SB 1035

Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 1035 (Senator Madaleno, *et al.*)
Budget and Taxation

Transportation - Transit Service - State Grants and Farebox Recovery Rate

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This bill repeals the requirement that the Maryland Transit Administration (MTA) must recover at least 35% of its total operating costs from fares and other operating revenues derived from its bus, light rail, and metro subway services in the Baltimore region, as well as other railroad services under its control. The bill also repeals provisions that require MTA to increase fare prices as specified and makes conforming changes related to an annual report that MTA must provide to specified legislative committees. In addition, the bill makes numerous changes to the grants that must be provided annually by the Maryland Department of Transportation (MDOT) to (1) the Washington Metropolitan Area Transit Administration (WMATA) through the Washington Suburban Transit District (WSTD) and (2) Montgomery and Prince George's counties for eligible bus service.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues may decrease significantly to the extent that MTA chooses not to increase its fares as a result of the bill; however, TTF revenues are not affected if MTA continues to increase fares as it would under current law. Thus, the total effect on revenues cannot be reliably estimated at this time. TTF expenditures increase significantly beginning in FY 2017 due to the bill's changes to the annual State grants for local bus service in Montgomery and Prince George's counties; although the precise impact in any given year depends on numerous factors, based on FY 2015 data, TTF expenditures increase by at least $57.2 million each year. **This bill establishes a mandated appropriation beginning in FY 2018.**

Local Effect: Montgomery and Prince George's counties' revenues increase by a total of at least $57.2 million each year due to the bill's changes to local grants for bus service in the counties. Expenditures are not directly affected.

Small Business Effect: Minimal.

Analysis

Bill Summary:

Fare Increases and Farebox Recovery

The bill repeals the following requirements related to fare increases by MTA:

- every two years, MTA must increase fare prices for all transit services except commuter rail and commuter bus service in a specified manner and based on the Consumer Price Index (CPI) for all urban consumers;
- every five years, MTA must increase one-way zone fare prices in a specified manner for commuter rail and commuter bus service based on numerous factors, including the CPI for all urban consumers and other specified factors that may affect commuting costs (such as monthly parking fees, the retail price per gallon of motor fuel, the amount of any monthly federal commuting subsidy, and fare prices for intercity rail service);
- for an increase in fare prices by the minimum amount required based on the CPI increase described above, MTA is not required to hold a public hearing about the increase;
- MTA may not increase fares beyond what is required based on the CPI increase and other factors discussed above; and
- MTA may not increase fares if there is a decline or no growth in the CPI.

Annual Grants

The bill repeals the limit on MDOT's annual grant for WMATA, which is currently 50% of WMATA's total operating costs, for its operating deficit. The bill also requires that annual grants from the State to Montgomery and Prince George's counties are equal to 100% of each county's operating deficit for any local bus service operated by or on behalf of and in the counties; the operating deficit takes into consideration collected revenues and federal assistance. Specifically, the bill makes the following changes to the local grants for eligible bus service:

- the limit on the annual grants, which is currently 65% of service operating costs, is repealed;
- the limit on the annual grants based on the CPI is repealed;

- the limit on the annual grants, based on what would be required if WMATA provided the eligible bus service instead, is repealed;
- the definition of what is considered an "eligible local bus service" is broadened to mean any service operated by or on behalf of and in either county;
- the requirement that the counties apply to MDOT for the grants is repealed; instead, the Governor is required to provide the grants each year;
- each county's share of MDOT's annual grant for WMATA does not offset the total that must be provided through the local grants; and
- statutory language that authorizes MDOT to subsidize new local bus service and the loss of revenues from fare modifications of existing service is repealed.

Current Law/Background:

Maryland Transit Administration – Farebox Recovery Ratio

MTA operates a comprehensive transit system throughout the Baltimore-Washington metropolitan area, including more than 50 local bus lines in Baltimore and other services such as the light rail, metro subway, commuter buses, Maryland Area Regional Commuter (MARC) trains, and mobility/paratransit vehicles.

MTA must separately recover from fares and other operating revenues at least 35% of the total operating costs for bus, light rail, and metro subway services in the Baltimore region and for passenger railroad services under MTA's control, such as MARC service. This requirement is known as the farebox recovery ratio. MTA may not reduce the level of services provided to meet the farebox recovery ratio. In order to meet the recovery ratio, the Transportation Infrastructure Investment Act of 2013 (Chapter 429), among other things, requires MTA to increase base fare prices beginning in fiscal 2015; the first required increase took place in June 2015, and the next fare increase is expected to take place in June 2017. Chapter 429 requires the fares to be adjusted every two years for core transit services and every five years for commuter rail and bus services based on the annual CPI increase and other factors. Prior to the enactment of Chapter 429, MTA fares had not been increased since fiscal 2004.

MTA must submit a report to the Senate Budget and Taxation, House Ways and Means, and House Appropriations committees by December 1 each year related to the farebox recovery ratio. Among other things, the report must include a discussion of the success or failure to achieve the farebox recovery requirement and the estimated fare prices necessary to achieve the requirement.

MTA must hold a public hearing on all proposed transit plans or proposed revisions or amendments to existing plans, including when it seeks to fix or revise any fare or rate charged to the general public.

As shown in **Exhibit 1**, MTA's MARC train service is the only transit service that consistently met the 35% farebox recovery ratio between fiscal 2011 and 2015.

Exhibit 1
MTA's Farebox Recovery Ratio by Transit Type
Fiscal 2011-2015

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Core Bus & Contract Bus	29%	29%	30%	28%	31%
Metro	25%	28%	26%	24%	21%
Light Rail	17%	16%	16%	16%	16%
Baltimore Area Services*	28%	27%	27%	28%	25%
Washington Contract Bus	33%	28%	25%	33%	30%
MARC	55%	56%	55%	50%	44%

*Baltimore Area Services does not include mobility paratransit.
Source: Maryland Department of Transportation

Washington Metropolitan Area Transit Administration Grant

The Washington Suburban Transit Commission (WSTC), established in 1965, is responsible for administering WSTD and is authorized to develop a transportation system, including mass transit facilities, for Montgomery and Prince George's counties. It coordinates mass transit programs with the two county governments, WMATA, and MDOT. MDOT is required to provide an annual operating grant to WSTC through the Secretary's Office budget. WSTC authorizes MDOT to provide funding to WMATA for the operation of the Metrorail, Metrobus, and MetroAccess programs. This operating grant is based on numerous factors, including miles of service, number of stations, number of passengers, and population density in each jurisdiction and is offset by the fare revenues generated by each service and federal operating assistance. The grant is capped at 50% of WMATA's operating costs. The total grant in each year includes 100% of the share of WMATA's operating costs attributed to both Montgomery and Prince George's counties.

The operating grant from MDOT to WMATA was $228.1 million in fiscal 2011, $256.5 million in fiscal 2012, $263.6 million in fiscal 2013, $268.1 million in fiscal 2014, and $284.6 million in fiscal 2015. Of the $284.6 million in fiscal 2015, Montgomery

County's share was $128.4 million and Prince George's County's share was $164.8 million; the fiscal 2015 total also includes an audit adjustment of $8.6 million from a prior year.

Montgomery and Prince George's Counties' Local Bus Service Grants

MDOT is authorized to provide grants to Montgomery and Prince George's counties to assist with the service deficit of eligible local bus service; however, each county must annually apply for the grants. "Eligible local bus service" means a service that (1) previously replaced comparable service operated by WMATA, as well as any new service added after June 30, 1989 and (2) is operated by or on behalf of and in Montgomery County or Prince George's County.

The total amount of each grant is capped at 65% of the operating costs for the eligible bus service and is offset by any federal operating assistance. The total is also offset by each county's share of operating grant to WMATA; however, as previously noted, MDOT currently pays 100% of the counties' shares. Additionally, the grants may not (1) be greater than the operating grant MDOT would have to provide if the eligible local bus service were operated by WMATA instead of the local government or (2) exceed the grants provided in the previous fiscal year after taking CPI adjustments into consideration. Adjustments to the grants must be made to increase or decrease the combined grants each year to reflect the actual inflation rate.

The operating grants from MDOT to the counties totaled $48.5 million in fiscal 2014 and $51.2 million in fiscal 2015.

MDOT is also authorized to provide Montgomery and Prince George's counties with additional grants to (1) subsidize any new bus service for 36 months after the service begins and (2) account for any loss in revenue due to fare modifications for 36 months after the date the modification begins.

State Revenues: Repealing the farebox recovery requirement and the automatic fare increases that are required under current law does not necessarily have a direct effect on TTF revenues. The bill's fiscal impact depends on if and how MTA changes its fare rates under the discretion it is granted under the bill. Numerous factors may influence MTA's decision to increase, decrease, or maintain its fare rates in any given year, including ridership levels, public input, and available TTF funding. However, it is assumed that MTA does not increase its fares by *more* than what would have been required under Chapter 429 of 2013. As noted above, prior to the enactment of Chapter 429, MTA had not increased fare rates since 2004.

Therefore, under the bill, MTA is likely to either (1) continue to increase its fares based on the CPI, even though the requirement to do so is repealed by the bill, resulting in no impact on TTF or (2) maintain its current fare rates in future years, resulting in a revenue loss for TTF. From the fare increases required by Chapter 429, MTA anticipates increased revenues of $20.0 million in fiscal 2017, $21.0 million in fiscal 2018, $22.0 million in fiscal 2019, $23.0 million in fiscal 2020, and $33.0 million in fiscal 2021. The Department of Legislative Services notes, however, that in addition to the future fare increases required by Chapter 429 that are repealed by the bill, MTA's estimates also reflect the fiscal 2015 increase that has already occurred as well as changing ridership levels. Therefore, if MTA maintains its current fare rates in future years as a result of the bill, much, but not all, of the increases noted above are not realized.

State Expenditures:

Montgomery and Prince George's Counties' Operating Grants

TTF expenditures increase by at least $57.2 million annually beginning in fiscal 2017 due to the bill's changes to the provisions related to the annual grants for local bus service provided to Montgomery and Prince George's counties. Although an appropriation may not be mandated until fiscal 2018, for purposes of this analysis, it is assumed that MDOT provides the grants in the manner specified by the bill in fiscal 2017 as well.

The bill increases annual TTF expenditures for the local grants by (1) mandating that the grants be made each year; (2) repealing the limit on the annual grants, which is 65% of each counties' operating costs under current law; and (3) repealing the limit on the grants based on the annual increase in CPI. Had the bill been in effect in fiscal 2015, total TTF expenditures for grants to the counties would have increased by $57.2 million in that year, which accounts for MDOT paying 100% of each county's operating deficit for bus service without being limited by CPI or the 65% cap. Even though the precise impact in any given fiscal year depends on numerous factors, including operating expenses, operating revenues, ridership levels, and any action either county may take that affects its operating deficit, the fiscal effect related to those changes is expected to be at least $57.2 million in future fiscal years. However, TTF expenditures could increase significantly further to the extent that local governments take any action that increases their operating deficit, such as reducing fares or increasing service, since the State is now required to pay 100% of that deficit.

Although the bill alters the definition of what is considered an "eligible local bus service" by expanding the type of bus service for which MDOT must provide grants, Montgomery and Prince George's counties advise that most, if not all, of their bus service is already eligible for State grants because an eligible bus service includes "the number of annual platform miles and annual platform hours of any new fixed route, scheduled local bus service added after June 30, 1989," under current law. However, MDOT is not always able to include the new bus service into its calculations when determining the amount of the grants because of the existing limits.

As previously discussed, MDOT's grant to WMATA in each year includes 100% of the share of WMATA's operating costs attributed to both Montgomery and Prince George's counties. Previously, the counties were expected to pay a portion of the operating grant as well, and this was accounted for in MDOT's local bus service grants. Because the counties no longer pay any portion of the operating grant to WMATA, the bill's specification that the local grants are not offset by each county's share of MDOT's annual grant for WMATA merely codifies current practice.

Washington Metropolitan Area Transit Administration Operating Grant

WMATA's operating revenues are generally greater than or equal to 50% its total operating costs, meaning that the 50% limit on the State's annual grant (which is being repealed by the bill) has had no effect on the total amount of the grant in recent years. For example, $890 million in operating revenues are anticipated in fiscal 2017, which accounts for 51% of WMATA's proposed $1.7 billion operating budget for that same year. Therefore, the repeal of this limit is not expected to materially affect State operations or finances; however, to the extent that WMATA alters its fare structures or service plans or takes any other action that reduces its cost recovery ratios, TTF expenditures for the grant increase significantly.

Local Fiscal Effect: As discussed above, based on fiscal 2015 data, Montgomery and Prince George's County grant revenues increase by a total of at least $57.2 million annually due to the bill's changes to operating grants for local bus service. Had the bill been in effect in that year, Montgomery County would have received an additional $48.9 million and Prince George's County would have received an additional $8.3 million. The extent to which the counties reduce fares or increase service, or both, as a result of the bill cannot be predicted.

Additional Information

Prior Introductions: None.

Cross File: Although HB 891 (Delegate Lierman, *et al.* – Appropriations) is designated as a cross file, it is not identical.

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

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