

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 467

Appropriations

(Delegate Korman, *et al.*)

Budget and Taxation

Metro Funding Modification Act of 2025

This bill modifies the formulas used to calculate the two annual grants the State provides to the Washington Suburban Transit District (WSTD) to pay the capital costs of the Washington Metropolitan Area Transit Authority (WMATA). Specifically, the bill (1) repeals the requirement that the standard grant be increased by 3% each fiscal year; (2) repeals the mandated \$167.0 million additional grant and instead establishes a formula to determine the amount of the mandated additional grant; and (3) requires the additional grant to be adjusted for inflation, as specified, and increased by 3% annually. **The bill takes effect June 1, 2025, but is contingent on the enactment of similar legislation by the Commonwealth of Virginia and the District of Columbia, as specified.**

Fiscal Summary

State Effect: Because the Maryland Department of Transportation's (MDOT) capital program is generally fully subscribed each year, MDOT may be required to redirect funding from other projects once the bill takes effect because the new formula increases total capital grant funding the State provides to WSTD for WMATA by tens of millions of dollars annually, as discussed below. Revenues are not affected.

Local Effect: The bill does not directly affect local government operations or finances.

Small Business Effect: None.

Analysis

Bill Summary: Instead of the required \$167.0 million annual grant, the required additional grant for WMATA must be in an amount equal to the State's proportionate share of

\$500.0 million calculated using the Metrorail Operating Subsidy Allocation Formula as adjusted for inflation. The base amount of \$500.0 million used to calculate the required additional grant is equal to an amount adjusted for inflation, as specified, beginning with fiscal 2019 and ending with the fiscal year the bill takes effect (*i.e.*, once the bill's contingencies are met). Once the bill takes effect and the \$500.0 million is adjusted for inflation as required, the grant must be increased by 3% each fiscal year thereafter.

Current Law: WMATA was established in 1967 through an interstate compact among Maryland, Virginia, and the District of Columbia. The original purpose was construction and operation of a rapid rail transit system for the Washington metropolitan area. Maryland's overall participation in the Washington metropolitan transit system consists of the provision of annual funding to WMATA for capital and operating costs of the Metrorail, Metrobus, and MetroAccess systems. WMATA's operations are funded through operating revenues and subsidies provided by the compact signatories: Maryland, Virginia, and the District of Columbia. General parameters on capital funding levels are typically established in a six-year Capital Funding Agreement developed through negotiations between WMATA and its local funding partners.

Passed in response to financial difficulties experienced by WMATA, the Maryland Metro/Transit Funding Act (enacted by Chapters 351 and 352 of 2018) mandates additional capital funding for WMATA in two ways. First, the Act requires the State's standard capital subsidy to WSTD for WMATA to increase by 3% annually over the previous fiscal year once specified reporting requirements are met. Second, the Act requires the Governor to include in the State budget an *additional* appropriation of \$167.0 million from the funds available in the State capital program in the Transportation Trust Fund (TTF).

State Expenditures: As discussed in more detail in the Additional Comments section below, for purposes of this analysis, it is assumed that the two capital grants provided to WSTD by the State to support the capital costs of WMATA are provided by TTF through MDOT's capital program. MDOT's capital program is generally fully subscribed from year to year. Accordingly, modifying the State's required capital grants for WMATA does not affect total TTF spending, but instead, may affect the combination of capital projects that receive funding in MDOT's capital program in any given year.

A precise estimate of the bill's impact on MDOT's capital program cannot be reliably estimated at this time because it depends on numerous unknown factors, including when and whether the Commonwealth of Virginia and the District of Columbia enact similar legislation. Nevertheless, the bill is anticipated to significantly increase the State's capital grant funding for WMATA beginning in the fiscal year in which it takes effect.

For illustrative purposes only, assuming that the bill takes effect in fiscal 2028, and under the assumptions discussed below, **Exhibit 1** shows the potential impact on MDOT's capital program in that fiscal year. In this illustrative example, the State's standard capital grant decreases by \$4.8 million in fiscal 2028 (due to the elimination of the requirement for the grant to be increased by 3% annually), but the additional capital grant increases by \$58.2 million in that fiscal year (due to the repeal of the required \$167.0 million grant and the establishment of the formula to determine the amount of the required grant). In this example, the net effect of the two provisions is an increase of \$53.4 million in capital grant funding for WMATA in fiscal 2028 compared to current law. Grant funding continues to increase in future fiscal years due to the bill's requirement that the additional grant be increased by 3% annually after the initial adjustment for inflation.

Exhibit 1
Illustrative Example of the Bill's Effect on WMATA Capital Grants
Fiscal 2028
(\$ in Millions)

	<u>Standard Capital Grant</u>	<u>Additional Capital Grant</u>
Under Current Law	\$167.8	\$167.0
Under the Bill	163.0	225.2
Difference	(\$4.8)	58.2

WMATA: Washington Metropolitan Area Transit Authority

Sources: Maryland Department of Transportation; Washington Metropolitan Area Transit Authority; Department of Legislative Services

In the illustrative example above, the estimate for the standard capital grant for WMATA in fiscal 2028 is based on MDOT's financial plan and assumes that, under the bill, the amount provided in fiscal 2028 remains at the fiscal 2027 level. The estimate for the additional capital grant is based on:

- WMATA's formula to determine the operating subsidy provided by Maryland, Virginia, and the District of Columbia, which is 32.7%, 34.1%, and 33.2%, respectively; and
- historic inflation and estimates of future inflation as forecasted by Moody's Analytics.

Additional Comments: Since the inception of the additional capital grant for WMATA, general funds have been transferred to TTF to partially or fully offset the impact to TTF. Additionally, in fiscal 2025, and in the fiscal 2026 budget as introduced, general obligation (GO) bonds were used and are planned for this purpose.

Although this analysis assumes that the increased funding required to provide grants for WMATA under the bill is paid for using TTF, to the extent that general funds and/or GO bonds are used for this purpose in future fiscal years, the impact to MDOT's capital program is less pronounced. Instead, general fund expenditures increase accordingly, and/or the use of GO bond proceeds for this purpose reduces GO bond funding available for other State projects, as the total capital budget is established annually by the Governor and the General Assembly through the capital budget process and is fixed each year.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced in the last three years.

Designated Cross File: SB 384 (Senator Augustine) - Budget and Taxation.

Information Source(s): Maryland Department of Transportation; Washington Metropolitan Area Transit Authority; Department of Budget and Management; Moody's Analytics; Department of Legislative Services

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