

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE
First Reader

House Bill 73 (Delegate Luedtke, *et al.*)
Environment and Transportation

Intercounty Connector - Public School Bus - Exemption From Toll

This bill exempts school buses that are used to transport public school students from any toll or fee charged for using the Intercounty Connector (ICC).

Fiscal Summary

State Effect: Maryland Transportation Authority (MDTA) nonbudgeted revenues decrease by approximately \$22,000 annually as a result of the toll exemption. MDTA nonbudgeted expenditures increase by at least \$100,000 but no more than \$500,000 in FY 2017 only to issue transponders for school buses and reprogram the toll system on the ICC to accommodate the bill's changes. The bill's exemption may require MDTA to renegotiate its bondholder agreement, which could lead to increased expenditures that are not reflected in this analysis.

Local Effect: Montgomery County expenditures decrease by as much as \$20,000 per year due to the bill's exemption. Local expenditures in other counties and Baltimore City, who use the ICC less frequently, may decrease by about \$2,000 annually in total. Local revenues are not affected.

Small Business Effect: None.

Analysis

Current Law: A "school vehicle" is defined as a vehicle used regularly for the exclusive transportation of children, students, or teachers for educational purposes or in connection with a school activity. A "school bus" is defined as a type of school vehicle that meets specified weight, construction, and seating space requirements. "Public School" means the

schools in the public elementary and secondary education system of the State. All school buses are currently required to pay tolls to use the ICC.

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;
- 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 ICC is an 18.8-mile tolled highway extending from the I-270/I-370 corridor in Montgomery County to the I-95/US 1 corridor in Prince George's County. The first 5.65-mile tolled segment of the ICC, from I-370 at Shady Grove to MD 97/Georgia Avenue in Rockville/Olney, opened in February 2011. A second segment of the ICC, from Georgia Avenue to I-95 (Exit 31) at Laurel, opened in November 2011. The final segment of the ICC, from I-95 eastbound to US 1, opened in November 2014. MDTA owns, operates, and maintains the ICC, while construction was managed by the State Highway Administration.

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.

According to the Maryland State Department of Education Fact Book for 2013-2014, Montgomery County had 1,120 publicly owned vehicles being used to transport students in fiscal 2014. In that same year, Prince George's County had 1,095 publicly owned vehicles and 9 contractual vehicles being used to transport students. The total number of school buses used in the State in fiscal 2014 was 7,172.

State Revenues: MDTA nonbudgeted revenues decrease by about \$22,000 annually as a result of the bill. This estimate reflects a loss of about \$20,000 annually in tolls paid by Montgomery County public school buses for using the ICC and a loss of about \$2,000 annually in ICC tolls from all other counties and Baltimore City. Because of their geographic location, most counties do not use the ICC on a regular basis for public school transportation. For example, Prince George's County advises that it only spends about \$164 in tolls each year for its public school buses to use the ICC.

State Expenditures: MDTA nonbudgeted expenditures increase in fiscal 2017 only to issue transponders to school buses and reprogram the toll system on the ICC to accommodate the bill's exemption. A reliable estimate of MDTA's total expenditures under the bill cannot be made; however, total expenditures are likely more than \$100,000 but less than \$500,000.

Implementation of the bill requires the electronic tolling system on the ICC to recognize when school buses are being used to transport public school students and exempt those buses from any tolls. Thus, MDTA must provide transponders that are programmed to allow free use of the ICC to school systems statewide. The transponders cost \$9 each, and as many as 7,172 may need to be distributed; therefore, total costs for the transponders could be as much as \$64,548 in fiscal 2017.

Furthermore, the bill may require a software modification of the ICC toll system in fiscal 2017 only; however, a reliable estimate of any increase in MDTA nonbudgeted expenditures for computer programming cannot be made at this time. In previous years, MDTA has estimated that it could cost as much as \$500,000 for a similar, but more complex, modification to its tolling software relating to variable rate tolling; however,

because it is expected that the modifications required by this bill are less complex, any computer programming expenses are expected to be less than \$500,000.

Local Expenditures: Due to the geographic location of the ICC, Montgomery County is the only county that uses the ICC to transport public school students on a regular basis. The Montgomery County Board of Education advises that it spends approximately \$20,000 each year in tolls for its public school buses to use the ICC, and MDTA advises that it collected about \$17,000 in tolls from Montgomery County public school buses in fiscal 2015. Other counties use the ICC only rarely, for special occasions such as field trips.

Therefore, Montgomery County expenditures decrease by as much as \$20,000 annually due to the bill's toll exemption. Likewise, other counties and Baltimore City experience a negligible decrease in expenditures, likely totaling no more than \$2,000 each year collectively. Given their proximity to the ICC, Montgomery and Prince George's counties may use the ICC more often as a result of the bill, leading to further cost savings on fuel and travel time.

Additional Comments: MDTA's revenues are pledged as security for bondholders under its trust agreement. MDTA advises that exempting school buses from paying tolls on the ICC is a direct violation of the trust agreement, which states that MDTA will not allow any free vehicular passage at its facilities except to the following vehicles:

- officials and employees of the executive, legislative, and judicial departments of the State while they are in the discharge of their official duties;
- officers and employees of MDTA while they are in the discharge of their official duties;
- any fire or police department of the State or any political subdivision while operating in the discharge of official duties;
- ambulances owned or operated by a nonprofit organization while operated in the discharge of their duties; and
- agents and independent contractors that are used in connection with maintenance or operation of MDTA highway projects.

The bill's exemption may require MDTA to renegotiate its bondholder agreement, which could lead to increased expenditures that are not reflected in this analysis.

Additional Information

Prior Introductions: None.

Cross File: SB 210 (Senator King, *et al.*) – Budget and Taxation.

Information Source(s): Montgomery and Prince George’s counties, Maryland State Department of Education, Maryland Department of Transportation, Department of Legislative Services

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