

January 29, 2025

The Honorable Guy Guzzone  
Chair, Budget and Taxation Committee  
3 West Miller Senate Office Building  
Annapolis, MD 21401

***RE: Letter of Information – SB 20 – Locally Operated Transit Systems – Mandatory Funding – Inflation Adjustment***

Dear Chair Guzzone and Committee Members:

The Maryland Department of Transportation (MDOT) takes no position on Senate Bill 20 but offers the following information for the Committee's consideration.

SB 20 mandates an annual increase in funding for the Maryland Transit Administration's locally operated transit systems (LOTS) grant program. The amount of the annual increase is indexed to inflation, with a minimum change of 0% and a maximum change of 5%.

Though in existence for many years prior, Chapter 508 of 2023 established the LOTS program in law. A year later, Chapter 652 of 2024 established a mandated funding level of \$80.5 million annually beginning in FY 2026. SB 20 indexes the mandated funding level to inflation beginning in FY 2027. Each of these changes progressively reduces the flexibility of the Transportation Trust Fund to respond to statewide transportation needs.

Most of the Transportation Trust Fund's revenues are not inflation-sensitive and grow at a rate slower than inflation. Thus, as expenses grow faster than revenues, a structural deficit is created. The inflation component in SB 20 increases expenditures from the Transportation Trust Fund by an estimated \$19 million in FY 2026 through FY 2030.

In the absence of new revenues, MDOT made significant reductions to its operating and capital programs over the last several years to maintain affordability of the six-year program. Additional revenues established by the General Assembly during the 2024 legislative session and those revenue actions proposed by Governor Moore this session allowed the Department to restore some reductions. However, continued fiscal constraint is required until the investments being made in Maryland's economic growth jumpstart the economy. A mandated annual increase in LOTS funding will require offsetting reductions across the Department to maintain the affordability of MDOT's six-year operating and capital program.

Further, it is important to note the differential impact the proposed legislation will have on the types of funds that contribute to LOTS. The LOTS grant program includes several federal and State grant programs. Since the federal grants are not subject to an inflationary increase, an

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increasing amount of State funding will be required to fund the additional program costs. Some of these programs are already subject to mandated funding levels. The Bus Rapid Transit Grant is established at \$27 million annually. Funding for elderly and handicapped transit service was mandated at \$4.3 million beginning in FY 2024 and is indexed to inflation thereafter. The inflation formula utilized for the elderly and handicapped service grants is different than the one proposed in SB 20 for the larger LOTS program, which will result in different growth rates and may create confusion over required funding levels.

The Maryland Department of Transportation respectfully requests the Committee consider this information during its deliberation of Senate Bill 20.

Respectfully submitted,

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