

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

Senate Bill 275
Finance

(Senator Norman, *et al.*)

**Transportation - Thomas J. Hatem Memorial Bridge - Discounted Variable Toll
Rate for Commuters**

This bill requires the Maryland Transportation Authority (MDTA) to establish a discounted variable toll rate for eligible commuters that cross the Thomas J. Hatem Memorial Bridge between the hours of 5 a.m. and 7 p.m. daily. The discounted variable toll rate is 50% of the toll rate that would otherwise be charged by MDTA to cross the bridge.

Fiscal Summary

State Effect: Nonbudgeted revenues to MDTA may decrease by as much as \$4.2 million beginning in FY 2016 due to a reduction in toll revenues at the Thomas J. Hatem Memorial Bridge; revenues decrease further to the extent users of the John F. Kennedy Memorial Highway toll facility use the Thomas S. Hatem Memorial Bridge instead. The revenue loss is higher in future years due to the anticipated growth in toll revenues. MDTA nonbudgeted expenditures increase by \$500,000 in FY 2016 for one-time programing costs; expenditures increase further to the extent the reduction in toll revenues results in an amendment to MDTA's trust agreement. Expenditures may also increase in FY 2016 and future years to the extent MDTA requires additional staff to review applications for the discounted variable toll rate; however, any such impact depends on how MDTA chooses to define an "eligible commuter" and the process established by MDTA to verify commuter status.

Local Effect: The bill is not anticipated to materially affect local governmental operations or finances.

Small Business Effect: Potential meaningful positive impact for small businesses that regularly utilize the Thomas J. Hatem Memorial Bridge and register to pay the discounted variable toll rate.

Analysis

Bill Summary: MDTA must make the discounted variable toll rate available to any eligible commuter that registers with MDTA and drives any class of vehicle eligible for registration in the State. To register for the discounted variable toll rate, a person must submit an application to MDTA with documentation and other information required by MDTA to validate the person's status as a bridge commuter. MDTA may adopt regulations to implement the bill.

Current Law: Since 1971, MDTA has been responsible for constructing, managing, operating, and improving the State's toll facilities and for financing new revenue-producing transportation projects. MDTA is governed by nine individuals appointed by the Governor, with the advice and consent of the Senate. The Secretary of Transportation serves as MDTA's chairman. MDTA transportation facilities projects include:

- bridges, tunnels, and toll highways (*e.g.*, Susquehanna River Bridge; Harry W. Nice Memorial Potomac River Bridge; William Preston Lane, Jr. Memorial Chesapeake Bay Bridge and parallel Chesapeake Bay Bridge; Baltimore Harbor Tunnel; Fort McHenry Tunnel; Francis Scott Key Bridge; and John F. Kennedy Memorial Highway);
- vehicle parking facilities located in priority funding areas;
- other projects that MDTA authorizes to be acquired or constructed; and
- any authorized additions or improvements to MDTA projects.

MDTA has the authority to set tolls on transportation facilities projects under its supervision. Tolls must provide funds that, when combined with bond proceeds and other available revenues, are sufficient to pay maintenance, repair, and operating costs for transportation facilities projects that are not otherwise paid for; pay the interest and principal of any outstanding bond issues; create reasonable reserves for these purposes; and provide funds for the cost of replacements, renewals, and improvements. Toll revenues are deposited into the Transportation Authority Fund, which is wholly separate from the Transportation Trust Fund.

Prior to fixing or revising tolls on any part of any transportation facilities project, MDTA must provide the Senate Budget and Taxation Committee, Senate Finance Committee, House Appropriations Committee, and House Ways and Means Committee information on

the proposed toll charges, including the annual revenues generated by the toll charges; the proposed use of the revenues; and the proposed commuter discount rates.

Prior to increasing a toll, current regulations require that MDTA provide 60-days public notice, take public comments for a period of at least 60 days, and accept oral comments during at least one public meeting held during the public comment period.

Background: The Thomas J. Hatem Memorial Bridge is the oldest of MDTA's facilities. This 1.3-mile, four-lane bridge opened in August 1940 and spans the Susquehanna River on US 40 between Havre de Grace and Perryville in northeast Maryland. Tolls are collected in the eastbound direction only. In fiscal 2014, MDTA estimates that the bridge's traffic volume totaled about 9.9 million vehicles.

MDTA has three different levels of toll rates charged at its various toll plazas for two-axle vehicles:

- a cash rate;
- an E-ZPass rate; and
- a commuter rate.

E-ZPass is an electronic toll collection system that allows drivers to prepay their tolls, eliminating the need to stop at toll plazas. It consists of three components: (1) a transponder placed in participating vehicles that emits an electronic signal; (2) an antenna at the toll plaza to read the signal as vehicles pass through; and (3) video cameras to identify toll evaders. Transponders cost \$34 each (which includes a \$9 nonrefundable transponder fee and a pre-paid toll balance of \$25). In addition, MDTA charges a monthly maintenance fee of \$1.50 to E-ZPass users who do not make at least three E-ZPass toll facility transactions per month. E-ZPass is used 17 states, primarily in the Northeast and Mid-Atlantic regions.

The E-ZPass rate represents a 10% savings over the cash rate, and the commuter rate represents a 65% savings over the cash rate. Commuters may pre-purchase a limited number of tolls at the discounted commuter rate, but they must pay those tolls within a designated amount of time, typically 45 days. **Exhibit 1** summarizes toll rates for two-axle vehicles at each MDTA toll plaza, except for the InterCounty Connector. **Exhibit 2** shows the base toll rate for all vehicles at the Thomas J. Hatem Memorial Bridge.

Exhibit 1
MDTA Two-axle Toll Rates

	<u>Cash</u>	<u>E-ZPass</u>	<u>Commuter</u>
Baltimore Harbor Tunnel	\$4.00	\$3.60	\$1.40 (50 trips)
Fort McHenry Tunnel	4.00	3.60	1.40 (50 trips)
Francis Scott Key Bridge	4.00	3.60	1.40 (50 trips)
JFK Memorial Highway	8.00	7.20	2.80 (25 trips)
William Preston Lane, Jr. Memorial (Bay) Bridge	6.00	5.40	2.10 (25 trips)
Thomas J. Hatem (Rt. 40) Bridge	8.00	7.20	2.80 (25 trips)
Harry W. Nice (US 301) Bridge	6.00	5.40	2.10 (25 trips)

Source: Maryland Transportation Authority; Department of Legislative Services

Exhibit 2
Thomas J. Hatem Bridge Toll Rates

<u>Number of Axles</u>	<u>Cash</u>
Two-axle Vehicle	\$8
Three-axle Vehicle	16
Four-axle Vehicle	24
Five-axle Vehicle	48
Six-axle Vehicle or More	60

Source: Maryland Department of Transportation; Department of Legislative Services

MDTA offers E-ZPass users unlimited trips across the Thomas J. Hatem Memorial Bridge for \$20 per year. The plan only applies to two-axle vehicles.

Toll revenues are used by MDTA to meet its payment obligations to bondholders. MDTA currently has an Aa3 rating from Moody's Investor Service, AA- from Standard & Poors, and AA- from Fitch Ratings. These ratings are among the highest granted for tolling authorities. If toll revenues slip below expectations and tolls are not sufficient to meet the standards included in the trust agreement, MDTA increases tolls to avoid defaulting on the trust agreement to the bondholders and to sustain its bond ratings. Credit rating agencies

cite a toll entity's independent ability to set toll rates, free of political consideration or approval from an outside source, as a key factor in achieving an optimal credit rating.

State Revenues: The bill decreases toll revenues for MDTA in two ways: (1) existing Thomas J. Hatem Memorial Bridge users pay less in tolls; and (2) users of the John F. Kennedy Memorial Highway toll facility likely begin to use the Thomas J. Hatem Memorial Bridge instead.

MDTA advises that an average of 80% of total traffic crosses the Thomas J. Hatem Memorial Bridge between 5 a.m. and 7 p.m. each day. MDTA also advises that it anticipates about \$10.4 million in toll revenues in fiscal 2016 from vehicles that use the bridge, excluding vehicles that use the \$20 annual pass. Because the bill grants MDTA broad authority to define who may qualify as an eligible commuter, the total loss in revenue depends on how MDTA determines eligibility. *For illustrative purposes*, if all persons who use the bridge between 5 a.m. and 7 p.m. (which accounts for 80% of the total tolls paid) are considered eligible commuters and pay the discounted variable toll rate established by the bill, revenues decrease by \$4.2 million in fiscal 2016. If however, eligible commuters only pay 20% of the tolls during that time period, revenues decrease by \$1.0 million in fiscal 2016. In any case, the revenue loss is higher in future years due to the anticipated growth in toll revenues.

This analysis does not reflect any additional loss in toll revenues collected from drivers who currently use the John F. Kennedy Memorial Highway toll facility who would instead use the Thomas J. Hatem Memorial Bridge. This impact cannot be reliably estimated at this time; however, MDTA advises that, when combined with the effect of existing users paying less in tolls, the bill could result in a total revenue loss of up to \$16.5 million annually. Thus, the total loss in toll revenues is likely significantly higher than the estimate provided above. However, the Department of Legislative Services does not have sufficient information to verify the potential loss estimated by MDTA.

State Expenditures: MDTA advises that bond rating agencies look favorably upon its ability to independently fix or revise tolls, and limits to this authority may result in an increased cost to borrow. Nonbudgeted expenditures increase to the extent the reduction in toll revenues from the Thomas J. Hatem Memorial Bridge results in an amendment to MDTA's trust agreement with bondholders.

MDTA may need additional staff to review applications and register eligible commuters; however, the number of additional staff that may be required depends on how MDTA chooses to define an "eligible commuter" and the complexity of the process established to verify an applicant's commuter status. Thus, this impact cannot be reliably estimated at this time. To the extent that MDTA is able to verify an applicant's commuter status by

simply using E-ZPass data, or if MDTA merely approves all applicants, the process can likely be handled with existing resources.

The bill also requires a software modification of the toll system at the Thomas J. Hatem Memorial Bridge to recognize eligible commuters and ensure they are charged the discounted variable toll rate established by the bill. These costs result in a one-time nonbudgeted expenditure of approximately \$500,000 in fiscal 2016.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of Transportation, Department of Legislative Services

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