

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Bill 1177 (Delegate Glass)
Environmental Matters

**Maryland Transportation Authority - E-ZPass Discount Plans - Removal of Time
Limitations**

This bill requires that E-ZPass discount plans allow users to take the total number of trips allowed under the plan over an unlimited period of time. It forbids the Maryland Transportation Authority (MDTA) from increasing the cost of E-ZPass discount plans in response to the bill.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: Nonbudgeted revenues to MDTA decrease by at least \$43.1 million annually beginning in FY 2015 and by as much as \$145.7 million annually. Nonbudgeted expenditures by MDTA increase to the extent the loss in revenues necessitates an amendment to the trust agreement with MDTA's bondholders. It is assumed that any changes to the E-ZPass system software could be handled with existing resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: 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);
- 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 the Transportation Trust Fund.

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.

Prior to increasing a toll, current regulations require that MDTA provide 60-days public notice, take public comments for a period of at least 60 days, and accept oral comments during at least one public meeting held during the public comment period.

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

E-ZPass is an electronic toll collection system that allows drivers to prepay their tolls, eliminating the need to stop at toll plazas. It consists of three components: (1) a transponder placed in participating vehicles that emits an electronic signal; (2) an antenna at the toll plaza to read the signal as vehicles pass through; and (3) video cameras to identify toll evaders. Transponders cost \$21 each and E-ZPass charges a monthly maintenance fee of \$1.50 for E-ZPass users. E-ZPass is used 17 states, primarily in the Northeast and Mid-Atlantic regions.

MDTA has three different levels of toll rates charged at its various toll plazas for two-axle vehicles:

- a cash rate;
- an E-ZPass rate; and
- a commuter rate.

The E-ZPass rate represents a 10% savings over the cash rate, and the commuter rate represents a 65% savings over the cash rate. Commuters may pre-purchase a limited number of tolls at the discounted commuter rate, but they must pay those tolls within a designated amount of time, typically 45 days. **Exhibit 1** summarizes toll rates for two-axle vehicles at each MDTA toll plaza, except for the InterCounty Connector, which is not affected by the bill because it does not have any discount pricing.

Exhibit 1
MDTA Two-axle Toll Rates

| | <u>Cash</u> | <u>E-ZPass</u> | <u>Commuter</u> |
|---|-------------|----------------|-------------------|
| Baltimore Harbor Tunnel | \$4.00 | \$3.60 | \$1.40 (50 trips) |
| Fort McHenry Tunnel | 4.00 | 3.60 | 1.40 (50 trips) |
| Key Bridge | 4.00 | 3.60 | 1.40 (50 trips) |
| JFK Memorial Highway | 8.00 | 7.20 | 2.80 (25 trips) |
| William Preston Lane, Jr. Memorial (Bay) Bridge | 6.00 | 5.40 | 2.10 (25 trips) |
| Thomas J. Hatem (Rt. 40) Bridge | 8.00 | 7.20 | 2.80 (25 trips) |
| Harry W. Nice (US 301) Bridge | 6.00 | 5.40 | 2.10 (25 trips) |

Source: Maryland Transportation Authority, Department of Legislative Services

State Revenues: The bill reduces toll revenues for MDTA in three ways:

- some drivers who currently are not E-ZPass participants join E-ZPass, purchase indefinite commuter plans for toll facilities they use occasionally, and receive a 65% discount over the cash rates they currently pay;
- E-ZPass users purchase indefinite commuter plans for toll facilities they use occasionally and receive a 61% discount over the E-ZPass rate they currently pay; and
- commuters do not lose pre-paid but unused toll crossings when they expire.

Of the three measures, only the third can be reliably estimated. MDTA advises that it anticipates \$96.8 million in revenue in fiscal 2014 from commuter plans, of which \$43.1 million is expected to be from unused trips, based on past experience. Therefore, it foregoes \$43.1 million annually in revenues if the expiration dates are removed from the commuter plans.

For illustrative purposes only, it is estimated that 25% of cash payers convert to E-ZPass commuter plans and receive a 65% savings, and 100% of current E-ZPass users convert to commuter plans and receive a 61% savings. The lower level of conversion for cash payers reflects that many of them are out-of-state drivers in transit who have no real incentive to participate in E-ZPass. However, it is assumed that the vast majority of E-ZPass users are in-state drivers, but their current level of use of toll facilities does not warrant purchase of commuter plans that expire. Based on these assumptions, MDTA revenues decrease by \$24.9 million annually due to the loss of cash tolls and by an additional \$81.6 million annually due to increased use of discount plans, for a total revenue loss of \$149.6 million annually when added to the estimated loss from unused trips.

These revenue losses are partly offset by increased use of E-ZPass. Again, *for illustrative purposes only*, assuming 100,000 cash payers join E-ZPass each year, revenues from the sale of transponders increases by \$2.1 million annually and revenues from maintenance fees increase by \$1.8 million annually. This yields a net revenue loss of \$145.7 million annually.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 2, 2014
ncs/lgc

Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510