

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 240 (Delegate Impallaria, *et al.*)
 Environment and Transportation

Maryland Transportation Authority - Toll Rates

This bill prohibits the Maryland Transportation Authority (MDTA) from charging a higher toll to a person paying with cash at one of its toll facilities than it charges a person paying with an E-ZPass to use the same facility.

Fiscal Summary

State Effect: MDTA nonbudgeted revenues decrease by \$77.5 million in FY 2017 due to toll reductions, which reflects the bill’s effective date; future year decreases are annualized and reflect anticipated growth in toll revenues that would otherwise occur. MDTA nonbudgeted expenditures increase by \$170,000 in FY 2017 only to replace signage and modify software. Nonbudgeted expenditures may increase further to the extent the loss in toll revenues necessitates an amendment to MDTA’s trust agreement with bondholders.

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
NonBud Rev.	(\$77.5)	(\$109.5)	(\$117.2)	(\$126.5)	(\$136.7)
NonBud Exp.	\$0.2	\$0	\$0	\$0	\$0
Net Effect	(\$77.6)	(\$109.5)	(\$117.2)	(\$126.5)	(\$136.7)

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

Local Effect: The bill is not anticipated to materially affect local governmental operations or finances.

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, tunnels, and toll highways;
- 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: 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.

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 persons required to pay by video toll. Transponders cost \$34 each (which includes a \$9 nonrefundable transponder fee and a pre-paid toll balance of \$25). E-ZPass is used 17 states, primarily in the Northeast and Mid-Atlantic regions.

The E-ZPass rate represents a 25% savings over the cash rate on most facilities projects and a 37.5% savings over the cash rate on the Chesapeake Bay Bridge. 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 (ICC). Tolls on the ICC are all electronic; there is no cash option.

Exhibit 1
MDTA Two-axle Toll Rates

	<u>Cash</u>	<u>E-ZPass</u>	<u>Commuter</u>
Baltimore Harbor Tunnel	\$4.00	\$3.00	\$1.40 (50 trips)
Fort McHenry Tunnel	4.00	3.00	1.40 (50 trips)
Francis Scott Key Bridge	4.00	3.00	1.40 (50 trips)
JFK Memorial Highway	8.00	6.00	2.80 (25 trips)
William Preston Lane, Jr. Memorial (Bay) Bridge	4.00	2.50	1.40 (25 trips)
Thomas J. Hatem (Rt. 40) Bridge	8.00	6.00	2.80 (25 trips)
Harry W. Nice (US 301) Bridge	6.00	4.50	2.10 (25 trips)

Source: Maryland Transportation Authority; Department of Legislative Services

Toll revenues are used by MDTA to meet its payment obligations to bondholders. 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.

State Revenues:

Implementation Options

As noted above, MDTA gives users who pay their tolls using E-ZPass transponders a significant discount over the cash rate for using the same facilities. Under the bill, E-ZPass rates must be equal to (or higher than) the cash rates at each toll facility. Thus, there are three possible ways for MDTA to implement the bill. MDTA could:

- decrease the cash rates at each facility to be equal to or less than the current E-ZPass rates, resulting in a significant *decrease* in nonbudgeted revenues;
- increase the E-ZPass rates at each facility to be equal to or greater than the current cash rates, resulting in a significant *increase* in nonbudgeted revenues; or
- increase the E-ZPass rates and decrease the cash rates so that E-ZPass rates are equal to or higher than the cash rates, which may result in a net neutral impact on nonbudgeted revenues, depending on how the rates are altered.

MDTA advises that increasing toll rates for E-ZPass customers (1) requires public hearings; (2) requires legislative notification; and (3) runs contrary to the toll reductions that took effect in July 2015. Therefore, MDTA advises that to implement the bill, it plans to decrease the cash rates at each of its facilities to be equal to the E-ZPass rates at those facilities. In addition, MDTA advises that the toll rates for 3+-axle vehicles are based off of the cash rate for 2-axle vehicles. Thus, MDTA advises that if it decreases the cash rate for 2-axle vehicles, it must also decrease the toll rate for 3+-axle vehicles.

Fiscal Impact of Decreasing Cash Rates at MDTA Facilities

As shown in **Exhibit 2**, under current law, MDTA anticipates \$142.7 million in cash revenue from 2-axle vehicles and \$196.0 million in toll revenue from 3+-axle vehicles in fiscal 2017. Under the bill, at all facilities except the Chesapeake Bay Bridge, 25% of the anticipated cash revenue from 2-axle vehicles and 25% of the anticipated toll revenue from 3- and 4-axle vehicles is lost when MDTA decreases the cash rates to the E-ZPass rates. Toll revenues from the Chesapeake Bay Bridge decrease by 37.5% because the E-ZPass rate offers a greater discount at that bridge. Toll revenues decrease by a greater percentage for 5- and 6-axle vehicles because those toll rates are derived through a more complex formula (although they are still based on the 2-axle cash rates).

Based on fiscal 2017 estimates of toll revenues, MDTA nonbudgeted revenues decrease by \$77.5 million in fiscal 2017, which reflects the bill's October 1, 2016 effective date. (The impact for a full year, as shown in Exhibit 2, is \$103.3 million.) The revenue loss in future years, which increases to \$136.7 million by fiscal 2021, reflects annualization and the anticipated growth in toll revenues that would otherwise occur.

Exhibit 2
Estimated Toll Revenues and Loss under the Bill by Facility
Fiscal 2017
(\$ in Millions)

	<u>E-ZPass</u>	<u>2-axle Cash</u>	<u>3+-axle</u>	<u>Anticipated Loss</u>
Baltimore Harbor Tunnel	\$42.3	\$25.4	\$6.7	(\$8.3)
Fort McHenry Tunnel	68.5	37.2	62.5	(29.7)
Francis Scott Key Bridge	71.0	39.1	82.0	(36.1)
JFK Memorial Highway	4.2	2.2	4.5	(2.0)
Chesapeake Bay Bridge	18.6	12.8	13.9	(12.2)
Thomas J. Hatem Bridge	5.6	4.3	11.5	(4.7)
Harry W. Nice Bridge	16.2	21.6	15.0	(10.2)
Total	\$226.4	\$142.7	\$196.0	(\$103.3)

Note: Totals may not sum due to rounding.

Source: Maryland Transportation Authority; Department of Legislative Services

State Expenditures: MDTA advises that when it decreases toll rates at its facilities to meet the bill's requirements, it also must replace the highway signs and stickers that advertise those toll rates. MDTA reports that there are 94 signs of various sizes and 64 toll plaza window stickers that need to be replaced at a cost of approximately \$120,000 in fiscal 2017 only. In addition, MDTA incurs a one-time cost of \$50,000 in fiscal 2017 to modify the E-ZPass software to accommodate the changes in toll rates for 3+-axle vehicles. Thus, nonbudgeted expenditures increase by \$170,000 in fiscal 2017 only.

Nonbudgeted expenditures may increase further to the extent the loss in toll revenues necessitates an amendment to MDTA's trust agreement with bondholders.

Small Business Effect: Any small businesses that currently pay the cash rate at MDTA tolls benefit from a decrease in tolls. In addition, small businesses may save on shipping costs as a result of the decrease in tolls.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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