HB 682

Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE
Revised

House Bill 682 (Delegates McIntosh and Marriott)

Ways and Means and Appropriations Budget and Taxation

Mass Transit Services - Cost Recovery - Performance Standards

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This bill requires the Maryland Transit Administration (MTA) to continue to recover at least 40% of the operating costs for its bus, light rail, and metro services in the Baltimore region until June 30, 2008 and establish a goal of 50% farebox recovery. Under current law, the mandated operating cost recovery rate will revert to 50% on June 30, 2004. The bill also extends several other reporting and auditing requirements related to transit services.

The bill takes effect June 1, 2004.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) expenditures for subsidizing State transit operations will continue at current levels in FY 2005. Revenues would also continue at the current rate. MTA farebox recovery has not met its statutory goal since fiscal 2001 and is not expected to reach 40% in future years or 50%, beginning in FY 2009. To meet the current 40% farebox recovery goals, TTF expenditures would have to decrease and revenues would have to increase, as discussed below. TTF expenditures will increase by approximately $78,300 in FY 2006 for the audit required by the bill.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	$0	$0	$0	$0	$0
SF Expenditure	0	78,300	0	0	0
Net Effect	$0	($78,300)	$0	$0	$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Expenditures for Prince George's and Montgomery counties will increase in FY 2006 by an estimated $78,300 each for an independent management audit. Annual performance reports will continue to be required for both counties. **This bill may impose a mandate on a unit of local government**.

Small Business Effect: None.

Analysis

Bill Summary: Other requirements that are currently slated to terminate June 30 but would be extended until June 30, 2008 under this bill include:

- reporting of performance indicators (by MTA) that supplement farebox recovery information, including operating expenses per vehicle mile and per passenger, as well as passenger trips per mile;
- submission of farebox recovery projections for MTA and the Washington Metropolitan Area Transit Authority's (WMATA) bus, light rail, and metro services in the Maryland Department of Transportation (MDOT) annual budget request (for the fiscal year covered by the budget);
- submission of an annual performance report by MTA and Prince George's and Montgomery counties to the General Assembly on the status of the performance indicators and comparisons of those indicators to similar systems in the U.S.;
- provision of an independent management audit of the operational costs and revenues of mass transit in the Baltimore region and Prince George's and Montgomery counties every four years. The audit findings must be used as a benchmark for the annual performance reports; and
- calculation of the service deficit to equal the greater of: (1) revenues and all federal operating assistance; or (2) 40% of the costs and all federal operating assistance.

Current Law: Chapter 210 of 2000 lowered MTA farebox recovery rate (FBR) from 50% to 40% of eligible net operating expenses of its bus, Metro, and light rail in the Baltimore region for fiscal 2001 and annually thereafter until June 30, 2004. MTA must meet this percentage through reasonable fares and cost containment measures; new mass transit service may be exempted for three years from any recovery requirement. Maryland Rail Commuter (MARC) service must achieve a 50% FBR. MTA was also required to complete a baseline audit by December 1, 2001.

The Secretary of Transportation 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 that equal 100% of the service deficit, minus each county's share of MDOT's annual grant to the Washington Suburban Transit District for the bus service. Chapter 210 altered the definition of a service deficit to mean the greater of: (1) revenues; or (2) 40% of the costs and all federal operating assistance, rather than 50% of all 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.

MTA has not been able to meet farebox goals for Metro and light rail due to high fixed costs, 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. MARC service, however, is expected to recover 62.8% of its operating costs, excluding capital leases.

The Transit Policy Panel, created under Chapters 210 and 211, recommended in its December 2000 report that the State abolish the farebox recovery requirement in favor of objective performance indicators and management audits. The panel reported that the 40% recovery mandate "limits the Baltimore region's ability to increase and improve transit services for riders." It also noted that local transit providers in rural areas and towns have increasing demands for service but their farebox recovery is well below 40%, averaging 15% for rural service and 27% for urban services.

In 2003, MTA raised its fares for all services. The base bus fare increased from $1.35 to $1.60; the fare for senior citizens and people with disabilities increased from 45 cents to 55 cents.

State Fiscal Effect: The bill maintains the 40% FBR that became effective in fiscal 2001 through fiscal 2008; accordingly, TTF expenditures and revenues for transit operations will not be impacted by the legislation. TTF expenditures will increase further in fiscal 2006 by approximately $78,333 for an independent audit due December 2005. The management audit of all three jurisdictions conducted in 2001 cost MTA $200,000 as the counties did not contribute a payment. The audit in fiscal 2006 is estimated to cost $235,000; however, the Department of Legislative Services (DLS) notes that the law directs the counties to provide their own audit – MTA is not responsible for absorbing the counties' costs.

MTA expects a 37.5% FBR in fiscal 2005, based on $212.3 million of operating expenses and $79.8 million of revenue. The recovery rate is expected to remain fairly constant in fiscal 2006 and 2007 but will fall to 35.8% in 2008. To obtain the 40% FBR in 2005, TTF expenditures would have to decrease by $6.5 million and revenues would need to increase by $2.6 million. This estimate is based on the assumption that $1 of revenue has the same impact on farebox recovery as $2.50 of expense reductions. Fares would have to be raised by approximately 3% to meet the revenue goal; the expense reductions would result in service cutbacks but not necessarily elimination of existing routes, according to MTA.

Assuming the 50% recovery rate becomes law again in fiscal 2009, TTF expenditures would need to decline by $38.7 million and revenues would have to increase by $19.3 million. **Exhibit 1** shows the required revenue growth and expense cuts for 40% versus 50% recovery. Under either scenario, MTA advises that it does not expect to raise fares or make substantial service cuts in the near term.

Exhibit 1
Revenue Growth and Expense Reductions to Meet FBR
($ in millions)

40% FBR	**2005**	**2006**	**2007**	**2008**	**2009**
Expense reductions	6.5	5.9	8.0	12.5	17.2
Revenue growth	2.6	2.4	3.2	5.0	6.9
50% FBR					
Expense reductions	26.5	26.4	29.2	33.8	38.7
Revenue growth	13.2	13.2	14.6	16.9	19.3

Source: Maryland Transit Administration

DLS advises that the 40% recovery rate will continue to be a challenge for MTA due to additional operating expenses, particularly labor, and flat ridership. MTA's bus ridership is expected to increase by only 1% from fiscal 2001 to 2004 and ridership on the light rail system is projected to be flat due to service interruptions caused by double-tracking. **Exhibit 2** displays the agency's recovery rate, actual and estimated, for fiscal 2001 to 2005.

Exhibit 2
MTA Farebox Recovery as a Percent of Net Adjusted Operating Expenses
(Fiscal 2001 - 2005)

	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual**	FY 2004 Est.***	FY 2005 Est.
Bus	46.7%	42.3%	34.8%	45.3%	44.0%
Light Rail	21.5%	21.6%	19.7%	21.7%	22.4%
Metro	33.6%	34.4%	29.7%	31.5%	31.9%
Baltimore (overall)	40.2%	37.3%	32.7%	39.2%	37.5%

**Fiscal 2003 expenses reflect cost containment reductions. Revenues exclude $2.6 million reimbursement for State employees riding fare-free.
***Fiscal 2004 expenses reflect additional cost containment, reduced services, and fare increases.

Source: Maryland Transit Administration

Local Effect: Both Prince George's and Montgomery counties will incur costs estimated at $78,333 in fiscal 2006 for their share of the independent management audit required by the bill. FBR for both counties is well below 40%, but WMATA is expected to achieve 40% or more of its net operating expenses in fiscal 2005 and future years, which allows both counties to be considered in compliance. The anticipated FBR for WMATA in fiscal 2005 is 53.8%. Accordingly, local expenditures are not likely to be affected. MTA's proposed 2005 subsidy for Prince George's and Montgomery counties' bus service, $30.7 million, is the same as fiscal 2004.

Additional Information

Prior Introductions: None.

Cross File: SB 282 (Senator Currie, *et al.*) – Budget and Taxation.

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

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