Department of Legislative Services

Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 543 (Senator Young, *et al.*)
Budget and Taxation

Maryland Transportation Authority - Supplemental Tolls - Highway User Revenues for Municipalities

This bill requires the Maryland Transportation Authority (MDTA) to charge the following *additional* tolls per vehicle: (1) 50 cents for use of the William Preston Lane, Jr. Memorial Chesapeake Bay Bridge and parallel Chesapeake Bay Bridge; (2) 50 cents for use of the Baltimore Harbor Tunnel; and (3) 25 cents for use of the Fort McHenry Tunnel. The additional toll revenue generated by the bill must be distributed to municipalities through the Transportation Trust Fund's (TTF) Gasoline and Motor Vehicle Revenue Account (GMVRA). If the GMVRA distribution, commonly known as highway user revenue, is altered so municipalities' share in any fiscal year is equal to, or exceeds, the revenue municipalities received in fiscal 2009, the additional toll revenue generated by the bill must be distributed to MDTA's Transportation Authority Fund.

The bill takes effect July 1, 2011.

Fiscal Summary

State Effect: MDTA nonbudgeted revenues increase by $21.0 million in FY 2012, which reflects additional toll revenue and a $7.0 million annual decrease in base toll revenue due to increased toll rates. Future year revenues are adjusted to reflect estimated traffic volume. Assuming allocation of all additional fee revenue to municipalities, MDTA nonbudgeted expenditures increase by $30.0 million in FY 2012 largely due to allocating additional toll revenues to municipalities and additional estimated debt service payments. Future year expenditures are adjusted to reflect estimated additional toll revenue and assume distribution of all additional fee revenue to municipalities.

($ in millions)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
NonBud Rev.	$21.0	$21.3	$21.6	$21.8	$22.1
NonBud Exp.	$30.0	$30.3	$30.6	$30.8	$31.1
Net Effect	($9.0)	($9.0)	($9.0)	($9.0)	($9.0)

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

Local Effect: Assuming municipalities' share of highway user revenue is less than the amount provided in FY 2009, highway user revenues distributed to municipalities increase by $28.0 million in FY 2012, $28.3 million in FY 2013, $28.6 million in FY 2014, $28.8 million in FY 2015, and $29.1 million in FY 2016. Local expenditures for some fleet vehicles increase to pay higher toll rates.

Small Business Effect: Potential meaningful.

Analysis

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 (*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);
- the InterCounty Connector roadway;
- 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 TTF.

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. In addition, current regulations require MDTA to hold public meetings prior to instituting a toll increase.

TTF is a nonlapsing special fund that provides funding for transportation projects. It consists of tax and fee revenues, operating revenues, bond proceeds, and fund transfers. A portion of these revenues is credited to GMVRA and is distributed to the general fund, the Maryland Department of Transportation (MDOT) and local jurisdictions as follows:

- 19.5% in fiscal 2010, 23% in fiscal 2011, 20.4% in fiscal 2012, and 19.3% in fiscal 2013 and future years to the general fund;
- 70% in fiscal 2010, 68.5% in fiscal 2011, and 71.5% in fiscal 2012 and future years to MDOT; and
- the balance to local jurisdictions.

Exhibit 1 summarizes the distribution of highway user revenue in fiscal 2010 through 2013. In fiscal 2009, municipalities' portion of highway user revenue totaled $39.8 million or 8.5% of the total revenues distributed. Municipalities use this funding for road repairs and resurfacing, snow removal, and other transportation projects.

Exhibit 1
Highway User Revenue Distribution under Current Law
Fiscal 2010-2013
($ in Millions)

	Fiscal 2010		Fiscal 2011		Fiscal 2012		Fiscal 2013	
	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars
MDOT	70.0%	$1,088	68.5%	$1,102	71.5%	$1,185	71.5%	$1,251
General Fund	19.5%	304	23.0%	370	20.4%	338	19.3%	338
Baltimore City	8.6%	134	7.9%	127	7.5%	124	7.5%	131
Counties	1.5%	23	0.5%	8	0.5%	8	1.4%	24
Municipalities	0.4%	6	0.1%	2	0.1%	2	0.3%	5
Total	**100.0%**	**$1,555**	**100.0%**	**$1,609**	**100.0%**	**$1,658**	**100.0%**	**$1,749**

Note: The exhibit does not include an $18 million underpayment in fiscal 2010 which will be made up in fiscal 2011. Numbers may not sum to total due to rounding.

MDOT: Maryland Department of Transportation

Source: Department of Legislative Services

Background: Toll revenues are used by MDTA to meet its payment obligations to the bondholders. MDTA currently has an Aa3 rating from Moody's Investors 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.

Currently, for two-axle vehicles, MDTA charges $2.50 to cross one-way on the Chesapeake Bay Bridge and $2.00 each direction to use the Baltimore Harbor and Fort McHenry tunnels. In fiscal 2010, traffic volume associated with toll collections totaled 13 million vehicles for the Chesapeake Bay Bridge, 22.2 million vehicles for the Baltimore Harbor Tunnel, and 44.1 million vehicles for the Fort McHenry Tunnel.

The first of several forecasted MDTA toll increases is expected to occur in fiscal 2012, effectively increasing tolls at each MDTA facility by an average of approximately 27%. This increase is significantly less than had been projected in prior years. Significant reductions and deferred spending in MDTA's operating and capital programs and increases in forecasted toll revenues helped reduce the size of the required increase.

MDTA advises that the bill violates MDTA's trust agreement with bondholders by creating a class of revenue outside the trust agreement. The trust agreement pledges all gross revenues generated by MDTA facilities to the trustee for the benefit of the bondholders. The pledge is designed to provide bondholders with security and assurances that toll revenues will be dedicated to the payment of debt service.

MDTA further advises that increasing tolls at the three MDTA facilities is likely to result in traffic diversion problems and inefficient toll collection. Since the bill establishes varying toll rates among the three Baltimore Harbor crossings (Francis Scott Key Bridge, Baltimore Harbor Tunnel, and Fort McHenry Tunnel), it is likely that traffic will migrate to other routes causing traffic congestion. Also, generally, toll rates for cash-paying customers are set at whole dollar amounts to eliminate the need to make change and speed traffic through toll plazas. Because the bill effectively establishes non-whole-dollar toll rates for two of the three affected facilities, it is expected to increase the processing time for cash vehicles and contribute to traffic congestion.

Throughout State government, fleet vehicles are eligible for transponders that allow for free passage through all Maryland toll facilities.

State Revenues: Nonbudgeted revenues increase by $28.0 million in fiscal 2012, $28.3 million in fiscal 2013, $28.6 million in fiscal 2014, $28.8 million in fiscal 2015, and $29.1 million in fiscal 2016 due to the increase in toll rates. To the extent the allocation of highway user revenue to municipalities is less than the amount provided in fiscal 2009, the additional revenue is passed through MDTA and MDOT and distributed to municipalities. However, to the extent the highway user revenue allocation already provides the specified minimum level of funding, MDTA retains the additional revenue.

MDTA estimates the proposed toll rate changes will suppress use of the three toll facilities, have minimal impact on the use of other MDTA toll facilities, and result in a 2% to 3% reduction in MDTA's annual base toll revenue. This equates to a reduction in toll revenue of approximately $7.0 million annually, based on fiscal 2010 traffic volumes and associated toll revenue. This estimate assumes MDTA's base toll revenues decrease by $7.0 annually, beginning in fiscal 2012, due to the bill.

Thus, the net increase in MDTA's nonbudgeted revenues is $21.0 million in fiscal 2012, growing to $22.1 million by fiscal 2016.

This analysis does not account for any revenue impacts that may result from toll rate changes, established for reasons unrelated to the bill, that occur in fiscal 2012 or future years.

State Expenditures: Nonbudgeted expenditures increase by $28.0 million in fiscal 2012, $28.3 million in fiscal 2013, $28.6 million in fiscal 2014, $28.8 million in fiscal 2015, and $29.1 million in fiscal 2016 due to the allocation of additional toll revenue to municipalities. To the extent municipalities receive the specified minimum level of highway user revenue and MDTA retains funds, this analysis assumes MDTA would allocate the funds to other priorities.

MDTA has a large capital program that is largely funded through the issuance of toll revenue bonds. 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. If MDTA's revenues are redirected to other purposes, it will likely have a negative impact on MDTA's bond credit rating. MDTA estimates the bill will result in its bond rating being downgraded to A. If this occurs, MDTA's borrowing costs (interest rates) may increase by as much as 60 basis points, increasing the annual cost of debt service by $2.0 million annually. Thus, this estimate assumes MDTA nonbudgeted expenditures increase by $2.0 million annually, beginning in fiscal 2012, due to increased debt service costs.

MDTA nonbudgeted expenditures increase by $30,000 in fiscal 2012 for contractual and materials costs associated with holding three public meetings concerning the increased toll rates at the three facilities.

Thus, the net increase in MDTA's nonbudgeted expenditures is $30.0 million in fiscal 2012, growing to $31.1 million by fiscal 2016.

Local Fiscal Effect: To the extent municipalities highway user revenue is less than the amount provided in fiscal 2009, highway user revenues distributed to municipalities increase by $28.0 million in fiscal 2012, $28.3 million in fiscal 2013, $28.6 million in fiscal 2014, $28.8 million in fiscal 2015, and $29.1 million in fiscal 2016. Local expenditures increase to pay the higher toll rates for local government fleet vehicles that use the three affected facilities and do not currently receive free transponders.

Small Business Effect: Small businesses are affected to the extent they use the three MDTA facilities and are required to pay higher toll fees.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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