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FISCAL AND POLICY NOTE
First Reader

Senate Bill 963
 Finance

(Senator Madaleno, *et al.*)

Transportation - Transit Service - State Grants

This bill generally increases the amount of grants that must be provided annually by the Maryland Department of Transportation (MDOT) to (1) the Washington Metropolitan Area Transit Administration (WMATA) through the Washington Suburban Transit District (WSTD) and (2) Montgomery and Prince George’s counties for eligible bus service.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) expenditures increase significantly beginning in FY 2018 due to the bill’s changes to the annual State grants for local bus service in the two counties; although the impact in any given year depends on numerous factors, *under one set of assumptions*, TTF expenditures increase by an estimated \$4.6 million in FY 2018, \$19.1 million in FY 2019, \$25.2 million in FY 2020, \$31.6 million in FY 2021, and \$48.3 million in FY 2022. TTF expenditures may increase significantly further due to the bill’s changes to the annual State operating grant to WMATA. Revenues are not affected. **This bill establishes a mandated appropriation beginning in FY 2019.**

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenues	\$0	\$0	\$0	\$0	\$0
SF Expenditure	4.6	19.1	25.2	31.6	48.3
Net Effect	(\$4.6)	(\$19.1)	(\$25.2)	(\$31.6)	(\$48.3)

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

Local Effect: *Under one set of assumptions*, Montgomery and Prince George’s counties’ revenues increase by an estimated \$4.6 million in FY 2018, \$19.1 million in FY 2019, \$25.2 million in FY 2020, \$31.6 million in FY 2021, and \$48.3 million in FY 2022 due to

the bill's changes to local grants for bus service in the counties, as discussed below. Expenditures are not directly affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill repeals the limit on MDOT's annual grant for WMATA, which is currently 50% of WMATA's total operating costs, for its operating deficit. The bill also requires that annual grants from the State to Montgomery and Prince George's counties for each county's operating deficit (which takes into consideration collected revenues and federal assistance) for any local bus service operated by or on behalf of and in the counties are as follows:

- for fiscal 2018, 43% of the service deficit attributable to each county, but not less than \$13.0 million;
- for fiscal 2019, 50% of the service deficit attributable to each county, but not less than \$20.0 million;
- for fiscal 2020, 55% of the service deficit attributable to each county, but not less than \$20.0 million;
- for fiscal 2021, 60% of the service deficit attributable to each county, but not less than \$20.0 million; and
- for fiscal 2022 and each fiscal year thereafter, 75% of the service deficit attributable to each county, but not less than \$20.0 million.

In part to implement these changes, the bill also makes the following changes to the local grants for eligible bus service:

- the grants are no longer subject to statutory appropriation requirements and budgetary provisions that specify the uses of revenues to TTF;
- the limit on the amount of the annual grants, which is currently 65% of service operating costs, is repealed;
- the limit on the growth of the amount of annual grants based on the Consumer Price Index (CPI) is repealed;
- the limit on the amount of the annual grants, based on what would be required if WMATA provided the eligible bus service instead, is repealed;
- the definition of what is considered an "eligible local bus service" is broadened to mean any service operated by or on behalf of and in either county;

- the requirement that the counties apply to MDOT for the grants is maintained, but MDOT is required to provide the grants upon receipt of the grant application each year, instead of having discretion to approve the application;
- each county's share of MDOT's annual grant for WMATA does not offset the total that must be provided through the local grants; and
- statutory language that authorizes MDOT to subsidize new local bus service and the loss of revenues from fare modifications of existing service is repealed.

Current Law/Background:

Washington Metropolitan Area Transit Administration Grant

The Washington Suburban Transit Commission (WSTC), established in 1965, is responsible for administering WSTD and is authorized to develop a transportation system, including mass transit facilities, for Montgomery and Prince George's counties. It coordinates mass transit programs with the two county governments, WMATA, and MDOT. MDOT is required to provide an annual operating grant to WSTC through the Secretary's Office budget. WSTC authorizes MDOT to provide funding to WMATA for the operation of the Metrorail, Metrobus, and MetroAccess programs. This operating grant is based on numerous factors, including miles of service, number of stations, number of passengers, and population density in each jurisdiction and is offset by the fare revenues generated by each service and federal operating assistance. The grant is capped at 50% of WMATA's operating costs. The total grant in each year includes 100% of the share of WMATA's operating costs attributed to both Montgomery and Prince George's counties.

The operating grant from MDOT to WMATA was \$228.1 million in fiscal 2011, \$256.5 million in fiscal 2012, \$263.6 million in fiscal 2013, \$268.1 million in fiscal 2014, \$284.6 million in fiscal 2015, and \$318.9 million in fiscal 2016. Of the \$318.9 million in fiscal 2016, \$139.1 million was paid by MDOT on behalf of Montgomery County and \$179.7 million was paid by MDOT on behalf of Prince George's County.

Washington Metropolitan Area Transit Administration – SafeTrack

SafeTrack is an accelerated track work plan to address safety recommendations and rehabilitate WMATA's Metrorail system to improve safety and reliability. Through SafeTrack, WMATA will complete approximately three years' worth of work in approximately one year. The plan significantly expands maintenance time on weeknights, weekends, and midday hours and includes 16 "Safety Surges" – long-duration track outages for major projects in key parts of the system.

Montgomery and Prince George's Counties' Local Bus Service Grants

Subject to appropriation requirements and budgetary provisions in statute, MDOT is authorized to provide grants to Montgomery and Prince George's counties to assist with the service deficit of eligible local bus service; each county must apply annually for the grants, and the grants are contingent on MDOT's approval of the applications. "Eligible local bus service" means a service that (1) previously replaced comparable service operated by WMATA, as well as any new service added after June 30, 1989, and (2) is operated by or on behalf of and in Montgomery or Prince George's counties.

MDOT must pay 100% of each county's bus service deficit, up to 65% of the operating costs for the eligible bus service and subject to offset by any federal operating assistance. The total is also offset by each county's share of operating grant to WMATA; however, as previously noted, MDOT currently pays 100% of the counties' shares to WMATA. Additionally, the grants may not (1) be greater than the operating grant MDOT would have to provide if the eligible local bus service were operated by WMATA instead of the local government or (2) exceed the grants provided in the previous fiscal year after taking CPI adjustments into consideration. Adjustments to the grants must be made to increase or decrease the combined grants each year to reflect the actual inflation rate.

The operating grants from MDOT to the counties totaled \$48.5 million in fiscal 2014, \$51.2 million in fiscal 2015, and \$52.8 million in fiscal 2016.

MDOT is also authorized to provide Montgomery and Prince George's counties with additional grants to (1) subsidize any new bus service for 36 months after the service begins and (2) account for any loss in revenue due to fare modifications for 36 months after the date the modification begins.

State Expenditures:

Washington Metropolitan Area Transit Administration Operating Grant

MDOT pays approximately 37.4% of WMATA's operating deficit, while Virginia pays 25.8% and Washington, DC, pays 36.8%. While WMATA's operating revenues have historically been greater than or equal to 50% of its total operating costs (meaning that the 50% limit on the State's annual grant, which is being repealed by the bill, has had no effect on the total amount of the grant in recent years), the proposed operating budget for fiscal 2018 estimates that only 46.3% of WMATA's operating budget will be supported by its operating revenues in fiscal 2018.

Specifically, for fiscal 2018, WMATA expenditures are estimated to be \$1,816.8 million, while operating revenues are estimated to be \$841.1 million. This means that under the

bill, the operating deficit is calculated to be \$975.7 million (which is expenditures less operating revenues), while under current law, the operating deficit is calculated to be \$908.4 million (which is 50% of the operating costs). Even so, MDOT advises that for fiscal 2018, it has made a policy decision to provide WMATA with additional funding to cover the entire operating deficit, despite the 50% statutory limit in order to assist WMATA in completing its SafeTrack project. Thus, for fiscal 2018 only, the bill has no effect on State expenditures for WMATA.

Even though MDOT made the policy decision to provide additional funding to WMATA in fiscal 2018, the bill limits MDOT's options in any future year by repealing the 50% limit for calculating the service deficit. Therefore, TTF expenditures increase significantly in any fiscal year where WMATA's actual operating deficit is greater than the 50% limit being repealed by the bill and MDOT would otherwise not choose to provide additional funding. *For illustrative purposes only*, for fiscal 2018, MDOT's share of the deficit is calculated to be 37.4% of \$908.4 million (\$339.7 million) using the 50% limit. Without the 50% limit, MDOT's share of the deficit is calculated to be 37.4% of \$975.7 million (\$364.9 million); this is the amount currently reflected in the Governor's proposed fiscal 2018 budget. Therefore, absent the policy decision discussed above, MDOT expenditures would have increased by \$25.2 million in fiscal 2018 due to the bill's changes.

Additionally, to the extent that WMATA alters its fare structures or service plans, or takes any other action that reduces its cost recovery ratios, TTF expenditures for the grant increase significantly.

Montgomery and Prince George's Counties' Operating Grants

The bill increases annual TTF expenditures for the local grants by (1) mandating that the grants be made each year upon receipt of an application from the counties and without regard to budgetary conditions; (2) repealing the limit on the annual grants, which is 65% of each counties' bus service operating costs under current law; and (3) repealing the limit on the grants based on the annual increase in CPI. The precise impact in any given fiscal year depends on numerous unknown factors, including operating expenses, operating revenues, ridership levels, and any action either county may take that affects its operating deficit and is, therefore, difficult to predict.

The Department of Legislative Services notes that MDOT grants for local bus services in Montgomery and Prince George's counties have not been fully funded in recent years. For instance, in fiscal 2018, Montgomery County's service deficit calculated under current law is \$75.0 million, and MDOT is supposed to pay the full service deficit, subject to State appropriations and budgetary provisions in statute. However, MDOT's fiscal 2018 grant to Montgomery County is budgeted at \$35.1 million due to budgetary conditions.

Under one set of assumptions, TTF expenditures increase by an estimated \$4.6 million in fiscal 2018, \$19.1 million in fiscal 2019, \$25.2 million in fiscal 2020, \$31.6 million in fiscal 2021, and \$48.3 million in fiscal 2022 due to the bill's changes to local grants for bus service in Montgomery and Prince George's counties. This estimate is based on projected revenues and expenditures from fiscal 2017 budget information provided by MDOT. It assumes annual 3% growth for total direct costs and fare revenues, and, based on feedback from MDOT regarding recent trends, it assumes flat federal funding and MDOT grant levels absent the bill. **Exhibit 1** shows the estimated additional grants required for each county and in total under the bill. As MDOT's grants to Prince George's County have not exceeded the minimum amount required by the bill, the exhibit reflects MDOT paying the minimum amounts required.

Additionally, TTF expenditures could increase significantly further to the extent that local governments take any action that increases their operating deficits, such as reducing fares or increasing service, since the State is now required to pay more of that deficit.

Although an appropriation may not be mandated until fiscal 2019, for purposes of this analysis, it is assumed that MDOT provides the grants in the manner specified by the bill in fiscal 2018 as well.

Although the bill alters the definition of what is considered an "eligible local bus service" by expanding the type of bus service for which MDOT must provide grants, Montgomery and Prince George's counties have previously advised that most, if not all, of their bus service is already eligible for State grants because an eligible bus service includes "the number of annual platform miles and annual platform hours of any new fixed route, scheduled local bus service added after June 30, 1989," under current law. However, MDOT is not always able to include the new bus service into its calculations when determining the amount of the grants because of the existing limits.

As previously discussed, MDOT's grant to WMATA in each year includes 100% of the share of WMATA's operating costs attributed to both Montgomery and Prince George's counties. Previously, the counties were expected to pay a portion of the operating grant as well, and this was accounted for in MDOT's local bus service grants. Because the counties no longer pay any portion of the operating grant to WMATA, the bill's specification that the local grants are not offset by each county's share of MDOT's annual grant for WMATA codifies current practice.

Exhibit 1
Proposed Local Operating Grants
Fiscal 2018-2022
(\$ in Millions)

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
Montgomery County					
Current Law Grant	\$35.1	\$35.1	\$35.1	\$35.1	\$35.1
Grant Required by the Bill	37.7	45.2	51.3	57.7	74.4
Additional Funding	\$2.5	\$10.0	\$16.1	\$22.5	\$39.2
Prince George's County					
Current Law Grant	\$10.9	\$10.9	\$10.9	\$10.9	\$10.9
Grant Required by the Bill	13.0	20.0	20.0	20.0	20.0
Additional Funding	\$2.1	\$9.1	\$9.1	\$9.1	\$9.1
Total TTF Expenditures					
Current Law Grants	\$46.0	\$46.0	\$46.0	\$46.0	\$46.0
Grants Required by the Bill	50.7	65.2	71.3	77.7	94.4
Total Additional Funding	\$4.6	\$19.1	\$25.2	\$31.6	\$48.3

TTF: Transportation Trust Fund

Note: Totals may not sum due to rounding

Source: Maryland Department of Transportation; Department of Legislative Services

Local Revenues: Under the set of assumptions discussed above, Montgomery County revenues increase by an estimated \$2.5 million in fiscal 2018, \$10.0 million in fiscal 2019, \$16.1 million in fiscal 2020, \$22.5 million in fiscal 2021, and \$39.2 million in fiscal 2022. Prince George's County revenues increase by an estimated \$2.1 million in fiscal 2018 and \$9.1 million annually thereafter. The Prince George's County grant is projected to be less than the mandatory minimum required by the bill and, therefore, this estimate assumes the minimum amounts are provided to Prince George's County in each fiscal year.

Additional Information

Prior Introductions: SB 1035 of 2016, a bill with similar provisions, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: None.

Information Source(s): Montgomery County; 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