SB 698

Department of Legislative Services

Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 698 (Senator Pipkin, *et al.*)
Budget and Taxation

Maryland Transit Administration - Farebox Recovery

This bill alters the statutory minimum farebox recovery ratio, from 35% to 100%, for fiscal 2013 and future years for the Maryland Transit Administration's (MTA) Baltimore area services, including bus, light rail, and Metro subway service, and Maryland Area Regional Commuter (MARC) train service. The costs MTA must recover from Baltimore area service fares are expanded to include capital costs in addition to operating costs.

The bill takes effect July 1, 2012.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues increase by $297.1 million in FY 2013 due to increasing fares. Revenues are adjusted for inflation in future years. TTF expenditures increase by $7,200 in FY 2013 to hold public meetings. TTF expenditures increase in FY 2014 and future years to the extent fares are increased further and additional public meetings are required.

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
SF Revenue	$297,061,000	$304,306,000	$311,768,400	$319,454,600	$327,371,400
SF Expenditure	$7,200	-	-	-	-
Net Effect	$297,053,800	$304,306,000	$311,768,400	$319,454,600	$327,371,400

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: 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. To achieve this requirement, MTA must adjust fare prices and other operating revenues as needed and may not reduce the level of services provided.

MTA must submit a report to the Senate Budget and Taxation, House Ways and Means, and House Appropriations committees by December 1 annually, providing specified farebox recovery ratio information.

The Budget Reconciliation and Financing Act of 2011 (Chapter 397) requires MTA to increase fares or other operating revenues to meet the 35% statutory farebox recovery requirement, prohibits MTA from reducing services to meet the farebox recovery requirement, and requires MTA to include the estimated fare prices necessary to achieve farebox recovery in its annual report.

MTA must hold a public hearing on all proposed transit plans or proposed revisions or amendments to existing plans.

Background: 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, MARC trains, and mobility/paratransit vehicles. MTA fares were last increased in fiscal 2004.

The farebox recovery ratio is the ratio of public transit operating revenues compared to operating expenditures. To the extent expenditures are not covered by fares, the operating deficit for public transit is paid from TTF. Farebox revenue is impacted by both the level of fare assessed as well as ridership. To the extent ridership growth and corresponding fare revenue do not keep pace with expenditure growth, the farebox recovery ratio declines.

As illustrated in **Exhibit 1**, MTA has not achieved 35% farebox recovery for Baltimore area services in recent years. MTA's Baltimore area services ratio decreased from 32% in fiscal 2007 to 28% in fiscal 2011. This decline is largely attributed to annual operating expenditures, for items such as labor, fuel, and equipment repair, growing faster than annual operating revenues.

Exhibit 1
MTA Farebox Recovery Ratio
Fiscal 2007-2012

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012*
Baltimore Area Services	32%	29%	31%	28%	28%	28%
Maryland Area Regional Commuter	56%	53%	44%	48%	50%	50%

*Estimate
Source: Maryland Transit Administration

State Fiscal Effect: The Maryland Department of Transportation (MDOT) advises that, to meet the current statutory 35% farebox recovery ratio, the existing $1.60 fare must increase to approximately $2.00 in fiscal 2013 to generate $18.8 million in additional revenue. MTA has not announced any plans to increase fares in the near future, however.

Although MTA is not achieving the current statutory 35% cost-recovery requirement, this analysis assumes the statutory requirement must be met, even in the absence of this bill, and therefore reflects only the *additional* revenue necessary for MTA to achieve a 100% cost-recovery ratio, including recovery of total operating *and capital* costs. Thus, TTF revenues increase by approximately $297.1 million in fiscal 2013 to implement the bill. This estimate assumes revenues from (1) Baltimore area services must increase by $28.9 million to cover planned capital costs and by $189.0 million to cover operating costs; and (2) MARC train service must increase by $26.6 million to cover capital costs and by $52.5 million to covering operating costs. To generate this additional revenue in fiscal 2013, MTA Baltimore area service fares must increase to approximately $6.18 and MARC fares must double. This estimate does not account for the impact raising fares may have on ridership, however. Additional fare increases may be required in future years to maintain the cost-recovery ratio; however, any increase cannot be reliably estimated and would depend on ridership and transit system operating and capital needs. This analysis adjusts (1) necessary operating revenue attainment in fiscal 2014 and future years to reflect inflation; and (2) necessary capital revenue attainment to reflect average annual expenditures required to implement current capital plans.

Prior to any fare increase or modification of the fare structure, MTA must hold public meetings. Thus, TTF expenditures increase by $7,200 in fiscal 2013 for facility rental costs associated with holding six public meetings. MDOT can absorb staff costs associated with conducting these meetings. To the extent fares are increased in fiscal 2014 or future years, TTF expenditures increase for additional public meetings.

MTA advises that changing fares more often than once every two years is not consistent with industry standard.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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