SB 811

Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

Senate Bill 811 (The President and Senator Hoffman)
(Administration)
Budget and Taxation

Mass Transit Services - Costs and Revenues

This Administration bill decreases the amount that the Mass Transit Administration (MTA) must recover from fares and other operating revenues from 50% to at least 40% of the operating costs for the MTA bus, lightrail, and metro services in the Baltimore region beginning in fiscal 2001. The MTA must, however, establish a goal of 50% farebox recovery.

The bill also alters the definition of "service deficit" as it relates to the Washington Metropolitan Area Transit Authority (WMATA) system and eligible bus service in Montgomery and Prince George's counties. The bill defines service deficit as costs less the greater of revenues or 40% of the costs.

The bill is effective July 1, 2000 and sunsets June 30, 2004.

Fiscal Summary

State Effect: Funds available for other transportation purposes will potentially decrease by any additional State transit subsidies resulting from lower farebox recoveries. The current farebox recovery requirement for the MTA is 50% of operating costs. For each 1% reduction in the farebox recovery requirement, MTA transit subsidy expenditures increase $1.8 million. The MTA has failed to meet farebox goals since FY 1996 and a 43.5% recovery is estimated for FY 2001. Thus, it is expected that MTA expenditures and revenues will continue at current levels in FY 2001. Currently WMATA revenues exceed 50% of costs. For the WMATA system each 1% decrease in farebox recovery equates to $1.4 million in additional State transit subsidy costs.

Local Effect: At current levels of service, Prince George's and Montgomery counties will not be affected by the bill's provisions. To the extent that future service is expanded or ridership falls to a point where farebox recovery falls below 50%, potential future expenditures for the counties would decrease as the State would be required to fund the entire service deficit. Minimal increase in costs for independent management audits.

Small Business Effect: A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration's assessment becomes available.

Analysis

Bill Summary: The bill requires the MTA and Prince George's and Montgomery counties to establish performance indicators for their respective transit systems to track service efficiency, including: (1) operating expenses per vehicle mile; (2) operating expenses per passenger trip; and (3) passenger trips per vehicle mile.

The MTA and the counties are required to submit an annual performance report to the Senate Budget and Taxation Committee, the House Ways and Means Committee, and the House Appropriations Committee by December 1 of each year on: (1) the status of the performance indicators for the prior fiscal year; (2) the status of managing-for-results goals; and (3) comparisons of performance indicators for mass transit to other similar systems nationwide. Further, the MTA and the counties must provide for an independent audit of the operational costs and revenues for mass transit in their respective jurisdictions every four years. A preliminary baseline audit must be completed by December 1, 2000, and a final baseline audit must be completed by December 1, 2001. Further, the Maryland Department of Transportation (MDOT) must submit farebox recovery projections for MTA and WMATA as part of its annual budget request.

The bill creates an 18-member Transit Policy Panel. The panel must study and make recommendations on: (1) similarities and differences in service policies and demographic needs for the transit services, including locally operated bus services and rail services, in both the Baltimore area and the Washington area; (2) viability and feasibility of parity treatment between the two regional transit areas; and (3) projections on necessary services and costs, including funding requirements, to implement the recent Transit Advisory Panel recommendations, including the short-term and long-term impact on the TTF. The panel terminates on December 31, 2000.

Current Law: The MTA is required to recover at least 50% of eligible net operating expenses of the bus and rail lines (Metro subway and light rail) under its Baltimore jurisdiction through fares and other operating revenues. Current law also mandates a separate 50% farebox requirement for Maryland Rail Commuter (MARC) train service.

The Secretary of the Maryland Department of Transportation (MDOT) must, under specified circumstances, make annual grants to the Washington Suburban Transit District for operating deficits of the regional transit system. Further, the Secretary must make annual grants to Prince George's and Montgomery counties for eligible local bus service in an amount equal to 100% of the service deficit less each county's share of MDOT's annual grant to the Washington Suburban Transit District for the bus service. The current definition of service deficit is costs less the greater of revenues or 50% of the costs.

Background: The first farebox recovery requirement for the bus system was enacted in 1982 (Chapter 238). MDOT advises that the mandate was introduced to provide funding equity with highway users and to ensure that transit operations would be operated efficiently. The 50% recovery level was chosen because the Baltimore bus service had historically recovered about 50% of costs. Since 1982, the farebox recovery law has been updated to include new services. Baltimore Metro services and light rail were later added to the farebox requirement. Initially, the new service was excluded from the farebox calculation, so that ridership could be developed. The subway exclusion expired in 1988 and the light rail exclusion expired in 1996.

The current farebox formula provides for a number of exclusions. The latest exclusions were enacted in 1996 to be effective in fiscal 1997. Currently, exclusions are provided for paratransit services, past pension service costs, and capital expenses. An exclusion for new service had been included, but expired at the end of fiscal 1999.

The inability to meet farebox goals since fiscal 1996 is due to the low recovery rate for rail services. These services have high fixed costs that bus service does not have, such as security at rail stations and maintenance of tracks, signals, and electric systems. The rail systems have not been able to generate sufficient ridership to meet the farebox recovery requirements.

The farebox requirement appears to have slowed expenditure growth and affected MTA operations. The MTA advises that its operations have been focused on cost containment in recent years. MDOT advises that from fiscal 1990 to 1998, bus expenditures have grown less than inflation, in spite of adding $5.5 million in annual paratransit costs. In the period, bus expenditures increased by 21%, compared to 27% inflationary cost increases estimated by the Consumer Price Index (CPI).
To contain costs, the MTA has implemented initiatives such as using private contractors

where economically advantageous and contractually permissible (paratransit operations, commuter bus service, facilities cleaning), and by evaluating routes to adjust non-performing ones. Reductions have especially affected suburban routes, where ridership tends to be less dense. In sum, the farebox recovery constraints have slowed bus system budget growth and required an adjustment to bus routes with low ridership.

The goal to double transit ridership was set by the Transit Advisory Panel (TAP) in its February 1999 report. The report noted that to achieve this doubling of transit ridership, State law requiring that farebox revenues recover 50% of costs might need to be changed. Recently, the Commission on Transportation Investment (CTI) has recommended that the 50% farebox recovery requirement be replaced with performance indicators and management audits. The CTI also recommended that should the farebox recovery change, State financial support and service policies should be applied equitably to the Baltimore and Washington transit areas. The bill represents the recommendations of the CTI.

State Fiscal Effect: Net adjusted operating expenditures for fiscal 2001 for the MTA Bus and rail lines are estimated at $181.7 million. Expected revenues are $79 million, representing a farebox recovery of 43.5%. The MTA would be required to either cut $23 million in service or increase fares $0.35 to raise $11.8 million in revenues to meet a 50% recovery rate. As shown below in **Exhibit 1**, the MARC system continues to exceed the requisite level of recovery.

Exhibit 1
MTA Farebox Recovery as a Percent of Net Adjusted Operating Expenses

	FY 1996 Actual	FY 1997 Actual	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimated	FY 2001 Estimated
MTA Bus and Rail	47.4%	48.3%	46.0%	46.4%	43.7%	43.5%
MTA MARC	54.5%	50.5%	55.7%	56.3%	59.2%	58.7%

Source: Maryland Mass Transit Administration fiscal 2001 Allowance

As stated above, MTA has failed to meet the farebox requirement since 1996. The MTA has no plans to cut its service or raise its fares in order to meet the mandate. In fact, the MTA six-year Short Range Bus Plan calls for the additional expenditures of $11 million toward service improvements and new service. Accordingly, the bill's provisions will allow MTA to continue its current and projected level of service while being in compliance with the farebox recovery mandate; however, to the extent a lower farebox recovery requirement decreases incentives to control mass transit costs or raise additional revenues, State mass transit expenditures for the MTA will increase. For each 1% reduction in farebox recovery State MTA subsidy costs increase $1.8 million.

Net adjusted operating expenditures for fiscal 2001 for the WMATA and local bus service are estimated at $720.7 million. Expected revenues are $375.6 million, representing a farebox recovery of 52.1%. Accordingly, the bill's changes to the service deficit definition will not affect the current level of State participation in the WMATA and local bus service system; however, to the extent a lower farebox requirement decreases incentives to control mass transit costs or to raise additional revenues, State mass transit expenditures for WMATA will increase. For each 1% reduction in farebox recovery, State WMATA subsidy costs increase $1.4 million.

The bill requires MDOT to staff the Transit Policy Panel. It is assumed that MDOT could provide necessary staff with existing resources. Any expense reimbursements for panel members are assumed to be minimal and absorbable within existing budgeted resources of MDOT. Costs could increase minimally for the independent management audit of the operational costs and revenues of MTA as required by the bill.

Local Fiscal Effect: At current levels of service, Prince George's and Montgomery counties will not be affected by the bill's provisions. To the extent that future service is expanded or ridership falls to a point where farebox recovery falls below 50%, potential future expenditures for the counties would decrease as the State would be required to fund the entire service deficit. However, based on the history of the system in the Washington Metropolitan region, this is not likely to occur in the near future.

The counties could experience an increase in costs to complete the independent management audit of the operational costs and revenues of its' mass transit systems. Any such costs are assumed to be minimal.

Additional Information

Prior Introductions: None.

Cross File: HB 1248 (The Speaker and Delegate Rawlings) - Ways and Means and Appropriations.

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

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