The True Direct Cost of Building the InterCounty Connector – At Least $3.1 Billion

For some time, the Maryland Department of Transportation (MDOT) and other Intercounty Connector proponents have told the public that building the ICC would cost roughly $2.4 billion. But in reality, the ICC would cost at least $3.1 billion, according to a recent MDOT estimate.[1] MDOT intends, through the Maryland Transportation Authority, to incur almost $2 billion in public debt over the next several years to build the ICC. Interest on that debt could easily exceed $700 million.

The ICC's huge cost and its impact on Maryland's ability to invest in other transportation priorities is a point of increasing concern, even assuming MDOT's cost and revenue assumptions are reliable. The question is less whether Maryland can pay for the ICC, but whether we would be able to afford much else after spending more than $3 billion on the ICC.

How the State Plans to Pay for the ICC

The short answer is, through massive, potentially risky public debt. Former Governor Ehrlich and the 2003-07 General Assembly established the current ICC financing plan in 2005 by passing and enacting House Bill 1352. The provisions of HB 1352 are now codified in the Maryland Code as Section 4-321 of the Transportation Article. This financing plan placed the ICC ahead of all other transportation priorities in Maryland and arguably ahead of many non-transportation priorities.

Under this plan, funding for the ICC would come from six major sources:

$264.9 million to be transferred from the state General Fund to the Transportation Authority for the ICC from Fiscal Year 2007 to FY 2010. The General Fund is, of course, the same source of money used to support Maryland's schools, public health programs, libraries, public safety, environmental protection, and other non-transportation programs. Prior to HB 1352, these funds were to be transferred from the General Fund to the state Transportation Trust Fund and were not dedicated to the ICC or any other specific projects or programs. They also were to be transferred only when the General Fund contained a surplus, not when it faces a deficit, as it does now.

$180 million to be transferred from the Transportation Trust Fund to the Transportation Authority from FY 2005 to FY 2010.

$750 million in Grant Anticipation Revenue Vehicles (GARVEE) bonds, to be issued by the Transportation Authority in two pieces – $370 million in FY 2007 and $380 million in FY 2009. To repay this three-quarter billion dollar debt, MDOT has pledged significant percentages of *hoped-for* federal transportation appropriations over the next 14 years. Interest on this debt would approach $300 million, according to the Transportation Authority.[2] MDOT and the Transportation Authority estimate that annual diversions to serve this debt would consume roughly 14 percent of hoped-for federal funds each year – roughly one in seven federal highway dollars coming to Maryland for 14 years.[3] Ultimately, this figure might prove to be optimistically low.

$1.233 billion in revenues from the Maryland Transportation Authority, largely generated from borrowing funds, beginning in FY 2008. To pay off these bonds, the Authority plans to draw on tolls not just from the ICC, but from revenues collected at the state's other toll facilities, too.

Because the ICC's toll revenues are not expected to "mature" until 2015 or so, the Maryland Transportation Authority plans to draw heavily on revenues from the state's existing toll facilities in the ICC's early years. Not only are revenues from those facilities essential to the primary financing plan, but they are also essential to its back-up financing plan.

$18 million in federal earmarks. These funds have already been spent on project studies and related costs.

$10 million in federal transportation funds from any program, at the Governor's discretion. These funds would be drawn from the normal annual appropriation from the Federal Highway Trust Fund; they would not come above and beyond the usual appropriation.

Uncertainty and Risk in the ICC Funding Scheme

How Large a Bite of a Federal Pie That Could be Shrinking?

The agencies' estimate of how large a bite the ICC would take out of annual federal funding might be optimistically low. It is well documented that federal highway revenues have not met projections over the past several years. In fact, the Federal Highway Trust Fund is forecast to be in deficit spending by FY 2009.[4]

In addition, the current six-year federal surface transportation authorization (SAFETEA-LU) expires in 2009. There is no certainty that Congress will reauthorize on schedule; Congress passed SAFETEA-LU more than two years late, forcing the states to work with smaller funding commitments during this period. And there is real uncertainty regarding the size and shape of the next reauthorization.

How Large a Bite from the Bay Bridge and the State's Other Toll Facilities?

If the ICC's construction costs exceed the projected $3.1 billion, or if revenues from ICC tolls fall short of projections, the Maryland Transportation Authority could tap revenues from the Bay Bridge and the other state toll facilities even more heavily.[3] The potential impacts of these revenue diversions on the maintenance and rehabilitation of those facilities have not been disclosed.

Rising Energy Prices.... Falling Revenues

Tight energy supplies and rising oil prices should also cause concern. When former Governor Ehrlich declared in 2002 that the ICC was his highest transportation priority, oil was selling at less than $25 per barrel. In 2006, U. S. oil prices averaged close to $60 per barrel.[5] Rising oil and gasoline prices are probably here to stay, and it appears that they are prompting many U.S. drivers to start changing their driving habits and invest in more fuel-efficient vehicles. While it is unclear what impact this will have on state and federal revenues, if these trends continue, but it already is well-understood that growth in user revenues (e.g., state and federal gas tax revenues) is already well below historical rates of growth and that drivers are not driving as much.[6]

Sources

1 Maryland Department of Transportation BRAC Initiatives; March 13, 2006
2 ICC Debt Service Schedules – Tentative, Maryland Transportation Authoriity
3 Initial ICC Financing Plan, Maryland Department of Transportation and Maryland Transportation Authority; June 2006.
4 Federal Highway Administration, Congressional Budget Office, and other sources.
5 Short-Term Energy Outlook – Real Petroleum Prices, U.S. Department of Energy, March 2007
6 Federal Budget Update, Surface Transportation Policy Project, March 2007

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