the Department reports the following fund types:

MTA Employee Pension Plan Trust Fund:
The pension trust fund accounts for the activities of the MTA Employee Pension Plan (the Plan), which accumulates resources for pension benefit payments to qualified MTA employees. The pension trust fund accounts for plan assets at their fair value. Additional information regarding the Plan is included in Note 14. The accounts of the pension trust fund are maintained and reported using the accrual basis of accounting. Under this method, revenues are recorded in the fiduciary fund financial statements when earned, and administrative expenses are recorded at the time the liabilities are incurred and pension benefits are recorded when paid.

Agency Fund:
The agency fund is custodial in nature and does not present the results of operations or have a measurement focus. The Department uses an agency fund to account for the receipt and disbursement of federal grant proceeds collected by the Department for distribution to political subdivisions and the accumulation of and payment of funds for debt service issued under the County Transportation Revenue Bond program. When both restricted and unrestricted resources are available for use, the Department's policy is to use unrestricted resources first and then restricted resources as they are needed.

D. Change in Accounting Principles and Restatement of Beginning Balances:
As of July 1, 2017, the Department implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* GASB Statement No. 75 requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the statement of net position as net OPEB liability. The net OPEB liability is the difference between the total OPEB liability and the assets set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

The restatement of the beginning of the year net position is as follows:

Net position as previously stated July 1, 2017	$14,313,093,000
Adoption of GASB Statement 75:	
Net other postemployment benefit liability	(463,377,000)
Net position as restated July 1, 2017	$13,849,716,000

E. New Pronouncements:
The Governmental Accounting Standards Board (GASB) statements which have been issued and which affect future periods are as follows: Statement No. 83, Certain Asset Retirement Obligations; Statement No. 84, Fiduciary Activities; Statement No. 87, Leases; Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements; and Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, which will require adoption in the future, if applicable. These statements may or will have a material effect on the Department's financial statements once implemented. The Department will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

2. Summary of Significant Accounting Policies-Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity

A. All Funds:

1. Deposits and investments:

The Department's cash on hand, demand deposits and short-term investments maturing within 90 days from the date purchased are considered as cash and cash equivalents. The Department's investments are recorded at fair value and changes in fair value are recognized as revenue. The cash and cash equivalents and investments of the MTA Employee Pension Plan Trust Fund are maintained by the State Retirement and Pension System of Maryland (System) on a pooled basis. The System, in accordance with Section 21 of the State Personnel and Pensions article of the Annotated Code of Maryland, is permitted to make investments subject to the terms, conditions, limitations and restrictions imposed by the Board of Trustees of the System. The System's investments are commingled in three combined investment funds. Two investment funds consist principally of bonds and other fixed income investments, while the other investment fund consists principally of common stocks.

2. Receivables and payables:

Amounts due to the Department from various tax revenue sharing programs are recorded as taxes receivable, while amounts due to the Department from the federal government are reported as intergovernmental receivables. Amounts representing balances due from the MDTA and the State's General Fund are reported as due from other State agencies. Amounts representing balances due to the MDTA and the State's General Fund are reported as due to other State agencies. Amounts representing balances due to political subdivisions are reported as accounts payable to political subdivisions.

3. Inventories and prepaid items:

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements under the consumption method.

4. Grants:

Revenues from federal reimbursement type grants are recognized when the related expenditures are incurred and the revenues are both measurable and available. The government considers all grant revenues to be available if they are collected within 60 days of the current fiscal period.

5. Capital assets:

Capital assets, which include land, buildings and improvements, machinery and equipment, construction in progress and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Department as assets with an initial, individual cost of more than $50,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Cost on constructed assets includes materials, labor, design and any other costs directly related to putting the asset in use. Donated capital assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Capital Assets	**Years**
Buildings and improvements	5-50
Transit vehicles and equipment	10-25
Other vehicles	3-10
Office equipment	3-10
Computer equipment	3-10
Computer software	5-10
Infrastructure	10-50

6. Deferred outflows/inflows of resources:
In addition to assets, the Statement of Net Position reports a separate section for deferred outflow of resources. This separate financial statement element represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The Department has two items that qualify for reporting in this category: the deferred amount for refunding bonds and deferred amount for pensions.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflow of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Department has three items that qualify for reporting in this category: deferred service concession arrangement receipts, deferred amount for pensions, and deferred amount for other postemployment benefits (OPEB). (See Note 9 for additional information concerning service concession arrangements and Note 14 for additional information concerning GASB No. 68.)

7. Compensated absences:
It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the State does not have a policy to pay any amounts when employees separate from service with the State. All vacation pay is accrued when earned in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured as a result of employee resignations and/or retirements. Principally all full-time State employees accrue annual leave based on the number of years employed up to a maximum of 25 days per calendar year. Earned annual leave may be accumulated up to a maximum of 75 days as of the end of each calendar year. Accumulated earned, but unused annual leave for the Department's employees is accounted for in the government-wide financial statements.

8. Long-term obligations:
In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts adjust the carrying value of the bonds and are amortized over the life of the bonds. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the period the debt is issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

9. Fund balance:
The Department's Balance Sheet for the reservation of fund balance includes the following categories: (1) Nonspendable fund balance (which includes inventory of supplies and prepaid items), (2) Restricted fund balance (for debt service items), (3) Committed fund balance (contractual obligations), (4) Assigned fund balance (for loans receivable, agency activities and other function related activities), and (5) Unassigned fund balance is the residual classification for the Department and includes all spendable amounts not contained in the other classification for the special revenue funds within the Department.

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the Department's policy to use committed resources first, then assigned, and then unassigned as they are needed.

The Department utilizes encumbrance accounting. Encumbrances, based on purchase orders or other contracts, have been classified based on the existing resources that will be used to liquidate them. Encumbrances not included in the restricted fund balance are included in the committed fund balance since these amounts do not lapse at year-end but are payable from remaining appropriations from the prior year. These amounts can only be used for specific purposes pursuant to constraints imposed by formal actions of the government's highest level of decision making authority through the budget process.

3. Reconciliation of Government-wide and Fund Financial Statements:

A. Explanation of the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund Balance Sheet includes reconciliation between fund balance – total governmental funds and total net position – total governmental activities as reported in the government-wide Statement of Net Position. The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes reconciliation between the net change in fund balance – total governmental funds and the change in net position of governmental activities as reported in the government-wide Statement of Activities. The Statement of Net Position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The Statement of Net Position displays assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position, although a balance sheet format (assets plus deferred outflows of resources equals liabilities plus deferred inflows of resources, plus net position) may be used. Regardless of the format used, the Statement of Net Position should report the residual amount as net position, rather than net assets, proprietary or fiduciary fund balance, or equity. The net position represents the difference between all other elements in a Statement of Net Position and should be displayed in three components—net investment in capital assets; restricted (distinguishing between major categories of restrictions); and unrestricted.

4. Deposits and Investments:

A. Investments at Fair Value

GASB Statement No. 72 (GASB 72), Fair Value Measurement and Application, clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. GASB 72 established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 – that are observable for the asset or liability, either directly or indirectly (for example, quoted prices for similar assets or liabilities in active markets).

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Department categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following recurring fair value measurements as of June 30, 2018:

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a combination of prevailing market prices and interest payments that are discounted at prevailing interest rates for similar instruments. Commercial and residential mortgage-backed securities classified in Level 3 are valued using discounted cash flow techniques. Collateralized debt obligations classified in Level 3 are valued using consensus pricing.

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates and foreign exchange rates.

		(amounts expressed in millions)		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments by fair value level				
Debt Securities				
U.S. Government obligations	$ 38	$ 38	$ -	$ -
Domestic corporate obligations	20	-	20	-
Emerging markets debt	1	-	-	1
Mortgages & mortgage related securities	8	-	-	8
Total debt securities	67	38	20	9
Equity Securities				
Domestic stocks (including REITs)	55	55	-	-
International stocks (including REITs)	59	59	-	-
Total equity securities	114	114	-	-
Total investment by fair value level	**181**	**$ 152**	**$ 20**	**$ 9**
Investment measured at the net asset value (NAV)				
Private Funds (includes equity, real estate, credit, energy, infrastructure and timber)	58			
Real Estate-open ended	20			
Global macro	3			
Multi-strategy	3			
Hedge Funds				
Equity long/short hedge funds	6			
Event-driven hedge funds	5			
Global macro	5			
Multi-strategy hedge funds	9			
Opportunistic	2			
Total investment measured at the NAV	**111**			
Total	**$ 292**			

The valuation method for investments measured at net asset value per share (or its equivalent):

(amounts expressed in millions)

	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Private Funds (includes equity, real estate energy, infrastructure and timber)	$ 58	$ 40		
Real Estate-open ended	20		Quarterly	45 - 90 days
Global macro	3		Weekly	3 days
Multi-strategy	3		Weekly	3 days
Hedge Funds				
Equity long/short	6		Monthly	30 - 45 days
Event-drive	5		Annual	45 days
Global macro	5		Monthly	5 days
Multi-asset	-		N/A	Liquidating
Multi-strategy	9		Quarterly	60 - 90 days
Opprtunistic	2		Annual	90 days
Total	$ 111	$ 40		

Interest rate risk:
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Department's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Maryland State Treasurer’s policy on all of the Department’s investments. The State Treasurer’s investment policy states that to the extent possible, it will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the State Treasurer will not directly invest in securities maturing more than five years from the date of purchase. The Department followed this policy for all its investments including the debt investments.

Credit risk:
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department's policy for reducing its exposure to credit risk is to comply with State law, which requires that repurchase agreements be collateralized by U.S. Treasury and agency obligations. In addition, investments may be made directly in U.S. agency obligations. These agency obligations are rated Aa1 by Moody’s and AAA by Standard and Poor’s. State law also requires that money market mutual funds contain only U.S. Treasuries or agencies or repurchase agreements secured by U.S. Treasuries or agencies. The money market mutual funds are rated Aaa/AAA.

Concentration of credit risk:
Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Department's policy for reducing this risk of loss is to comply with the State Treasurer’s policy, which limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio.

Custodial credit risk - deposits and investments:
Custodial credit risk is the risk that, in the event of a bank failure, the Department's deposits may not be returned. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Department's name. The Department follows State law, which permits the State Treasurer to deposit in a financial institution in the State, unexpended or surplus money in which the State Treasurer has custody if (a) the deposit is interest-bearing, (b) the financial institution provides collateral that has a market value that exceeds the amount by which a deposit exceeds the deposit insurance, or (c) a custodian holds the collateral.

As of June 30, 2018, the Department reported a total of $3,052,000 in *Cash and cash equivalents – restricted* on the Department's Balance Sheet. This amount consists primarily of restricted cash for the construction retainages related to the SHA road projects.

State law authorizes the Department to invest in obligations of the U.S. Treasury including bills, notes, and bonds; obligations of U.S. agencies and instrumentalities; obligations of supranational issuers; repurchase agreements secured by an U.S. Treasury agency; instrumentality obligations or bankers' acceptances guaranteed by a financial institution with the highest short-term debt rating by at least one nationally recognized statistical rating organization (NRSRO); commercial paper with the highest rating by at least one NRSRO; shares or certificates in a money market mutual fund as defined by the State Treasurer; and the Maryland Local Government Investment Pool.

5. <u>Receivables and Unearned Revenue</u>:
The Department's receivables as of June 30, 2018 for the individual funds were as follows:

(amounts expressed in thousands)

Receivables	Special Revenue
Taxes receivable	$ 179,724
Intergovernmental receivable	460,504
Other accounts receivable	70,193
Due from other State agencies, net*	90,663
Net total receivables	$ 801,084

*Note to the schedule:
EPC asset is not reflected in this schedule or the fund statement but is included in Due from other State agencies on the Statement of Net Position in the amount of $5,250,000.

The Department's taxes receivable consists of receivables recorded at year-end for the Motor Vehicle Fuel Tax Division in the amount of $135,439,000 and the MVA's titling tax in the amount of $44,285,000.

The Department's intergovernmental receivables consist of receivables from the federal government in the amount of $448,249,000 and from the local subdivisions in the amount of $12,255,000.

The Department's other accounts receivable of $70,193,000 consist of miscellaneous receivables recorded at fiscal year-end across the Department.

The Department's due from other State agencies consist of $38,499,000 for the amount due from the State Comptroller's Revenue Administration Division for cash transfers not transferred to the Department as of June 30, 2018; $35,074,000 due from the MDTA for passenger facility charge (PFC), customer facility charge (CFC), and special parking revenue collections; $16,487,000 due from the Maryland Department of Budget and Management (DBM) for the health benefits refund; and, $603,000 due from the MDTA for the Intercounty Connector.

The Department's unearned revenue in connection with resources that have been received, but not yet earned was $118,220,000 as of June 30, 2018. The Department reported unearned revenue for customer prepayments of future airport services to be provided by the MAA in the amount of $4,076,000; $20,612,000 for revenues collected by the SHA for advanced contract payments, and $93,532,000 for advanced rental payments related to the MPA's service concession arrangement.

As of June 30, 2018, the Department also reported unearned revenue in the governmental funds in the amount of $24,688,000 for unearned customer prepayments. Unavailable revenue was comprised of $35,074,000 for the balance in the MAA PFC and CFC Improvement Funds and $252,554,000 related to federal receivables that were not collectable within the period available.

6. Interfund Transfers:

The interfund transfers for the Department for the year ended June 30, 2018, were as follows:

(amounts expressed in thousands)

Transfers In	Transfers Out	Amount
Debt Service Fund	Special Revenue Fund	$ 340,060

The purpose of this interfund transfer is to record the amount of revenue transferred from the Special Revenue Fund to the Debt Service Fund for debt service principal and interest payments. This transfer is reported on the Statement of Revenues, Expenditures and Changes in Fund Balances for the year ended June 30, 2018 as a debt service transfer under Other Financing Sources (Uses).

7. Due to Other State Agencies:

The amount reported as due to other State agencies within the Special Revenue Fund in the accompanying balance sheet is $134,304,000. That amount represents the amount due to the State's General Fund for motor vehicle fuel tax, which was not transferred as of June 30, 2018.

8. Capital Assets:

The Department's capital assets activity by asset classification, including accumulated depreciation, for the year ended June 30, 2018, was as follows:

(amounts expressed in thousands)

Capital Assets - Governmental activities	Balance July 1, 2017	Increases	Decreases	Transfers In (Out)	Balance June 30, 2018
Capital Assets not depreciated:					
Land and Land Improvements	$ 2,754,169	$ 12,001	$ (503)	$ 62,980	$ 2,828,647
Construction in progress	5,081,402	1,350,951	-	(813,683)	5,618,670
Total capital assets not depreciated	7,835,571	1,362,952	(503)	(750,703)	8,447,317
Capital assets depreciated:					
Building & improvements	3,186,904	18,752	(30,949)	210,040	3,384,747
Machinery & equipment	2,338,819	60,329	(82,257)	45,205	2,362,096
Infrastructure	24,161,716	752,588	(1,974)	495,458	25,407,788
Seagirt Assets	54,341	-	-	-	54,341
Total capital assets depreciated	29,741,780	831,669	(115,180)	750,703	31,208,972
Accumulated depreciation for:					
Building & improvements	(1,495,462)	(94,326)	22,223	-	(1,567,565)
Machinery & equipment	(1,673,850)	(122,853)	79,921	-	(1,716,782)
Infrastructure	(14,695,645)	(929,182)	1,806	-	(15,623,021)
Seagirt Assets	(5,660)	(1,132)	-	-	(6,792)
Total accumulated depreciation	(17,870,617)	(1,147,493)	103,950	-	(18,914,160)
Net capital assets after depreciation	11,871,163	(315,824)	(11,230)	750,703	12,294,812
Net total capital assets – governmental activities	$19,706,734	$1,047,128	$ (11,733)	$ -	$ 20,742,129

Depreciation expense for the current year on capital assets charged to the Department's transportation business units in the Statement of Activities for the year ended June 30, 2018, was as follows:

(amounts expressed in thousands)

Depreciation Expense - Governmental Activities	
Secretary's Office	$ 4,813
State Highway Administration	889,530
Port Administration	30,123
Motor Vehicle Administration	15,142
Transit Administration	112,467
Aviation Administration	95,418
Total depreciation expense - governmental activities	$1,147,493

9. Service Concession Arrangements:

The Department entered into a long-term lease with Ports America Chesapeake (PAC) to manage, operate and maintain the Seagirt Marine Terminal. This agreement satisfies the criteria established to be considered a service concession arrangement (SCA). Under the terms of the ground lease, the Department transfers rights to PAC for a term of 50 years. After 50 years, the Department has the option to buy PAC's equipment. PAC charges and collects fees from the user for container lifts, short tons of roll on-roll off, break-bulk and bulk cargo and pays the operating costs, management fee and debt service associated with the project. The Department has the ability to approve what services the operator is required to provide. As of June 30, 2018, the capital assets, net accumulated depreciation and deferred SCA receipts were $47,549,000.

The Department entered into the first light rail transit public-private partnership concession arrangement in Maryland. The construction, operation, and maintenance risk is being managed by Purple Line Transit Partners, LLC (PLTP) through the 6-year design and construction and 30-year operation and maintenance period. The PLTP will finance, develop, design, build, equip, and supply light rail vehicles under an availability-based concession agreement with the Department. Construction began in August 2017. The Department paid a total of $410,539,000 for construction costs to date. As of June 30, 2018, the capital assets and deferred SCA receipts were $66,505,000.

10. Long-term Liabilities:

Changes in long-term liabilities:

The Department's long-term liability activity for the year ended June 30, 2018, was as follows:

(amounts expressed in thousands)

Governmental activities:	Beginning Balance July 1, 2017	Additions	Reductions	Ending Balance June 30, 2018	Due Within One Year
Transportation bonds(1)	$2,578,385	$ 555,000	$(221,710)	$ 2,911,675	$ 199,410
Capital leases(1)	569,659	-	(44,911)	524,748	65,125
Pollution obligations	156,161	-	-	156,161	-
MTA OPEB liability (2)	886,577	-	(53,288)	833,289	-
State Employees' Plan Net pension liability	738,675	-	(157,262)	581,413	-
MTA Net pension liability	969,033	4,302	-	973,335	-
Premium on bonds(1)	282,443	92,107	(45,130)	329,420	45,449
Workers' compensation costs	68,083	21,910	(19,260)	70,733	10,610
EPC obligations(1)	42,035	5,250	(4,490)	42,795	4,612
Compensated absences	50,215	33,263	(34,256)	49,222	9,733
Total long-term liabilities – governmental activities	$6,341,266	$ 711,832	$(580,307)	$ 6,472,791	$ 334,939

Notes to the schedule:

(1) These items are combined for the net related debt calculation on the Statement of Net Position section entitled Net Position – Net investment in capital assets. (2) The FY 2017 beginning balance for MTA OPEB liability was restated to implement GASB Statement No. 75.

The State Treasurer's Office is financing the EPC obligations in the amount of $40,067,000; certain agencies have a Maryland Energy Administration (MEA) State Agency Loan Program (SALP) loan totaling $2,728,000. The current portion that is due within one year is the principal due to the State Treasurer's Office in the amount of $4,129,000 and the agencies' SALP portion in the amount of $483,000; see Note 17 for additional program details.

The Department's long-term liabilities, other than Consolidated Transportation Bonds, are generally liquidated through the Special Revenue Fund. The Department estimates there are no material liabilities for arbitrage rebates as of June 30, 2018.

11. **Consolidated Transportation Bonds:**

The Department issues Consolidated Transportation Bonds to provide funds for the acquisition and construction of major capital facilities. Consolidated Transportation Bonds are limited obligations issued by the Department for highway, port, airport, rail or mass transit facilities or any combination of such facilities. The principal must be paid within 15 years from the date of issue. As provided by State law, the General Assembly establishes in the budget for each fiscal year a maximum outstanding aggregate amount of Consolidated Transportation Bonds as of June 30 of the respective fiscal year that does not exceed $4,500,000,000. The aggregate principal amount of those bonds that were allowed to be outstanding as of June 30, 2018, was $3,021,675,000. The aggregate principal amount of Consolidated Transportation Bonds outstanding as of June 30, 2018, was $2,911,675,000. Consolidated Transportation Bonds are paid from the Debt Service Fund.

The Department's Consolidated Transportation Bonds outstanding as of June 30, 2018, were as follows:

(amounts expressed in thousands)

	Interest Rates	Amount
Consolidated Transportation Bonds - due serially through 2032 – for State transportation activity	2.0-5.5%	$2,401,340
Consolidated Transportation Bonds, refunding – due serially through 2027 – for State transportation activity	4.0-5.0%	510,335
Total Consolidated Transportation Bonds		$2,911,675

Principal and interest on Consolidated Transportation Bonds are payable from the proceeds of certain excise taxes levied by statute, a portion of the corporation income tax and a portion of the State sales tax on short term vehicle rentals credited to the Department. These amounts are applicable to the extent necessary for that exclusive purpose before being available for other uses by the Department. If those tax proceeds become insufficient to meet debt service requirements, other receipts of the Department are available for that purpose. The holders of such bonds are not entitled to look to other State resources for payment. Under the terms of authorizing bond resolutions, additional Consolidated Transportation Bonds may be issued provided, among other conditions, that (i) total receipts (excluding federal funds for capital projects, bond and note proceeds and other receipts not available for debt service), less administration, operation and maintenance expenses for the preceding fiscal year, equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued, and (ii) total proceeds from pledged taxes equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.

County Transportation Revenue Bonds, enacted during the 1993 session of the General Assembly, are issued by the Department and the proceeds are used by participating counties and Baltimore City to fund local road construction, reconstruction and other transportation projects and facilities and to provide local participating funds for federally-aided highway projects. Debt service on these bonds is payable from, and the obligation of, the participating counties' and Baltimore City. Unexpended bond proceeds in the amount of $8,553,000 and certain debt service sinking fund amounts aggregating $16,599,000 were invested in money market accounts as of June 30, 2018. These funds are reported as cash and cash equivalent in the agency funds. The two amounts are restricted for project funds and county bond debt service respectively. As of June 30, 2018, $97,020,000 in County Transportation Revenue Bonds was outstanding.

On September 21, 2017, Consolidated Transportation Bonds in the amount of $425,000,000 were issued by the Department with a net premium of $77,338,000. These bonds are dated with maturities ranging from September 1, 2020 to September 1, 2032 at interest rates ranging from 3.0-5.0%. On May 24, 2018, Consolidated Transportation Bonds in the amount of $130,000,000 were issued by the Department with a net premium of $14,769,000. These bonds are dated May 24, 2018 with maturities ranging from May 1, 2021 to May 1, 2033 at interest rates ranging from 3.0-5.0%. As of June 30, 2018, the Department has $323,040,000 of defeased debt outstanding.

Annual debt service requirements to maturity for Consolidated Transportation Bonds in future years are as follows:

(amounts expressed in thousands)

Years Ended June 30,	Transportation Bonds-Principal	Transportation Bonds-Interest	Total Transportation Bond Debt Service Requirements
2019	$ 199,410	$ 124,365	$ 323,775
2020	205,755	114,535	320,290
2021	254,860	103,879	358,739
2022	261,000	91,497	352,497
2023	267,320	80,131	347,451
2024-2028	1,037,170	243,622	1,280,792
2029-2033	686,160	51,463	737,623
Total	$ 2,911,675	$ 809,491	$ 3,721,166

12. Operating and Capital Leases:

Operating Leases:

The Department leases office space under various agreements that are accounted for as operating leases. Rent expense under these agreements was $3,206,000 for the year ended June 30, 2018.

The future minimum operating lease payments under these agreements as of June 30, 2018, were as follows:

(amounts expressed in thousands)

Years Ended June 30,	Operating Leases Future Minimum Payments
2019	$ 120,593
2020	44,762
2021	38,860
2022	32,828
2023	20,100
2024-2028	41,254
2029-2033	5,505
Total operating leases	$ 303,902

Capital Leases:

The Department has entered into several lease agreements for the financing of various transportation related projects. The Department has also entered into agreements with the MDTA for the financing of various aviation projects. The Department has reported obligations under capital leases of $524,748,000, as of June 30, 2018. The Department's activity related to capital leases is included in the table in Note 10.

The Department's capital lease obligations as of June 30, 2018, were as follows:

- $10,110,000 in obligations related to Project Certificates of Participation for the Maryland Aviation Administration Facilities, Series 2010 (refunding), issued on December 1, 2010, at annual interest rates ranging from 3.0-5.0%;

- $7,880,000 in obligations related to Project Certificates of Participation for the Maryland Transit Administration Project, Series 2010 (refunding), issued on December 1, 2010, at annual interest rates ranging from 3.0-5.0%;

- $11,855,000 in obligations related to Certificates of Participation for the Maryland Port Administration Facility Project, Series 2006, issued on June 14, 2006, at annual interest rates ranging from 4.25-5.25%;

- $136,455,000 for the Maryland Economic Development Corporation bond issuance for the Maryland Aviation Facilities, issued on April 3, 2003, at annual interest rates ranging from 4.5-5.5%;

- $10,095,000 for the Maryland Economic Development Corporation bond issuances for the financing of the Department's headquarters building, original bonds issued on June 27, 2002, refunding bonds issued May 25, 2010, at annual interest rates ranging from 3.0-4.5%;

- $110,317,000 on long-term obligations related to the financing of BWI Marshall Airport parking and roadway projects. Bonds associated with this agreement were issued by the Maryland Transportation Authority in the amount of $264,075,000 on March 5, 2002, and refunded on April 25, 2012, with annual interest rates ranging from 4.0-5.0%;

- $69,733,000 on long-term obligations related to the financing of BWI Marshall Airport Consolidated Rental Car Facility. Bonds associated with this agreement were issued by the Maryland Transportation Authority in the amount of $117,345,000 on June 18, 2002, at annual interest rates ranging from 2.74-6.65%;

- $24,529,000 minimum payments, for the financing of certain airport facilities project located at BWI Marshall Airport including construction of a connector hallway between Concourses B and C. Bonds were issued by Maryland Transportation Authority on April 25, 2012, in the amount of $50,905,000 at annual interest rates ranging from 4.0-5.0%.

- $107,788,000 on long-term obligations related to the financing of BWI Marshall Airport's runway safety and paving improvement projects. Bonds were issued by the Maryland Transportation Authority on December 13, 2012, in the amount of $92,070,000 as fixed rate bonds with interest rates ranging from 2.0-4.0% and $43,400,000 of variable rate demand bonds. As of June 30, 2018, the interest rate on the variable rate bonds was 1.55%.

- $35,986,000 on long-term obligation related to the financing of BWI Marshall Airport's construction of a connector hallway between Concourses C and D. Bonds were issued by the Maryland Transportation Authority on December 18, 2014, in the amount of $40,000,000 as fixed rate bonds with interest rates ranging from 3.0%-5.0%.

As bond proceeds are spent for construction, the Department's liability (or minimum payments) and related capital assets will increase, accordingly. Once construction is completed, the Construction in Progress asset will become a Building or Infrastructure asset.

The future minimum capital lease obligations and the net value of these minimum lease payments as of June 30, 2018, were as follows:

(amounts expressed in thousands)

Years Ended June 30,	Amount	
2019	$ 65,125	
2020	65,307	
2021	64,304	
2022	63,781	
2023	60,605	
2024-2028	268,557	
2029-2033	138,687	
2034-2038	2,954	
Total minimum lease payments	729,320	
Less: amount representing interest	161,425	(1)
Less: funds held by bond trustee	43,147	(2)
Value of minimum lease payments	$ 524,748	

Notes to the schedule:

(1) The interest represents 22.2% of the total minimum lease payments due.

(2) The reduction shown in the amount of $43,147,000 are monies held by the bond trustee on behalf of the MDTA to be used for construction and Debt Service Reserve Fund expenditures.

The capital assets acquired through capital leases as of June 30, 2018 were as follows:

(amounts expressed in thousands)

Capital Asset	Amount
Construction in progress	$ 97,743
Land and improvements	16,569
Buildings and improvements	1,134,492
Machinery and equipment	23,427
Infrastructure	292,106
Total acquired capital assets	1,564,336
Less: accumulated depreciation	568,171
Total capital assets – net	$ 996,165

13. Pollution Remediation Obligations:

The Department has recognized a pollution remediation obligation on the Statement of Net Position for governmental activities. A pollution remediation obligation is an obligation to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, including pre-cleanup activities, cleanup activities, government oversight and enforcement, and post remediation monitoring. Obligating events that initiate the recognition of a pollution remediation liability include any of the following: (a) There is an imminent and substantial endangerment to the public; (b) the Department is in violation of a pollution prevention related permit or license; (c) the Department is identified as a responsible party or potentially responsible party by an environmental regulator; (d) the Department is named or has evidence that it will be named in a lawsuit to participate in pollution remediation; or (e) the Department voluntarily commences, or legally obligates itself to commence, cleanup activities, monitoring or operations and maintenance of pollution remediation efforts.

The pollution remediation obligation is an estimate and subject to change resulting from price increases or reductions, technology advances or from changes in applicable laws or regulations. The liability is recognized as it becomes estimable. In some cases, this may be at inception. In other cases, components of a liability are recognized as they become reasonably estimable. At a minimum, the liability is reviewed for sufficiency when various benchmarks occur and as remediation is implemented and monitored. The measurement of the liability is based on the current value of outlays to be incurred using the expected cash flow technique. This technique measures the sum of probability-weighted amounts in a range of possible potential outcomes – the estimated mean or average.

The Department's pollution remediation liability as of June 30, 2018, is estimated to be $156,161,000 for cleanup projects at the SHA, the MPA, the MTA and the MAA with no expected recoveries from third parties to reduce the liability. Included in this liability are cost estimates for site monitoring and repair excavation of road and infrastructure, and replacement of buildings as a result of contaminations by hazardous materials under federal and State law. In these cases, either the Department has been named in a lawsuit by a State Regulator or the Department has legally obligated itself under the Environment Article, Section 7-201, of the Annotated Code of Maryland. These cost estimates for the Department's pollution remediation, due to site contamination from hazardous materials, are based on engineering design estimates. The estimated long-term costs that the Department may be responsible for over the next 15 years include: various cleanup projects related to several MTA construction sites and projects related to cleanup of underground hazardous substances at one of the MPA's marine terminals. The MPA is only responsible for 23% of the total remediation costs. The Department did not incur any significant costs to reduce the liability or identify any new technology that would change the liability during the current fiscal year ended June 30, 2018.

14. Retirement Systems and Pension Plans:

Maryland State Retirement and Pension System:

The Department and its employees contribute to the Maryland State Retirement System and Pension System (the System). The System was established by the State to provide pension benefits for State employees (other than employees covered by the MTA Plan described below) and employees of various participating political subdivisions or other entities within the State. The non-State entities that participate within the System receive separate actuarial valuations in order to determine their respective funding levels and actuarial liabilities. While the System is an agent multiple-employer public employee retirement system, the Department accounts for the plan as a cost sharing multiple-employer public employee retirement system as a separate valuation is not performed for the Department and the Department's only obligation to the plan is its required annual contributions. Retirement benefits are paid from the System's pooled assets rather than from assets relating to a particular plan participant.

Plan description:

Most employees of the State are provided with pensions through the System. The System is administered by a Board of Trustees in accordance with Section 21-108 of the State Personnel and Pensions Article of the Annotated Code of Maryland. The System issues a publicly available financial report that can be obtained at www.sra.state.md.us/Agency/Downloads/CAFR/.

Benefits provided:

The System includes several plans based on date of hire and job function. Employees of the Department are members of the Employees' and Teachers' Retirement System (the Retirement Plan), the Employees' and Teachers' Pension System (the Pension Plan), or the Law Enforcement Officers' Pension System (the Officers' Plan). The Retirement Plan includes those employees hired prior to

January 1, 1980, who have not elected to transfer to the Pension Plan and are not a member of the Officers' Plan. Members of the Pension Plan include those employees hired after January 1, 1980, and prior employees who elected to transfer from the Retirement Plan and are not a member of the Officers' Plan. Members of the Officers' Plan include all MTA law enforcement officers.

Members of the Retirement Plan become vested after five years. Members are generally eligible for full retirement benefits upon the earlier or attaining age 60 or accumulating 30 years of eligible service regardless of age. The annual retirement allowance equals 1/55 (1.8%) of the member's highest three-year average final salary (AFS) multiplied by the number of years of accumulated credible service. A member may retire with reduced benefits after completing 25 years of eligible service. Benefits are reduced by 0.5% per month for each month that payments begin prior to the age of 60 or 30 years of eligible service, whichever is less. The maximum reduction for a member is 30%.

The Pension Plan includes several components based on a member's date of hire. This is the result of legislative changes to the Pension Plan enacted in 1998, 2006, and 2011. Provisions for these components are largely the same; however, important distinctions exist in the areas of member contributions, retirement eligibility and benefit calculations. Generally, the greatest distinctions for members of the plan exist for those hired before July1, 2011, and those hired on or after that date.

The following applies to members of the Pension Plan hired before July 1, 2011. Vesting occurs once members have accrued at least five years of eligible service. Members of the Pension Plan are generally eligible for full retirement benefits upon attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. Generally, the annual pension allowance for a member equals 1.2% of the member's three-year AFS, multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.8% of the member's AFS, multiplied by the number of years of creditable service accumulated prior to June 30, 1998. A member may retire with reduced benefits upon attaining age 55 with at least 15 years of eligible service. Benefits are reduced by 0.5% per month for each month remaining until the retiree reaches the normal retirement service age. The normal retirement service age is 62 with a maximum reduction of 42%.

The following applies to members of the Pension Plan hired on or after July 1, 2011. Vesting occurs once members have accrued at least ten years of eligible service. To receive full retirement benefits, a member's age and years of eligibility service must equal at least 90, or if the member is at least age 65, a minimum of 10 years of eligibility service are required on the date of retirement. The annual pension allowance for a member equals 1.5% of the member's five-year AFS multiplied by the number of years of creditable service. A member may retire with reduced benefits at age 60 with at least 15 years of eligible service. Benefits are reduced by 0.5% per month for each month remaining until the retiree reaches the normal retirement service age. The normal retirement service age is 65, with a maximum reduction of 30%.

For members of the Officers' Plan, hired on or before June 30, 2011, vesting occurs once members have accrued at least five years of eligible service. For members hired on or after July 1, 2011, vesting occurs once a member has accumulated ten years of eligible service. Members are eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 25 years of eligible service regardless of age. Generally, the annual pension allowance for a member equals 2.0% of the member's AFS, up to a maximum of benefit of 60% of AFS (30 years of creditable service). The Officers' Plan does not provide for early retirement.

Funding policy:
In accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland, employer contribution rates are established by annual actuarial valuations using the entry age normal cost method and other actuarial assumptions adopted by the Board of Trustees. Employees are required to contribute to the System a fixed percentage of their regular salaries and wages. Members of the Retirement System pay 5-7% depending on the retirement system selected. Members of the Pension Plan and Officers' Plan pay 7% of earnable compensation. The Department's contractually required contribution rate for the System for the year ended June 30, 2018, was $66,910,000, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the System from the Department were $66,910,000 for the year ended June 30, 2018.

GASB Statement No. 68 requires the Department to recognize the long-term obligation for pension benefits as a liability on the Statement of Net Position and measure the pension costs. As of June 30, 2018, the Department reported a liability of $581,413,000 for its proportionate share of the System's net pension liability. The Department's net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's proportion of the System's net pension liability was based on a projection of the Department's long-term share of contributions to the pension plan relative to the projected contributions of all participating government units, actuarially determined. As of June 30, 2018, the Department's proportion for the System was 2.85%, which was substantially the same from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Board recognized pension expense for the System of $67,206,000. As of June 30, 2018, the Department reported deferred outflows of resources and deferred inflows of resources related to the System from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in experience	$ -	$ 37,771
Changes of assumptions	27,072	-
Contribution after measurement date	66,910	-
Change in proportionate share	-	81,185
Net difference between projected and actual earning on pension plan investments	41,003	-
Total	$ 134,985	$ 118,956

The amount reported as deferred outflows of resources related to the System resulting from the Department's contributions subsequent to the measurement date was $66,910,000 and will be recognized as a reduction of the System's net pension liability in the year ended June 30, 2019. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows: ($15,365,000) for fiscal year 2019; ($1,568,000) for fiscal year 2020; ($18,637,222) for fiscal year 2021; ($11,254,000) for fiscal year 2022; and ($4,057,000) for fiscal year 2023.

Information included in the MSRPS financial statements:
Actuarial assumptions, long-term expected rate of return on pension plan investments, discount rate, and pension plan fiduciary net position are available at www.sra.state.md.us/Agency/Downloads/CAFR.

The sensitivity of the Department's proportionate share of the net pension liability to changes in the discount rate:
The Department's proportionate share of the System's net pension liability calculated using the discount rate of 7.5% is $581,413,000. Additionally, the Department's proportionate share of the System's net pension liability if it were calculated using a discount rate that is 1-percentage-point lower at 6.5% is $823,978,000 or 1-percentage-point higher at 8.5% is $380,153,000.

Maryland Transit Administration Employee Pension Plan:
Plan description:
The MTA Employee Pension Plan (the MTA Plan) is a single employer noncontributory plan that covers certain MTA employees. Covered employees include: any employee who is a member of the Amalgamated Transit Union, Local 1300, or the Office and Professional Employees International Union, Local 2, who are not included in the System; any employee who is a member of the Police Local Union No. 1859, who is not included in the Officers' Plan; and any management employee who transferred from any of the bargaining units above. The MTA Plan is part of the Department's financial reporting entity and is included in the Department's financial statements as a Pension Trust Fund. The MTA Plan prepares separate audited financial statements, which can be obtained from the MTA Plan, William Donald Schaefer Tower, 8 Saint Paul Street, Baltimore, Maryland 21202. The Plan is administered and funded in compliance with the collective bargaining agreements, which established the MTA Plan.

Benefits Provided:
Members of the MTA Plan are vested once members have accrued at least five, seven, or ten years, depending on date of hire. Members of the MTA Plan are generally eligible for full retirement benefits upon attaining age 52 with 30 years of eligibility service or attaining age 65 and being fully vested. The annual pension allowance for a member equals 1.7% of the member's pensionable earnings for three years over the last 10 years of credited service. Effective July 1, 2016, AFS may include overtime up to 2,392 pay hours in any year. A member may retire with reduced benefits upon attaining age 55 plus years of service at least equal to 85. Benefits are reduced by 0.33% or 0.42% per month depending on age at retirement for each month remaining until the retiree reaches ages 65, the normal retirement service age.

For the Year ended June 30, 2018, the MTA Plan recognized contributions of $40,997,000. and the recognized pension expense of $90,329,000. As of June 30, 2018, the Department reported deferred outflows of resources and deferred inflows of resources related to the MTA Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 14,487	$ 31,809
Changes of assumptions	216,606	146,899
Net difference between projected and actual earning on pension plan investments	1,629	7,263
Total	$ 232,722	$ 185,971

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the MTA Plan will be recognized in pension expense as follows: changes in assumptions: fiscal years 2018-2021, $26,682,000 per year; in fiscal year 2022, $19,042,000; and in fiscal year 2023, ($29,380,000); difference between projected and actual earnings on pension plan investments: fiscal years 2018-2019, ($2,853,000) per year; in fiscal year 2020, ($2,065,000); in fiscal year 2021, ($1,123,000); and in fiscal year 2022, $407,000; difference between actual and expected experience: fiscal years 2018-2021, ($5,015,000) per year; in fiscal year 2022, ($2,222,000); and in fiscal year 2023, ($66,000).

The sensitivity of the Department's proportionate share of the net pension liability to changes in the discount rate:

The MTA Plan's net pension liability calculated using the discount rate of 4.52% is $973,335,000. Additionally, the Department's proportionate share of the MTA Plan's net pension liability if it were calculated using a discount rate that is 1-percentage-point lower (3.52%) is $1,171,590,000 or 1-percentage-point higher (5.52%) is $811,708,000. The MTA Plan and the reports can be found on the Department's website at the following link: http://www.mdot.maryland.gov/newMDOT/Finance/Index.html

15. Other Postemployment Benefits:

State Employee and Retiree Health and Welfare Benefits Program of Maryland:

Plan Description:

The State Employee and Retiree Health and Welfare Benefits Program (Plan) is a single-employer defined benefit healthcare plan established Sections 2-501 through 2-516 of the State Personnel and Pensions Article in the Annotated Code of Maryland. The self-insured Plan provides medical hospitalization, prescription drug and dental insurance to State employees, retirees and their dependents. State law grants authority to establish and amend benefit provisions to the Secretary of the Department of Budget and Management (DBM). In addition, the Secretary of DBM shall specify by regulation to the types or categories of State employees who are eligible to enroll, with or without State subsidies, or who are not eligible to enroll.

The Postretirement Health Benefits Trust Fund (OPEB Trust) is established as an irrevocable trust under Section 34-101 of the State Personnel and Pensions Article to receive appropriated funds and contributions which will be used to assist the Plan in financing the State's postretirement health insurance subsidy. The oversight of the OPEB funds is the same Board of Trustees that oversees the Maryland State Retirement and Pension Systems. The Board of Trustees consists of 15 members. A separate audited GAAP-basis postemployment benefit report is not available for the defined benefit healthcare trust fund. The OPEB Trust is included in the State's CAFR, which can be obtained from the Comptroller of Maryland's website at www.marylandtaxes.com.

Funding Policy:

The contribution requirement of Plan members and the State are established by the DBM Secretary. Each year the DBM Secretary recommends to the Governor the State's share of the costs of the Plan. Funds deposited into the OPEB Trust may consist of any funds appropriated to the OPEB Trust, whether directly or through the budgets of any State agency. The State is required by law to include money in the State budget to pay the State's share of the costs of the Plan. The administrative expenses may not exceed $100,000 annually.

Eligibility for the Plan is determined by various factors, including date of hire. Generally, employees hired before July 1, 2011 may enroll and participate in the Plan if the employee left State service with at least 16 years of creditable service, retired directly from State service with at least 5 years of creditable service, left State service with at least 10 years of creditable service and within 5 years of normal retirement age, or retired directly from State service with a disability retirement. Employees hired on or after July 1, 2011, may enroll and participate in the Plan if the employee left State service with at least 25 years of creditable service, retired directly from State service with at least 10 years of creditable service, left State service with at least ten years of creditable service and within five years of normal retirement age, or retired directly from State service with a disability retirement.

The State subsidizes a portion of the covered medical, dental, prescription, and hospitalization costs, depending on the type of insurance plan. The Plan assesses a surcharge for postemployment health care benefits, which is based on health care insurance charges for State employees. Costs for postretirement benefits are for State retirees and are primarily funded by the State. The State does not distinguish employees by employer/State agency. For the years ended June 30, 2018, 2017, and 2016, the State did not allocate postemployment health care costs to participating employers and as a result did not require a contribution from the Department. As such, the State has elected to maintain the entire net OPEB liability as a liability of the General Fund of the State and has not allocated any balances to State agencies including the Department.

Maryland Transit Administration Pension Plan - OPEB:
Plan Description:
The members of the MTA Plan are provided postemployment health care benefits through the State Employee and Retiree Health Plan (the MTA Health Plan). The MTA Health Plan currently funds retirees' health care cost on a pay-as-you-go basis. As retirees incur expenses, the MTA Health Plan pays out funds based on the appropriate benefit structure. The MTA does not currently have a separate fund set aside to pay health care costs. The MTA Health Plan provides health care coverage for 1,397 retirees. Retirees make the same contributions as active employees; however, Medicare contributions are handled separately.

Funding Policy:
The Department is required by law to provide funding each year to the MTA Health Plan for the Department's share of the pay-as-you-go amount necessary to provide current benefits to retired employees and their dependents. The MTA Health Plan healthcare benefits including medical (PPO or HMO), prescription drug, dental and vision plans are provided to retirees meeting the following eligible criteria:

1. Age 65 with 5 years of service
2. Age 52 with 30 years of service
3. Age 55 with at least 30 years of service, including military and other qualifying service credits
4. Disabled with 5 or 7 years of service, depending on date of hire
5. Surviving spouse subsidized benefit for 3 years

The Department's annual OPEB cost related to the MTA Health Plan, which is not setup in an irrevocable trust, is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded liabilities over a period not to exceed 30 years.

The Change in Net OPEB liability for the MTA Health Plan as of June 30, 2018 was:

(amounts expressed in thousands)

Balance as of June 30, 2016 for FYE 2017	$886,577
Changes for the year	
Service costs	47,907
Interest	25,090
Trust contribution - employer	(13,208)
Changes in assumptions	(113,863)
Administrative expense	786
Change in OPEB obligation	(53,288)
Net OPEB obligation beginning of fiscal year	886,577
Balance as of June 30, 2017 for FYE 2018	$833,289

Actuarial Methods and Assumptions:

An actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future.

A projection of benefits for financial reporting purposes is based on the substantive plan and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial method and significant assumptions listed below were used in the actuarial valuation of the OPEB for the MTA Health Plan as of June 30, 2018, was as follows:

Actuarial Cost Method:	Entry age normal
Amortization Method:	Closed, level Percentage of Payroll
Amortization Period:	20 years (as of July 1, 2014)
Asset Valuation Method:	5-year smoothed market
Discount Rate:	3.58%
Medical Trend:	5.8% in FY2018 decreasing to 5.68% in 2050 Pre-Medicare and 5.3% Post-Medicare. The ultimate rate is 4.34% in 2080
Dental/Vision Trend:	4.5% per annum

For the year ended June 30, 2018, the MTA Health Plan recognized OPEB expense for the MTA Health Plan of $59,551,000. As of June 30, 2018, the Department reported deferred outflows of resources and deferred inflows of resources related to the MTA Health Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in experience	$ -	
Changes of assumptions	-	$ 99,631
Contribution after measurement date	-	-
Change in proportionate share	-	-
Net difference between projected and actual earning on pension plan investments	-	-
Total	$ -	$ 99,631

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the MTA Health Plan will be recognized in pension expense as follows: changes in assumptions: fiscal years 2018-2025, $14,233,000 per year. $0 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

The sensitivity of the Department's proportionate share of the net OPEB liability to changes in the discount rate:

The MTA Health Plan's net OPEB liability calculated using the discount rate of 3.58% is $833,289,000. Additionally, the Department's proportionate share of the MTA Health Plan's net OPEB liability if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) is $994,622,000 or 1-percentage-point higher (4.58%) is $705,864,000. The MTA Health Plan and the reports can be found on the Department's website at the following link: http://www.mdot.maryland.gov/newMDOT/Finance/Index.html

The sensitivity of the Department's proportionate share of the net OPEB liability to changes in the health care trend rate:

The MTA Health Plan's net OPEB liability calculated using the health care cost trend rate of 4.34% is $833,289,000. Additionally, the Department's proportionate share of the MTA Health Plan's net OPEB liability if it were calculated using a health care cost trend rate that is 1-percentage-point lower (3.34%) is $686,751,000 or 1-percentage-point higher (5.34%) is $1,026,673,000. The MTA Health Plan and the reports can be found on the Department's website at the link listed above.

16. Risk Management and Insurance:

Workers' Compensation:

The Department is self-insured for workers' compensation liabilities. The Department's workers' compensation self-insured liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Liabilities for incurred workers' compensation losses to be settled by fixed or reasonably determined payments over a long period of time are reported at their present value using a 4% discount rate. The workers' compensation costs are based upon separately determined actuarial valuations for the fiscal year ended June 30, 2018.

The Department's workers' compensation self-insurance program is administered by the Chesapeake Employers' Insurance Company under a contract which requires that the Department pay premiums based upon loss experience plus a proportionate share of administrative costs. In the event of termination of the contract, the Department is obligated for any premium deficiency at the time of termination. The Department's accrued workers' compensation costs were $70,733,000 as of June 30, 2018.

The activity related to accrued workers' compensation costs is included in the table in Note 10. Changes in the balances for the Department's workers' compensation liability during the past two fiscal years are as follows:

(amounts expressed in thousands)

	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017
Unpaid claims, beginning of fiscal year	$ 68,083	$ 64,799
Incurred claims and changes in estimates	21,910	19,512
Claim payments	(19,260)	(16,228)
Total unpaid claims, end of fiscal year	$ 70,733	$ 68,083

Insurance:

The operations of the MAA, the MPA, and the MTA are covered by commercial liability insurance policies and many claims are handled by the Department's insurance carriers. The MAA's two facilities, BWI Marshall Airport and Martin State Airport, are covered by an airport owners' and operators' general liability insurance policy providing coverage per occurrence up to $750,000,000 for bodily injury and property damage. This policy contains the war, hi-jacking and other perils endorsement for $100,000,000 due to the events of September 11, 2001.

The MPA's liability insurance policies, including excess liability policies, provide insurance up to $150,000,000 per occurrence for its port operations. These policies cover liability for both injury and property damage.

The MTA's operations are covered by a $495,000,000 excess liability insurance policy over and above the MTA's $5,000,000 self-insured retention. Bombardier and Amtrak are contractors hired to provide Maryland Area Regional Commuter (MARC) train service. In addition, the MTA pays a track access fee to CSX for the use of CSX's railroad tracks (MARC Brunswick Line and Camden Line) and to Amtrak for use of Amtrak's railroad tracks (MARC Penn Line). The MTA has insurance to cover its contractual obligations for the MARC rail service as well as insurance for the MTA's other modes of service (bus, light rail, commuter bus, subway and mobility). The MARC operations insurance coverage provides excess liability up to $500,000,000. All other MTA operations insurance coverage provides excess liability limits up to $200,000,000. This includes a shared self-insured retention of $5,000,000. Claims under $5,000,000 are self-insured by the MTA. The excess liability policies also extend punitive damages liability coverage to Bombardier, Amtrak and CSX arising from commuter rail operations for claims. All third party liability claims exceeding $10,000 for Bombardier and $20,000 for Amtrak must have prior approval of the MTA for payment/settlement. Workers' compensation claims by Bombardier, Amtrak or CSX are exempt from the MTA's coverage because those are the responsibility of the vendors.

The amount of any settlements, within the Department, did not exceed the insurance coverage in each of the past three fiscal years. For those areas not covered by purchased insurance, the State Treasurer has a program of self-insurance for tort claims. By statute, bodily injury, personal injury or property damages are limited to claims of $200,000 per claimant before September 30, 2015, and $400,000 on or after October 1, 2015.

17. Energy Performance Contract:

The Department of General Services (DGS) implemented an Energy Performance Contract (EPC) program for the Department in the fiscal year ended June 30, 2011, with a goal to reduce Maryland's energy consumption through energy efficiency projects. The State Treasurer's Office secured the financing required to fund the construction of the improvements. The savings resulting from the projects are used to offset the costs of the services.

The SHA, the MTA, the MAA, the MPA and the MVA participated in the EPC. The assets related to the project to the project for the fiscal year ended June 30, 2018, are included on the Department's Statement of Net Position in the amount due from EPC Assets for $5,250,000. As of June 30, 2018, the total amount due in long-term liability for EPC obligations is $42,795,000.

18. Commitments:

As noted in Note 2, encumbrance accounting is used to account for outstanding commitments for open purchase orders and unfulfilled contracts in governmental funds. Amounts related to contractual transportation obligations are reported in the Special Revenue Fund in the amount of $12,547,000 as of June 30, 2018.

The Department has active construction commitments outstanding as of June 30, 2018, of approximately $7,287,039,000 principally for construction of highway, port, motor vehicle, aviation and transit projects. Approximately 21.23% of future expenditures, related to these commitments of the Department, are expected to be reimbursed from proceeds of approved federal grants when the actual costs are incurred. The remaining balance will be funded by other financial resources of the Department, including the issuance of long-term debt.

As of June 30, 2018, the Department's commitments with contractors were as follows:

(amounts expressed in thousands)

Construction projects	Spent-to-date	Remaining commitment
Highway construction	$3,354,820	$3,201,927
Port construction	610,585	355,438
Motor vehicle construction	223,701	203,532
Transit construction	2,560,225	2,251,252
Aviation construction	537,708	549,496
Total projects	$7,287,039	$6,561,645

19. Related Party Transactions:

Various State of Maryland agencies provide services for the Department for which they are reimbursed from the Department. During fiscal year ended June 30, 2018, such reimbursements are reflected as Distributions to other State agencies in the Special Revenue Fund.

20. Federal Revenue:

Federal revenue consists principally of grants from the Federal Transit Administration for rail and bus projects for the Baltimore region and from the Federal Highway Administration in connection with highway construction projects. In addition, the Department receives federal grants to aid in planning, design and construction of transportation facilities and to support mass transit operations. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the Department. As of June 30, 2018, the Department estimates that no material liabilities will result from such audits.

In 2007 and 2008, the MDTA issued Grant and Revenue Anticipation Bonds (GARVEE) as part of the financing package for the Intercounty Connector. The GARVEE debt service is paid from SHA federal funds. As of June 30, 2018, the outstanding balance was $129,680,000. The GARVEEs mature on March 1, 2020.

21. Passenger Facility Charges:

The Aviation Safety and Capacity Expansion Act of 1990 (the 1990 Safety Act), enacted by the United States Congress, allows a public agency to impose a PFC charge for enplaned passengers. The proceeds of such PFCs are to be used to finance eligible airport-related construction projects, as approved by the Federal Aviation Administration (FAA). The MAA received FAA approval in July 1992 to collect PFCs for four projects.

The Aviation Investment and Reform Act for the 21st Century, enacted by the United States Congress in April of 2000, together with the 1990 Safety Act, increased the maximum per passenger PFC allowed to be charged by qualifying airports from $3.00 to $4.50. In June 2002, the MAA received FAA approval to increase its collection level to $4.50 to support PFC approved projects in the MAA’s capital program. The FAA further allows the MAA to impose and use PFCs for the payment of debt service for bonds used to fund PFC approved projects (see Note 12 Operating and Capital Leases). PFC collections not needed for debt service are used for PFC approved pay-as-you-go projects.

The MAA amended its PFC program in April 1994 to increase the total to six projects. The FAA approved additional applications for PFC eligible projects in June 2006, July 2007, February 2008, September 2010, March 2012, September 2012, October 2014, and August 2016. The MAA expects to submit an additional PFC application in the fall of 2018.

22. Rent Revenue:

The Department leases terminal space at various marine terminals (including the Seagirt Marine Terminal), airport facilities, and office space at the World Trade Center building in Baltimore, pursuant to various operating leases. The Department’s total minimum future rental revenues totaled $303,902,000 as of June 30, 2018, and do not include contingent rentals that may be received under certain concession leases on the basis of a percentage of the concessionaire's gross revenue in excess of stipulated minimums. Rental revenues collected included in operations were approximately $240,540,000 for the year ended June 30, 2018. Assets of the Department under lessor operating lease agreements, totaling $657,781,000 are included in the Capital assets, net of accumulated depreciation in the amount of $830,305,000 on the Statement of Net Position.

Minimum future rental revenues as of June 30, 2018 for the Department are as follows:

(amounts expressed in thousands)

Year Ended June 30,	**Operating Leases Minimum Future Rental Revenues**	
2019	$	120,593
2020		44,762
2021		38,860
2022		32,828
2023		20,100
2024-2028		41,254
2029-2033		5,505
Total	$	303,902

23. <u>Net Position/Fund Balance:</u>

The unrestricted deficit for the governmental activities on the government-wide Statement of Net Position is $2,517,120,000.

Nonspendable fund balance is reported for a portion of the Special Revenue Fund balance in the amount of $96,733,000 for inventories of supplies and $144,191,000 for prepaid items as of June 30, 2018.

The commitment of fund balance requires formal action by a government's highest level of decision-making authority. The assignment of fund balance is based on an authorization policy established by the governing body pursuant to which that authorization is given. Committed fund balance is reported for the Department's contractual transportation obligations of $12,547,000 which requires the highest level of budgetary authority to cancel said obligations.

Unassigned fund balance was ($234,362) reported in the Department's Transportation Trust Fund as of June 30, 2018.

24. <u>Contingent Liabilities</u>:

The Department is party to various legal proceedings, many of which occur in the normal course of the Department's operations, including actions commenced and claims asserted for alleged property damage, personal injury, breach of contract, discrimination or other alleged violations of law. These legal proceedings are not, in the opinion of the Office of the Attorney General of the State, likely to have a material adverse impact on the Department's financial position as of June 30, 2018.

25. <u>Subsequent Events:</u>

On September 18, 2018, the Department sold Consolidated Transportation Bonds in the amount of $630,680,000 with a net premium of $58,530,560. The sale was competitive. Closing on the bonds occurred on October 3, 2018.

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REQUIRED SUPPLEMENTARY INFORMATION

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Schedule of Changes in the Total Liability and Related Ratios
Maryland Transit Administration OPEB Plan
(amounts expressed in thousands)

Fiscal Year Ended June 30		2018
Total Pension Liability:		
Service Cost	$	47,907
Interest		25,090
Changes of benefit terms		-
Difference between expected and actual experience		-
Changes of assumptions		(113,863)
Benefit payments		(12,422)
Net change in total OPEB liability		(53,288)
Total OPEB liability - beginning		886,577
Total OPEB liability - ending (a)	$	833,289
Plan fiduciary net position:		
Contributions - employer	$	13,208
Net investment income		-
Benefit payments		(12,422)
Administrative expense		(786)
Net change in fiduciary net position		-
Plan fiduciary net position - beginning		-
Plan fiduciary net position - ending (b)		-
Net pension liability - ending (a)-(b)	$	833,289
Plan fiduciary net position as a percentage of the total OPEB liability		0.00%
Covered employee payroll		145,834
Net pension liability as a percentage of covered-employee payroll		571.40%
Expected average remaining service years of all participants		8

Source: Bolton Partners, Maryland Transit Administration OPEB Plan, GASB 75 Actuarial Information Report.

Notes to Schedule:

Information for FY2017 and earlier is not available.

Changes in assumptions:

The discount rate as of 6/30/2017 was 2.85%; discount rate as of 6/30/2018 was 3.58%

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Changes in the Net Pension Liability and Related Ratios
Maryland Transit Administration Pension Plan
(amounts expressed in thousands)

Fiscal Year Ended June 30	2014	2015	2016	2017	2018
Total Pension Liability:					
Service Cost	$ 19,438	$ 24,718	$ 48,499	$ 36,334	$ 37,195
Interest	43,472	39,236	31,181	57,880	54,904
Changes of benefit terms	-	-	82,510	2,133	3,105
Difference between expected and actual experience	4,025	(19,621)	(15,024)	(20,741)	17,385
Changes of assumptions	38,643	53,480	338,950	(162,606)	(36,903)
Benefit payments, including refunds of member contributions	(32,598)	(30,636)	(35,283)	(39,062)	(37,203)
Net change in total pension liability	$ 72,980	$ 67,177	$ 450,833	$ (126,062)	$ 38,483
Total pension liability - beginning	768,371	841,351	908,528	1,359,361	1,233,299
Total pension liability - ending (a)	$ 841,351	$ 908,528	$ 1,359,361	$ 1,233,299	$ 1,271,782
Plan fiduciary net position:					
Contributions - employer	$ 39,749	$ 35,400	$ 40,997	$ 40,997	$ 40,997
Contributions - member	-	-	-	3,094	3,316
Net investment income	15,782	14,045	12,768	27,740	20,550
Benefit payments, including refunds of member contributions	(32,598)	(30,636)	(35,283)	(39,062)	(37,203)
Administrative expense	(1,587)	(1,851)	(1,967)	(1,914)	(2,213)
Other	-	-	-	(2,631)	-
Net change in plan fiduciary net position	$ 21,346	$ 16,958	$ 16,515	$ 28,224	$ 25,447
Plan fiduciary net position - beginning	189,957	211,303	228,261	244,776	273,000
Plan fiduciary net position - ending (b)	$ 211,303	$ 228,261	$ 244,776	$ 273,000	$ 298,447
Net pension liability - ending (a)-(b)	$ 630,048	$ 680,267	$ 1,114,585	$ 960,299	$ 973,335
Plan fiduciary net position as a percentage of the total pension liability	25.11%	25.12%	18.01%	22.14%	23.47%
Covered employee payroll	$ 137,596	$ 135,545	$ 137,427	$ 137,154	$ 145,834
Net pension liability as a percentage of covered-employee payroll	457.90%	501.88%	811.04%	700.16%	667.43%
Expected average remaining service years of all participants	7	7	7	7	6

Source: Bolton Partners, Maryland Transit Administration Pension Plan, GASB 68 Actuarial Information Report.

Notes to Schedule:

Information for FY2013 and earlier is not available.

FY 2015 reflects a reduction to the effective discount rate from 5.24% to 4.75%

FY 2016 removal of the dollar-per-month benefit limit. Reflects a reduction to the effective discount rate from 4.75% to 3.5%, change to the RP2014 mortality tables.

FY 2017 reflects the increased vesting requirement to 10 years for employees of Local 2 or Local 1300 hired on or after July 1, 2016; a cap on pensionable earnings of 2,392 pay hours per year and 2% employee contributions for Local 2and Local 1300 employees effective July 1, 2016. Reflects increase to the effective discount rate from 3.5% to 4.32%, decrease in wage growth assumption from 3.5% to 3.2%, and changes to the salary scale, retirement rates and termination rates.

FY 2018 for Local 2 employees hired after July 1, 2016, COLA awards granted for retirees and beneficiaries who were receiving payments for at least 13 months on August 1, 2014, 2015, 2016, and 2017. FY 2018 Reflects an increase of the effective discount rate from 4.32% to 4.52%.

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Schedule of Employer Contributions
Maryland Transit Administration Pension Plan
(amounts expressed in thousands)

Fiscal Year Ended June 30	2014	2015	2016	2017	2018
Actuarially determined contribution	$ 39,749	$ 40,807	$ 44,736	$ 62,217	$ 66,495
Contribution in relation to the actuarially determined contribution	(39,749)	(35,400)	(40,997)	(40,997)	(40,997)
Contribution deficiency (excess)	$ -	$ 5,407	$ 3,739	$ 21,220	$ 25,498
Covered employee payroll	$ 137,596	$ 135,545	$ 137,427	$ 137,154	$ 145,834
Contribution as a percentage of covered employee payroll	28.89%	26.12%	29.83%	29.89%	28.11%

Source: Bolton Partners, Maryland Transit Administration Pension Plan, GASB 68 Actuarial Information Report.

Note: This schedule is presented to illustrate the requirement to show iformation for 10 years. However, information prior to June 30, 2013 is not available.

Notes to schedule:

Valuation date: Actuarially determined contribution amounts are calculated as of the beginning of the fiscal year (July 1) for the current fiscal year. Actuarial valuations are performed every year.

Methods and assumptions used to determine contribution rates are as follows:

Actuarial cost method	Level Dollar Entry Age Normal
Amortization method	Level Payments (Closed)
Remaining amortization period	Remaining payments range from 2 to 25 years
Asset valuation method	5-yar smoothed market
Inflation	3.20%
Salary increases	Rates vary by participant service
Investment rate of return	7.55% net of pension plan investment expense, including inflation for funded
Retirement age	Rates vary by participant age
Mortality	RP-2014 Blue Collar tables with MP-2014. The RP-2014 Disabled Retiree table is used for disabled members.

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Proportionate Share of the Net Pension Liability and Related Ratios
Maryland State Retirement Pension Plan
(amounts expressed in thousands)

Fiscal Year Ended June 30	2015	2016	2017	2018
Proportion of the Maryland State Retirement System Net Pension Liability (asset)	3.46%	3.60%	2.86%	2.85%
Proportionate share of the State net pension liability (asset)	$580,974	$748,345	$634,087	$581,413
Covered employee payroll	$372,296	$369,543	$371,857	$380,156
Net pension liability as a percentage of covered employee payroll	156.05%	202.51%	170.52%	152.94%
Plan fiduciary net position as a percentage of the total pension liability	71.87%	68.78%	65.79%	69.38%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, information prior to June 30, 2015 is not available.

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Schedule of Employer Contributions
Maryland State Retirement Pension Plan
(amounts expressed in thousands)

Fiscal Year Ended June 30	2015	2016	2017	2018
Actuarially determined contribution	$ 52,723	$ 56,643	$ 65,517	$ 66,910
Contribution in relation to the actuarially determined contribution	(52,723)	(56,643)	(65,517)	(66,910)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered employee payroll	$372,296	$369,543	$371,857	$380,156
Contribution as a percentage of covered employee payroll	14.16%	15.33%	17.62%	17.60%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, information prior to June 30, 2015 is not available.

MARYLAND DEPARTMENT OF TRANSPORTATION
Required Supplementary Information
Special Revenue Funds
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2018
(amounts expressed in thousands)

	Special Fund				Federal Fund			
	Budgeted Amounts			Variance with Final Budget - Positive	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Actual Amounts	(Negative)	Original	Final	Amounts	(Negative)
REVENUES:								
Taxes:								
Motor vehicle taxes and fees	$ 1,671,085	$ 1,558,721	$ 1,460,115	$ (98,606)	$ -	$ -	$ -	$ -
Motor vehicle fuel taxes and fees	1,055,293	1,059,079	1,084,373	25,294	-	-	-	-
Revenue sharing of State corporation income tax	152,561	155,201	150,784	(4,417)	-	-	-	-
Revenue sharing of State sales tax	31,398	31,881	31,691	(190)	-	-	-	-
Federal reimbursements	-	-	-	-	1,119,359	1,181,338	981,099	(200,239)
Charges for services	457,190	453,702	571,964	118,262	-	-	-	-
Investment earnings	2,000	2,000	4,080	2,080	-	-	-	-
Other	63,100	64,596	62,888	(1,708)	-	-	-	-
Total revenues	3,432,627	3,325,180	3,365,895	40,715	1,119,359	1,181,338	981,099	(200,239)
EXPENDITURES and ENCUMBRANCES:								
Current:								
General government:								
The Secretary's Office	1,004,933	965,271	982,797	(17,525)	22,758	18,853	18,780	73
State Highway Administration	1,323,646	1,376,748	1,349,087	27,660	658,201	633,146	568,737	64,409
Maryland Port Administration	147,393	222,493	130,896	91,597	3,513	9,884	9,838	46
Motor Vehicle Administration	215,716	217,198	205,555	11,643	13,172	13,461	12,396	1,065
Maryland Transit Administration	1,046,813	1,027,526	1,072,159	(44,633)	415,552	493,851	362,890	130,961
Maryland Aviation Administration	294,785	311,686	305,669	6,017	6,163	12,143	8,458	3,685
Total general government	4,033,286	4,120,922	4,046,163	74,759	1,119,359	1,181,338	981,099	200,239
Total expenditures and encumbrances	4,033,286	4,120,922	4,046,163	74,759	1,119,359	1,181,338	981,099	200,239
Excess of revenues over expenditures	(600,659)	(795,742)	(680,269)	115,474	-	-	-	-
OTHER FINANCIAL SOURCES (USES):								
Proceeds from Bonds	745,000	633,000	555,000	78,000	-	-	-	-
Transfers in (out)	(175,502)	174,389	(340,601)	(514,990)	-	-	-	-
Total other financing sources and uses	569,498	807,389	214,399	(436,990)	-	-	-	-
Net change in fund balances	(31,161)	11,646	(465,870)	(321,516)				
Fund balances, July 1, 2017	274,637	(96,249)	178,307					
Fund balances, June 30, 2018	$243,476	($84,603)	($287,563)	($321,516)	$ -	$ -	$ -	$ -

MARYLAND DEPARTMENT OF TRANSPORTATION
Notes to the Required Supplementary Information
For the Year Ended June 30, 2018

1. <u>Stewardship, Compliance and Accountability</u>:

Budgeting and budgetary control:
The Maryland Constitution requires the Governor to submit to the General Assembly an annual balanced budget for the following fiscal year. This budget is prepared and adopted for the Special Revenue Fund, which includes the transportation activities of the Department, shared taxes and payments of debt service on transportation bonds. The budgetary federal fund revenue and expenditures are included in the GAAP Special Revenue Fund as federal revenues and expenditures by function. An annual budget is also prepared for the federal funds, which accounts for all Departmental grants from the federal government.

Each year the Department prepares its annual budget and submits it to the Governor. The Governor then presents the State's annual budget (including the Department's) to the General Assembly in accordance with Constitutional requirements. The General Assembly is required to then enact a balanced budget for the next fiscal year.

The GAAP Special Revenue Fund includes both budgetary special and federal funds.

Special fund:
The Special fund includes all transportation activities of the Department and shared taxes with the political subdivisions.

Federal fund:
The federal fund accounts for substantially all grants from the federal government.

Budgetary fund equities and other accounts:
The Department's legal level of budgetary control is exercised at the agency appropriation (program) and fund level (legislative spending authority level). Encumbrances and expenditures cannot exceed appropriated amounts. Appropriation transfers between or within departments and any supplemental appropriations require both executive and legislative branch approvals. Unencumbered and unexpended appropriations lapse at fiscal year-end and become available for appropriation in the subsequent year. Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent fiscal year.

All Departmental budgetary expenditures for special and federal funds are made pursuant to appropriations in the annual budget, as amended from time to time. The Department may, with the Governor's approval, amend the appropriations by transportation business units within the budgetary special and federal funds. Additionally, appropriations for programs funded in whole or in part from special or federal funds may permit expenditures in excess of the original special or federal fund appropriation to the extent that actual revenues exceed original budget estimates and such additional expenditures are approved by the Governor. Unexpended appropriations from special and federal funds may be carried over to the following year to the extent of (a) available resources and (b) encumbrances which are approved by the Department of Budget and Management. The Department did not receive any General Fund appropriations in fiscal year 2018.

The Department's original and amended budget adopted by the General Assembly for special and federal funds is presented in the Required Supplementary Information - Special Revenue Funds - Schedule of Revenues, Expenditures and Changes in Fund Balances -- Budget and Actual -- For the Year Ended June 30, 2018 on page 81 of this report. The Department's budgetary fund structure and basis of budgeting, which is the modified accrual basis with certain exceptions, differs from that utilized to present financial statements in conformity with GAAP. The budgetary system's principal departures from the modified accrual basis are the classification of the Department's budgetary funds and the timing of recognition of certain revenues and expenditures. The GAAP Special Revenue Fund is an aggregate of the special and federal budgetary funds.

A summary of the effects of the fund structure differences and exceptions to the modified accrual basis of accounting, as of June 30, 2018, is provided in the Reconciliation of the Budgetary Special Fund, Fund Balance to the GAAP Special Revenue Fund, and Fund Balance in the Notes to the Required Supplementary Information section (see below).

MARYLAND DEPARTMENT OF TRANSPORTATION
Reconciliation of the Budgetary Special Fund, Fund Balance
to the GAAP Special Revenue Fund, Fund Balance
June 30, 2018
(amounts expressed in thousands)

Classification of budgetary fund equities and other accounts into governmental funds' fund structure:	Special Revenue Fund
Special fund-fund balance (page 82)	$ (287,563)
Non-budgeted funds-fund balance	793
Total budgetary fund balance reclassified to GAAP fund structure	(286,770)
Accounting principle and timing differences:	
Assets recognized in governmental funds financial statements not recognized for budgetary purposes:	
Taxes receivable	3,333
Inventories	96,733
Due from other State funds	16,487
Liabilities recognized in governmental funds financial statements not recognized for budgetary purposes:	
Unearned Revenue	252,554
Deferred inflows of resources	(64,868)
Other	1,640
Financial statement governmental funds’ fund balance, June 30, 2018	$ 19,109

SUPPLEMENTARY INFORMATION

MARYLAND DEPARTMENT OF TRANSPORTATION
Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2018
(amounts expressed in thousands)

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
ASSETS:				
Cash and cash equivalents	$ 39,653	$ 16,303	$ 30,804	$ 25,152
Total assets	$ 39,653	$ 16,303	$ 30,804	$ 25,152
LIABILITIES:				
Accounts payable and accrued liabilities	$ 39,653	$ -	$ 14,501	$ 25,152
Total liabilities	$ 39,653	$ -	$ 14,501	$ 25,152

STATISTICAL SECTION

MARYLAND DEPARTMENT OF TRANSPORTATION
STATISTICAL SECTION
JUNE 30, 2018

This part of the Maryland Department of Transportation's comprehensive annual financial report represents detailed information as a context for understanding what the information in the financial statements, not disclosures and required supplementary information says about the Department's overall financial health.

Table of Contents **Pages**

Financial Trends **89-90**

These schedules contain trend information to help the reader understand how the Department's financial performance and well-being have changed over time.

Revenue Capacity **91-94**

These schedules contain information to help the reader assess the Department's two most significant revenue sources, the motor vehicle tax and motor vehicle fuel tax.

Debt Capacity **95-97**

These schedules present information to help the reader assess the affordability of the Department's current levels of outstanding debt and Department's ability to issue additional debt in the future.

Miscellaneous Statistics **98**

MARYLAND DEPARTMENT OF TRANSPORTATION
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year Ended June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities:										
Net Investment in capital assets	$ 13,349,027	$ 13,171,279	$ 13,068,635	$ 13,360,456	$ 13,819,782	$ 14,063,378	$ 14,472,903	$ 15,248,583	$ 16,210,472	$ 16,838,969
Restricted	9,694	3,783	-	-	-	-	-	-	-	-
Unrestricted (deficit)	(62,463)	(201,647)	(205,960)	(278,008)	(324,664)	(363,200)	(1,450,994)	(1,826,709)	(1,897,379)	(2,517,120)
Total governmental activities net assets	$ 13,296,258	$ 12,973,415	$ 12,862,675	$ 13,082,448	$ 13,495,118	$ 13,700,178	$ 13,021,909	$ 13,421,874	$ 13,710,806	$ 14,321,849
Primary government:										
Net Investment in capital assets	$ 13,349,027	$ 13,171,279	$ 13,068,635	$ 13,360,456	$ 13,819,782	$ 14,063,378	$ 14,472,903	$ 15,248,583	$ 16,210,472	$ 16,838,969
Restricted	9,694	3,783	-	-	-	-	-	-	-	-
Unrestricted (deficit)	(62,463)	(201,647)	(205,960)	(278,008)	(324,664)	(363,200)	(1,450,994)	(1,826,709)	(1,897,379)	(2,517,120)
Total primary government net position	$ 13,296,258	$ 12,973,415	$ 12,862,675	$ 13,082,448	$ 13,495,118	$ 13,700,178	$ 13,021,909	$ 13,421,874	$ 14,313,093	$ 14,321,849

Source: Maryland Department of Transportation Comprehensive Annual Financial Report for fiscal years 2009-2018.

(1) FY 2014 Net Position was restated for implementation of GASB Statement No. 68 by ($1,038,224).

(2) FY 2017 Net Position was restated for implementation of GASB Statement No. 75 by ($463,377).

MARYLAND DEPARTMENT OF TRANSPORTATION
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year Ended June 30,									
Governmental activities:	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Expenses:										
Secretary's Office	$ 419,588	$ 459,933	$ 483,410	$ 498,029	$ 515,638	$ 570,596	$ 624,378	$ 626,299	$ 652,965	$ 938,626
State Highway Administration	1,437,996	1,410,556	1,593,278	1,359,177	1,186,116	1,436,114	1,399,446	1,337,696	1,203,216	1,213,310
Port Administration	189,603	186,516	107,521	115,211	87,445	99,996	126,885	148,231	126,432	171,714
Motor Vehicle Administration	176,300	165,933	178,529	182,839	195,803	207,342	213,896	206,117	208,783	272,318
Transit Administration	782,548	818,465	1,056,590	864,702	888,137	886,966	937,286	1,058,861	1,031,072	1,153,718
Aviation Administration	274,906	272,455	252,723	275,051	308,202	354,180	337,596	374,475	339,270	448,647
Interest on long-term debt	97,683	101,481	92,996	144,725	110,984	122,894	69,902	80,888	43,547	62,770
Total governmental activities expenses	3,378,624	3,415,339	3,765,047	3,439,734	3,292,325	3,678,088	3,709,389	3,832,567	3,605,285	4,261,104
Program Revenues:										
Charges for services:										
Secretary's Office	2,291	9,447	27,503	5,336	5,630	3,262	7,133	3,307	4,564	3,721
State Highway Administration	51,983	40,399	44,071	38,495	59,284	40,586	46,435	52,155	60,802	67,394
Port Administration	93,618	69,781	48,667	52,846	50,298	54,099	52,411	55,999	51,641	157,474
Motor Vehicle Administration	-	-	-	4	4	4	4	-	10	11
Transit Administration	117,556	125,057	143,456	146,093	138,339	139,769	142,363	156,524	149,147	190,862
Aviation Administration	241,083	282,646	291,535	297,935	418,588	328,094	339,958	346,836	361,971	377,982
Operating grants and contributions	93,729	90,762	90,732	92,739	72,397	90,574	92,238	87,324	94,499	99,533
Capital grants and contributions	668,442	714,144	709,029	830,922	779,557	800,019	741,846	722,764	858,187	885,245
Total governmental activities program revenues	1,268,702	1,332,236	1,354,993	1,464,370	1,524,097	1,456,407	1,422,388	1,424,909	1,580,821	1,782,222
Net (expense) revenue governmental activities	(2,109,922)	(2,083,103)	(2,410,054)	(1,975,364)	(1,768,228)	(2,221,681)	(2,287,001)	(2,407,658)	(2,024,464)	(2,478,882)
General Revenues and Other Changes in Net Assets:										
Taxes:										
Motor vehicle taxes	1,058,759	1,082,559	1,166,398	1,259,743	1,332,143	1,389,066	1,465,022	1,541,596	1,579,384	1,547,450
Motor fuel taxes	728,385	714,210	747,171	728,410	740,428	807,739	918,483	1,013,144	1,078,312	1,084,195
Corporation income tax share	150,554	153,275	156,758	180,653	76,746	162,609	166,051	186,803	146,224	150,784
State sales tax share	223,084	223,582	227,981	23,581	25,462	48,653	30,788	30,780	31,566	31,691
Unrestricted investment earnings	4,029	404	1,006	2,750	764	2,156	2,096	3,819	627	2,322
Other revenue	-	-	-	-	7,235	16,518	64,516	31,481	79,570	134,573
Loss on disposal of capital assets	-	(413,770)	-	-	-	-	-	-	-	-
Total governmental activities general revenues:	2,164,811	1,760,260	2,299,314	2,195,137	2,182,778	2,426,741	2,646,956	2,807,623	2,915,683	2,951,015
Change in Net Position:										
Governmental activities	54,889	(322,843)	(110,740)	219,773	414,550	205,060	359,955	399,965	891,219	472,133
Total primary government	$ 54,889	$ (322,843)	$ (110,740)	$ 219,773	$ 414,550	$ 205,060	$ 359,955	$ 399,965	$ 891,219	$ 472,133

Source: Maryland Department of Transportation Comprehensive Annual Financial Report for fiscal years 2009-2018.

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MARYLAND DEPARTMENT OF TRANSPORTATION
Governmental Activities Tax Revenues by Source
Last Ten Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

Fiscal Year Ended June 30,	Motor Vehicle Tax	Motor Fuel Tax	Corporation Income Tax	State Sales Tax (1)	Total
2009	$ 1,058,759	$ 728,385	$ 150,554	$ 223,084	$ 2,160,782
2010	1,082,559	714,210	153,275	223,582	2,173,626
2011	1,166,398	747,171	156,758	227,981	2,298,308
2012	1,259,743	728,410	180,653	23,581	2,192,387
2013	1,332,143	740,428	76,746	25,462	2,174,779
2014	1,389,066	807,739	162,609	48,653	2,408,067
2015	1,465,022	918,483	166,051	30,788	2,580,344
2016	1,541,596	1,013,144	186,803	30,780	2,772,323
2017	1,579,384	1,078,312	146,224	31,566	2,835,486
2018	1,547,450	1,084,195	150,784	31,691	2,814,120

Source: Maryland Department of Transportation Comprehensive Annual Financial Report for fiscal years 2009-2018.
(1) Effective July 1, 2011, the Department receives a portion of the State's Sales and Use Tax.

MARYLAND DEPARTMENT OF TRANSPORTATION
Maryland's Ten Largest Employers
Calendar Years
(Employer Listed Alphabetically)

2018-2017	2017-2016
Johns Hopkins University	Giant Food
University of Maryland	Johns Hopkins University
University of MD Medical Ctr	MedStar Health
Northrop Grumman Corporation	Black & Decker Corp
Byk Gardner Inc	Verizon
Lockheed Martin Is & Gs	Northrop Grumman Corporati
Stephen James Assoc	Constellation Energy Group
Amazon Fulfillment Ctr	McCormick & Co
Anne Arundel Medical Ctr	Walmart Associates
Maryland Live! Casino	United Parcel Service Inc

Source: Department of Labor, Licensing and Regulation: Office of Labor Market Analysis and Information - Major Employer List - March 2018
http://www.dllr.state.md.us/lmi/emplists/maryland.shtml

MARYLAND DEPARTMENT OF TRANSPORTATION
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year Ended June 30,									
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Special Revenue Fund										
Nonspendable	$ 158,650	$ 171,094	$ 182,156	$ 181,093	$ 183,355	$ 192,871	$ 197,847	$ 211,726	$ 103,510	$ 240,924
Committed	861	-	12,442	8,182	11,499	26,989	27,930	23,871	15,402	12,547
Assigned	169,307	164,628	137,050	37,905	108,879	135,279	130,488	-	83,890	793
Unassigned	-	-	-	-	-	-	-	(124,502)	-	(235,155)
Total Special Revenue Fund	$ 328,818	$ 335,722	$ 331,648	$ 227,180	$ 303,733	$ 355,139	$ 356,265	$ 111,095	$ 118,912	$ 19,109
All other governmental funds										
Restricted	$ 7,033	$ 1,126	$ -	$ -	$ 5,056	$ 12,331	$ -	$ 12,379	$ 5,769	$ -
Total all other governmental funds	$ 7,033	$ 1,126	$ -	$ -	$ 5,056	$ 12,331	$ -	$ 12,379	$ 5,769	$ -

Source: Maryland Department of Transportation Comprehensive Annual Financial Report for fiscal years 2009-2018.

MARYLAND DEPARTMENT OF TRANSPORTATION
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year Ended June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues:										
Motor vehicle taxes and fees	$ 1,787,144	$ 1,796,769	$ 1,913,569	$ 1,988,153	$ 2,072,572	$ 2,196,805	$ 2,383,505	$ 2,554,740	$ 2,657,696	$ 2,631,645
Revenue sharing of state taxes	373,638	376,857	384,739	204,234	102,208	211,262	196,839	217,583	177,790	182,475
Federal reimbursements	762,171	804,906	799,761	850,631	868,121	902,719	833,040	718,951	966,547	847,267
Charges for services	399,271	419,691	431,261	439,785	579,850	452,406	460,668	486,151	496,438	571,999
Passenger facility charges and interest	40,824	44,054	45,066	46,648	48,534	43,919	44,745	48,056	49,032	51,781
Customer facility charges (1)	23,176	45,467	48,970	13,446	12,902	12,613	12,733	13,579	13,559	13,195
Special parking revenues (1)	-	-	-	38,603	28,630	54,649	52,551	62,582	63,520	62,483
Investment earnings	4,029	404	1,006	2,750	764	2,156	2,096	3,819	627	2,322
Other	13,260	18,118	34,734	3,481	6,103	14,255	63,384	65,255	65,746	44,721
Total revenues	3,403,513	3,506,266	3,659,106	3,587,731	3,719,684	3,890,784	4,049,561	4,170,716	4,490,955	4,407,888
Expenditures:										
Current:										
Department administration, operating and maintenance expenditures	1,358,247	1,447,811	1,239,600	1,422,847	1,408,232	1,841,195	1,793,321	1,804,794	1,645,987	1,980,911
Highway user revenues and federal funds	515,722	255,164	297,145	263,981	252,574	244,448	253,401	241,459	267,270	294,319
Washington Metropolitan Area Transit Authority Grant:	285,309	296,522	340,852	386,648	396,094	404,995	441,964	448,577	448,196	496,698
Distributions to other State agencies	59,980	401,930	481,244	343,946	127,957	23,000	19,926	-	14,728	-
Debt service	142,359	150,954	158,662	174,215	180,308	208,236	232,404	265,550	310,829	340,655
Capital outlays	1,261,036	1,232,890	1,182,164	1,231,241	1,491,360	1,471,040	1,746,878	1,985,949	2,455,869	2,128,115
Total expenditures	3,622,653	3,785,271	3,699,667	3,822,878	3,856,525	4,192,914	4,487,894	4,746,329	5,142,879	5,240,698
Excess (deficiency) of revenues	(219,140)	(279,005)	(40,561)	(235,147)	(136,841)	(302,130)	(438,333)	(575,613)	(651,924)	(832,810)
Other financing sources (uses):										
Capital leases	2,098	-	1,021	-	29,127	2,519	5,733	917	(1,230)	(3,759)
Other capital financing sources	-	-	34,340	-	-	-	-	-	-	-
Proceeds from bonds	402,642	140,002	-	323,967	189,323	325,000	661,250	300,000	892,525	555,000
Sale of future revenue rights	-	140,000	-	-	-	-	(331,412)	-	(277,611)	-
Premium on bonds	-	-	-	(193,288)	-	33,292	91,557	41,905	123,337	92,107
Total Other Financing Sources (Uses)	404,740	280,002	35,361	130,679	218,450	360,811	427,128	342,822	737,021	643,348
Net change in fund balances	$ 185,600	$ 997	$ (5,200)	$ (104,468)	$ 81,609	$ 58,681	$ (11,205)	$ (232,791)	$ 85,097	$ (189,462)
Debt Service as a percentage of noncapital expenditures	6.03%	5.91%	6.30%	6.72%	7.62%	7.65%	8.48%	9.62%	11.57%	10.94%

Source: Maryland Department of Transportation Comprehensive Annual Financial Report for fiscal years 2009-2018.

(1) Customer facility charges and special parking revenues split starting in fiscal year 2012.

MARYLAND DEPARTMENT OF TRANSPORTATION
Transportation Trust Fund
Gasoline and Motor Vehicle Revenue Account
Last Ten Fiscal Years
(amounts expressed in thousands)
(unaudited)

	Fiscal Year Ended June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues:										
Motor vehicle fuel tax and fees (1)	$ 736,105	$ 721,295	$ 752,319	$ 733,563	$ 745,556	$ 812,915	$ 923,593	$ 1,017,870	$ 1,078,502	$ 1,084,373
Motor vehicle titling tax	514,155	543,411	594,938	632,356	684,655	740,835	795,510	860,415	886,010	869,309
Licensing and registration	354,982	350,098	360,514	357,247	362,324	367,305	376,513	381,344	389,094	390,056
Corporation income tax (2)	151,304	154,025	157,993	180,653	76,746	162,609	166,051	186,803	146,224	150,784
Sales and use tax on rental vehicles	21,498	22,201	24,362	23,581	25,462	30,311	30,788	30,780	31,566	31,690
Total revenues	1,778,044	1,791,030	1,890,126	1,927,400	1,894,743	2,113,975	2,292,455	2,477,212	2,531,396	2,526,212
Deductions:										
1% portion -- Motor vehicle titling tax	(171,385)	(181,137)	(198,313)	(210,785)	(228,218)	(246,945)	(265,170)	(286,805)	(295,337)	(289,770)
Other to the Trust Fund	(6,178)	(6,615)	(6,859)	(6,797)	(9,040)	(121,401)	(180,913)	(283,832)	(342,237)	(348,418)
Other	(44,407)	(45,744)	(45,585)	(57,413)	(51,500)	(52,617)	(57,881)	(59,659)	(64,860)	(65,795)
Total deductions	(221,970)	(233,496)	(250,757)	(274,996)	(288,758)	(420,963)	(503,964)	(630,296)	(702,434)	(703,983)
Net Highway User Revenue	$ 1,556,074	$ 1,557,534	$ 1,639,369	$ 1,652,404	$ 1,605,985	$ 1,693,012	$ 1,788,491	$ 1,846,916	$ 1,828,962	$ 1,822,229
Allocations (Highway User Revenue): (3)(4)										
Share to the Department	$ 1,089,252	$ 1,090,274	$ 1,122,968	$ 1,278,618	$ 1,445,386	$ 1,530,483	$ 1,616,796	$ 1,669,612	$ 1,653,382	$ 1,647,295
Share to the General Fund (5)	-	-	-	40,000	-	-	-	-	-	-
Share to counties and municipalities	279,232	29,593	9,836	23,134	30,514	32,167	33,981	35,091	34,750	34,622
Share to Baltimore City	187,590	133,948	129,510	123,930	130,085	130,362	137,714	142,213	140,830	140,312
Local Share to the General Fund	-	303,719	377,055	186,722	-	-	-	-	-	-
Total allocations	$ 1,556,074	$ 1,557,534	$ 1,639,369	$ 1,652,404	$ 1,605,985	$ 1,693,012	$ 1,788,491	$ 1,846,916	$ 1,828,962	$ 1,822,229

Source: Maryland Department of Transportation, The Secretary's Office, Office of Finance.

(1) Chapter 429, Laws of Maryland 2013, calls for the following changes to the motor fuel tax rate effective July 1, 2013: (1) Annual adjustment based on increases in the Consumer Price Index, with no annual increase greater than 8%; and (2) A sales and use tax equivalent rate on all motor fuel, other than aviation and turbine fuel, that is calculated by multiplying a specified percentage by the prior year's average retail price of regular unleaded motor fuel (less federal and State excise taxes) purchased in the State. These revenues are retained 100% by the Department.

(2) The 2011 Session of the Maryland General Assembly approved legislation (HB 72) that changed the allocation of corporation income tax revenue to the Department from 24% to 17.2%. However, effective July 1, 2012, the Department received 9.5%; from July 1, 2013 through June 30, 2016, the Department received 19.5%. Effective July 1, 2016, the Department receives 17.2%.

(3) The 2010 Session of the Maryland General Assembly approved legislation (SB141) changing the allocation of Highway User Revenues. Effective July 1, 2009, the allocation is 70% to the Department, 19.5% to the General Fund, 8.6% to Baltimore City, 1.5% to the Counties, and 0.4% to the Municipalities. Effective July 1, 2010, the allocation is 68.5% to the Department, 23% to the General Fund, 7.9% to Baltimore City, .5% to the Counties, and 0.1% to the Municipalities.

(4) Pursuant to legislation enacted by the General Assembly at its 2011 Session (HB72), effective July 1, 2011, the allocation is 79.8% to the Department, 11.3% to the General Fund, 7.5% to Baltimore City, 0.8% to Counties, and .6% to municipalities. Effective July 1, 2012 the allocation is 90% to the Department, 8.1% to Baltimore City, 1.5% to Counties, and .4% to municipalities. Effective July 1, 2013 the allocation is 90.4% to the Department, 7.7% to Baltimore City, 1.5% to Counties, and .4% to municipalities.

(5) The 2011 Session of the Maryland General Assembly approved legislation (HB 72) requiring the transfer from the Transportation Trust Fund of $40,000,000 of the Department's share of Highway User Revenues to the Revenue Stabilization Account in fiscal year 2012.

MARYLAND DEPARTMENT OF TRANSPORTATION
Legal Debt Margin Information
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year Ended June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Debt limit	$ 1,620,850	$ 1,830,010	$ 1,791,840	$ 1,888,995	$ 1,913,290	$ 2,292,670	$ 2,530,255	$ 2,855,105	$ 2,773,900	$ 3,021,675
Net debt applicable to limit	1,574,902	1,643,884	1,561,840	1,562,630	1,618,290	1,812,670	2,020,250	2,146,085	2,578,385	2,911,675
Total legal debt margin	$ 45,948	$ 186,126	$ 230,000	$ 326,365	$ 295,000	$ 480,000	$ 510,005	$ 709,020	$ 195,515	$ 110,000
Net debt applicable to the limit as a percentage of debt limit	97.17%	89.83%	87.16%	82.72%	84.58%	79.06%	79.84%	75.17%	92.95%	96.36%

Source: Maryland Department of Transportation Comprehensive Annual Financial Report for fiscal years 2009-2018.

(1) The Maryland Department of Transportation's annual legal debt limit is established by the Maryland General Assembly on an annual basis, at a rate set below the total outstanding debt cap of $4,5000,000,000.

MARYLAND DEPARTMENT OF TRANSPORTATION
Ratio of Annual Debt Service Expenditures For Consolidated Transportation Bonded Debt to Total General Governmental Expenditures
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year Ended June 30,	Principal	Interest	Total Debt Service	Total Noncapital Governmental Expenditures	Ratio of Debt Service to Noncapital Expenditures (percent)
2009	$ 71,325	$ 71,031	$ 142,356	$ 2,361,617	6.03 %
2010	77,595	73,359	150,954	2,552,381	5.91
2011	83,170	75,492	158,662	2,517,503	6.30
2012	102,845	71,370	174,215	2,489,880	7.00
2013	109,340	70,968	180,308	2,365,165	7.62
2014	130,620	76,614	207,234	2,721,874	7.61
2015	122,415	109,989	232,404	2,741,016	8.48
2016	174,165	90,193	264,358	2,760,380	9.58
2017	207,185	100,030	307,215	2,687,210	11.43
2018	221,710	118,350	340,060	3,106,219	10.95

Source: Maryland Department of Transportation Annual Financial Report for fiscal years 2009-2018.

MARYLAND DEPARTMENT OF TRANSPORTATION
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year Ended June 30,	Governmental Activities: Special Revenue Bonds	Governmental Activities: Capital Leases	Governmental Activities: Other Long-term Liability (2)	Total Governmental Activities Debt	Total Personal Income (1)	Percentage of Personal Income
2009	$ 1,582,605	$ 673,836	-	$ 2,256,441	$ 272,901,349	0.83 %
2010	1,645,010	641,252	-	2,286,262	$ 282,152,796	0.81
2011	1,561,840	604,662	-	2,166,502	289,653,105	0.75
2012	1,562,630	562,656	-	2,125,286	306,001,368	0.69
2013	1,618,290	591,783	-	2,210,073	316,681,620	0.70
2014	1,812,670	594,302	-	2,406,972	321,688,894	0.75
2015	2,020,250	628,650	-	2,648,900	329,559,645	0.80
2016	2,146,085	621,732	-	2,767,817	349,266,576	0.79
2017	2,578,385	569,659	-	3,148,044	366,604,000	0.86
2018	2,911,675	524,748	-	3,436,423	379,941,000	0.90

Source: Maryland Department of Transportation Comprehensive Annual Financial Report for fiscal years 2009-2018.

(1) US Department of Commerce, Bureau of Economic Analysis. Data for all years based on revised statistics of state personal income released on September 25, 2018. All estimates of state personal income are subject to BEA's flexible annual revison schedule.

https://www.bea.gov/data/income-saving/personal-income-by-state

(2) Other long-term liability items were reclassified as capital leases in fiscal year 2009.

MARYLAND DEPARTMENT OF TRANSPORTATION
Transportation Trust Fund
Taxes Pledged to Bonds and Net Revenues as Defined for Purposes of the Bond Coverage Test
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal years ended June 30,									
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Revenues:										
Taxes pledged to bonds: (1)										
Corporation income tax (2)	$ 105,388	$ 107,293	$ 107,379	$ 143,370	$ 68,503	$ 146,113	$ 148,949	$ 167,957	$ 131,160	$ 135,321
Fuel tax (3)	500,114	489,004	500,801	567,431	651,196	723,249	827,830	923,216	981,555	987,506
Titling tax (4)	411,324	434,729	470,001	547,198	639,011	693,422	744,597	805,348	829,305	813,673
Sales and use tax (5)	217,924	213,254	221,842	19,770	23,425	27,983	28,424	28,416	29,142	29,257
Total taxes pledged to bonds	1,234,750	1,244,280	1,300,023	1,277,769	1,382,135	1,590,767	1,749,800	1,924,937	1,971,162	1,965,757
Fees:										
Motor vehicle licenses and registrations (6)	231,773	227,954	229,748	256,350	298,071	305,525	310,385	312,771	316,742	317,433
Other	186,961	187,455	209,909	259,211	274,823	280,989	293,315	298,488	306,488	287,720
General fund share of fees (6)				(40,000)						
Total taxes and fees	1,653,484	1,659,689	1,739,680	1,753,330	1,955,029	2,177,281	2,353,500	2,536,196	2,594,392	2,570,910
Operating revenues:										
Port Administration	93,635	69,222	49,156	57,302	49,030	52,841	49,759	49,999	49,039	51,783
Transit Administration	117,557	125,057	133,494	136,194	138,400	139,821	142,414	156,579	149,249	150,911
Aviation Administration	181,580	194,308	207,897	208,560	219,757	217,290	222,117	229,993	243,132	257,218
Total operating revenues	392,772	388,587	390,547	402,056	407,187	409,952	414,290	436,571	441,420	459,912
Other	(3,666)	(3,600)	60,458	40,015	30,785	29,139	47,307	59,609	69,012	60,566
Investment income	3,996	394	1,004	2,750	758	2,154	2,090	3,819	627	2,322
Total revenues	2,046,586	2,045,070	2,191,689	2,198,151	2,393,759	2,618,526	2,817,187	3,036,195	3,105,451	3,093,710
Expenditures:										
Administration, operation and maintenance expenditures:										
The Secretary's Office	67,649	71,811	70,650	71,382	72,256	76,142	75,339	80,229	86,010	90,330
Washington Metro Transit Grants-in-Aid	210,394	215,736	228,594	256,722	263,690	268,340	284,844	318,917	321,349	362,519
State Highway Administration	240,742	296,445	253,615	226,926	251,994	326,560	301,488	297,190	264,039	294,566
Motor Vehicle Administration	148,106	146,316	157,344	161,329	171,344	184,698	194,887	199,153	201,546	199,910
Port Administration	97,901	68,237	44,454	41,612	42,157	45,504	47,867	47,521	46,841	45,869
Transit Administration	591,720	610,284	621,917	646,795	665,844	751,801	767,009	781,769	840,446	859,477
Aviation Administration	170,453	173,749	170,765	167,415	171,122	189,740	188,090	192,692	187,965	196,278
Total admin., operation and maintenance expend.	1,526,965	1,582,578	1,547,339	1,572,181	1,638,407	1,842,785	1,859,524	1,917,471	1,948,196	2,048,949
Less Federal funds:										
The Secretary's Office	(7,271)	(9,001)	(8,027)	(8,237)	(9,291)	(9,089)	(7,967)	(8,160)	(8,445)	(10,968)
State Highway Administration -- Highway Safety	(19,595)	(16,925)	(17,175)	(21,218)	(13,338)	(10,844)	(11,357)	(10,066)	(14,561)	(14,326)
Transit -- Planning and program development	(65,894)	(63,775)	(64,496)	(62,430)	(42,028)	(60,631)	(59,046)	(58,940)	(60,221)	(61,364)
Port Administration									(103)	(73)
Motor Vehicle Administration	(313)	(404)	(379)	(150)	(7,090)	(9,348)	(10,697)	(9,514)	(10,523)	(12,157)
Aviation Administration	(656)	(656)	(656)	(702)	(650)	(655)	(776)	(645)	(645)	(645)
Total Federal funds	(93,729)	(90,761)	(90,733)	(92,737)	(72,397)	(90,567)	(89,843)	(87,325)	(94,498)	(99,533)
Total expenditures	1,433,236	1,491,817	1,456,606	1,479,444	1,566,010	1,752,218	1,769,681	1,830,146	1,853,698	1,949,416
Net revenues	$ 613,350	$ 553,253	$ 735,083	$ 718,707	$ 827,749	$ 866,308	$ 1,047,506	$ 1,206,049	$ 1,251,753	$ 1,144,294
Maximum annual principal and interest	$ 197,281	$ 210,714	$ 210,714	$ 219,765	$ 237,394	$ 270,527	$ 292,327	$ 305,197	$ 331,345	358,739
Ratio of taxes pledged to principal and interest	6.26	5.91	6.17	5.81	5.82	5.88	5.99	6.31	5.95	5.48
Ratio of net revenues to principal and interest	3.11	2.63	3.49	3.27	3.49	3.20	3.58	3.95	3.78	3.19

Source: Maryland Department of Transportation, The Secretary's Office, Office of Finance.

(1) As a result of changes to the Highway User Revenues allocations approved during the 2010 and 2011 sessions of the Maryland General Assembly, the Department received the following distribution of Highway User Revenues: FY 2010 70%; FY 2011 68.5%; FY 2012 79.8%; FY 2013 90%, since FY 2014 90.4%.

(2) The 2011 Session of the Maryland General Assembly approved legislation (HB 72) that changed the allocation of corporate income tax revenue to the Department from 24% to 17.2%. However, effective July 1, 2012 the Department received 9.5%; from July 1, 2013 through June 30, 2016 the Department received 19.5%. Effective July 1, 2016, the Department receives 17.2%.

(3) Chapter 429, Laws of Maryland 2013, calls for the following changes to the motor fuel tax rate effective July 1, 2013: (1) Annual adjustment based on increases in the Consumer Price Index, with no annual increase greater than 8%; and (2) A sales and use tax equivalent rate on all motor fuel, other than aviation and turbine fuel, that is calculated by multiplying a specified percentage by the prior year’s average retail price of regular unleaded motor fuel (less federal and State excise taxes) purchased in the State. These revenues are retained 100% by the Department.

(4) The 2007 Special Session of the Maryland General Assembly approved legislation to increase the State's Sales Tax and the Vehicle Excise Tax (Titling) from 5% to 6%, effective addition, effective July 1, 2008, the percentage of Titling Tax retained by the Department was increased from 76% to 80%. Changes to the allocation of Highway User Revenues approved during the 2010 and 2011 Sessions of the Maryland General Assembly resulted in the following percentages of Titling Tax retained by the Department: FY 2010 80%; FY 2011 79%; FY 2012 86.53%; FY 2013 93.336%; FY 2014 and beyond 93.6%.

(5) The 2007 Special Session of the Maryland General Assembly approved legislation to allocate 6.5% of the State's Sales and Use Tax (after distribution of the State's sales tax on short-term rental vehicles) to the Department effective July 1, 2008. The distribution was reduced to 5.3% during the 2008 Session of the Maryland General Assembly. This distribution ended July 1, 2011.

(6) The 2011 Session of the Maryland General Assembly approved legislation (HB 72) requiring the transfer from the Transportation Trust Fund of $40,000,000 of the Department's share of Highway User Revenues to the Revenue Stabilization Account in fiscal year 2012.

MARYLAND DEPARTMENT OF TRANSPORTATION
Schedule of Miscellaneous Statistics
Last Ten Fiscal Years
(unaudited)

Fiscal Year Ended June 30,	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
State Highway Administration:										
Miles of State Highway (1)	5,138	5,143	5,145	5,266	5,145	5,155	5,152	5,154	5,151	5,154
Motor Vehicle Administration:										
Motor Vehicle Titles Issued	930,858	939,209	994,235	995,247	1,018,200	1,001,118	1,090,530	1,156,244	1,156,262	1,134,701
Motor Vehicle Registration Transactions	3,345,546	3,336,752	4,100,604	3,889,667	4,044,217	4,106,227	4,259,000	4,292,948	4,466,976	4,468,850
Motor Vehicle Fuel - Gallons Sold	3,139,151,697	2,862,255,721	3,178,835,403	3,149,605,108	3,250,923,911	3,211,359,630	3,283,767,170	3,313,813,008	3,328,519,193	3,299,937,835
Maryland Port Administration:										
Port of Baltimore (2):										
Export Commerce (2,000 lbs.)	10,216,952	17,596,350	23,852,386	23,757,853	19,396,664	16,750,213	17,755,547	18,032,687	24,811,957	N/A
Import Commerce (2,000 lbs.)	12,145,939	15,243,578	13,991,505	12,929,929	10,878,770	12,759,986	14,703,255	13,802,320	13,631,719	N/A
Total Foreign Commerce (2,000 lbs.)	22,362,891	32,839,928	37,843,891	36,687,782	30,274,105	29,510,199	32,458,802	31,835,006	38,443,676	N/A
General Cargo (2,000 lbs.) (included above)	7,155,595	8,373,255	9,126,585	9,557,401	9,939,751	10,230,365	10,685,003	11,326,594	12,317,094	N/A
Maryland Aviation Administration:										
Passenger Traffic	20,103,443	21,313,033	22,488,838	22,611,988	22,530,342	22,238,226	22,761,893	24,669,946	25,686,293	26,991,216
Commercial Air Carrier Operations	243,453	247,391	258,639	256,992	245,367	232,609	224,246	231,354	238,492	254,202
Total Aircraft Operations	266,273	272,997	277,435	273,966	263,360	251,305	243,255	248,271	253,238	268,254
Maryland Transit Administration:										
Core and Commuter Bus Ridership	79,239,334	78,188,577	72,520,531	73,627,843	73,404,275	75,780,350	79,035,332	79,828,737	73,453,522	67,550,456
Metro Ridership	13,566,823	1,363,903	14,002,609	15,199,117	15,208,352	14,632,401	13,900,813	12,221,949	10,960,071	10,062,531
Light Rail Ridership	8,712,179	8,076,249	8,752,463	8,796,346	9,371,791	8,105,752	7,657,256	7,475,005	7,413,659	7,416,504
Marc Train Riderships	8,081,155	8,095,577	8,232,729	8,532,214	9,030,039	8,979,468	9,245,588	8,961,892	9,185,382	9,191,727
Number of MDOT State Employees (3)	6,638	6,463	6,007	5,963	5,885	8,387	8,485	8,454	8,403	8,440

Source: Maryland Department of Transportation.

(1) As of January 1.

(2) Calendar year basis.

(3) FY 2009-2013 does not include union employees.

MARYLAND DEPARTMENT OF TRANSPORTATION
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Pete K. Rahn, Secretary
James F. Ports, Jr., Deputy Secretary
R. Earl Lewis, Jr., Deputy Secretary

Secretary's Office
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Ronald Brothers, Chief Information Officer, Office of Transportation Technology Services
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Lisa Webb, P3 Innovative Project Delivery
Linda S. Williams, Financial Planning