

**Department of Legislative Services**  
Maryland General Assembly  
2017 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

Senate Bill 264 (Senator King, *et al.*)  
Budget and Taxation and Finance

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**Maryland Transportation Authority - Public School Buses - Exemption From  
Tolls**

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This bill exempts, beginning on or before January 1, 2020, school buses that are owned and operated by county boards of education from any toll, fee, or other charge for using any of the Maryland Transportation Authority's (MDTA) transportation facilities projects. MDTA must renegotiate its trust agreement with its bondholders to allow a school bus owned and operated by a county board of education to use a transportation facilities project without paying a toll, fee, or other charge.

The bill takes effect July 1, 2017.

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**Fiscal Summary**

**State Effect:** Assuming that MDTA begins exempting buses on January 1, 2020, MDTA nonbudgeted revenues decrease by at least \$10,000 in FY 2020 and by at least \$20,000 annually thereafter as a result of the toll exemption for county owned and operated school buses. The bill's requirement that MDTA renegotiate its bondholder agreement could lead to increased expenditures.

**Local Effect:** Montgomery County expenditures decrease by approximately \$20,000 annually beginning in FY 2020, while expenditures for other counties decrease minimally depending on how often each county's publicly owned and operated school buses use MDTA's toll facilities. Local expenditures increase by up to \$28,700, in FY 2020 only, to purchase new transponders for all publicly owned and operated school buses; expenditures are less to the extent that some buses do not use toll facilities and, therefore, do not need transponders.

**Small Business Effect:** Minimal.

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## Analysis

### **Current Law/Background:**

#### *Maryland Transportation Authority and Toll Authority*

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 of 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.

## *Maryland Transportation Authority's Trust Agreement and Toll Revenues*

MDTA's revenues are pledged as security for bondholders under its trust agreement. The trust agreement states that MDTA will not allow any free vehicular passage at its facilities except to the following vehicles:

- officials and employees of the executive, legislative, and judicial departments of the State while they are in the discharge of their official duties;
- officers and employees of MDTA while they are in the discharge of their official duties;
- any fire or police department of the State or any political subdivision while operating in the discharge of official duties;
- ambulances owned or operated by a nonprofit organization while operated in the discharge of their duties; and
- agents and independent contractors that are used in connection with maintenance or operation of MDTA highway projects.

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.

### *School Vehicles and Buses*

A "school vehicle" is defined as any motor vehicle used regularly for the exclusive transportation of children, students, or teachers for educational purposes or in connection with a school activity. A "school bus" is defined as a type of school vehicle that meets specified weight, construction, and seating space requirements. "Public School" means the schools in the public elementary and secondary education system of the State. All school buses are currently required to pay tolls to use MDTA's transportation facilities projects.

According to the Maryland State Department of Education Fact Book for 2014-2015, the total number of school vehicles used in the State at that time was 7,181. Of this total, 3,823 of the vehicles were publicly owned and 3,358 were contractual, as shown in **Exhibit 1**.

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**Exhibit 1**  
**Publicly Owned and Contractual School Buses by Jurisdiction**  
**School Year 2014-2015**

	<u>Publicly Owned</u>	<u>Contract</u>
Allegany	22	92
Anne Arundel	55	494
Baltimore City	23	344
Baltimore	750	112
Calvert	0	143
Caroline	18	41
Carroll	3	260
Cecil	9	142
Charles	4	267
Dorchester	9	48
Frederick	350	0
Garrett	0	61
Harford	99	333
Howard	0	448
Kent	0	26
Montgomery	1,138	0
Prince George's	1,104	6
Queen Anne's	13	74
St. Mary's	12	187
Somerset	0	33
Talbot	42	0
Washington	165	62
Wicomico	7	115
Worcester	0	70
<b>Total State</b>	<b>3,823</b>	<b>3,358</b>

Source: Maryland State Department of Education, *The Fact Book 2014-2015*

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**State Revenues:** Most of the tolls paid by school buses in the State are done so by Montgomery County due to its proximity to the Intercounty Connector; the county estimates that it pays approximately \$20,000 per year. Additionally, all Montgomery County school buses are owned by the county and are exempt from paying tolls under the bill.

The bill's effect on MDTA's toll revenues from other counties is expected to be minimal because (1) several other counties advise that they only pay tolls when students take field trips instead of on a regular basis and (2) roughly half of the school buses in the State do not qualify for the exemption because they are contractual and not owned and operated by the county itself, as specified by the bill. For example, St. Mary's County estimates that it pays about \$500 each year in tolls for school buses, while Queen Anne's County estimates it pays about \$2,244 per year. However, because 94% of St. Mary's buses are contractual and 85% of Queen Anne's County's buses are contractual, it is unclear how much, if any, of the tolls paid by the two counties are exempt under the bill.

MDTA nonbudgeted revenues, therefore, decrease by at least \$10,000 in fiscal 2020 and by at least \$20,000 annually thereafter.

**State Expenditures:** MDTA advises that there may be costs associated with renegotiating the terms of its trust agreement with its bondholders, but it cannot reliably estimate the extent of those costs. It must locate all of its bondholders and arrange for negotiations to take place. Having never done that, MDTA does not know what expenses would be associated with that process. To the extent that bondholders object to changes in the trust agreement, it could damage MDTA's creditworthiness, resulting in higher interest costs for its debt.

**Local Expenditures:** As discussed above, most tolls paid by school buses relate to Montgomery County, and the bill's effect on other counties depends on (1) how often the county uses one of MDTA's toll facilities and (2) whether or not the toll facility is used by a county owned or contractual bus. Therefore, Montgomery County expenditures decrease by \$10,000 in fiscal 2020 and by \$20,000 annually thereafter, while expenditures are anticipated to decrease minimally for other counties.

Implementation of the bill requires MDTA's electronic tolling systems to recognize when school buses are being used to transport public school students and exempt those buses from any tolls. Local governments must, therefore, purchase transponders that are programmed to allow free use of MDTA toll facilities. The transponders cost \$7.50 each, and as many as 3,823 may need to be purchased by local governments for publicly owned school buses; therefore, total costs for the transponders could be as much as \$28,673 in fiscal 2020. To the extent that not all buses use toll facilities and, therefore, do not need transponders, the cost is less.

## Additional Information

**Prior Introductions:** None.

**Cross File:** HB 259 (Delegate Luedtke, *et al.*) - Environment and Transportation.

**Information Source(s):** Carroll, Harford, Montgomery, Queen Anne's, and St. Mary's counties; Maryland State Department of Education; Maryland Department of Transportation; Department of Legislative Services

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Analysis by: Richard L. Duncan

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