

J00H01
Maryland Transit Administration

Operating Budget Data

(\$ in Thousands)

	<u>FY 09</u> <u>Actual</u>	<u>FY 10</u> <u>Working</u>	<u>FY 11</u> <u>Allowance</u>	<u>FY 10-11</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$525,826	\$543,199	\$553,931	\$10,732	2.0%
Contingent & Back of Bill Reductions	0	0	-2,021	-2,021	
Adjusted Special Fund	\$525,826	\$543,199	\$551,910	\$8,711	1.6%
Federal Fund	65,894	63,736	62,736	-1,000	-1.6%
Contingent & Back of Bill Reductions	0	0	-299	-299	
Adjusted Federal Fund	\$65,894	\$63,736	\$62,437	-\$1,299	-2.0%
Adjusted Grand Total	\$591,720	\$606,936	\$614,348	\$7,412	1.2%

Note: For purposes of illustration, the Department of Legislative Services has estimated the distribution of selected across-the-board reductions. The actual allocations are to be developed by the Administration.

- The fiscal 2011 allowance for the Maryland Transit Administration (MTA) increases \$9.7 million, or 1.6%, compared to the working appropriation; however, when adjusting for the estimated impacts of the across-the-board actions included in the budget, the allowance increases \$7.4 million, or 1.2%.
- The largest increases in the allowance are for contracted transit services with Maryland Rail Commuter (MARC) service increasing \$6.8 million and Mobility paratransit services increasing \$2.2 million.
- There is concern that the fiscal 2011 allowance for MTA is insufficient to support all of the contract increases for services and union personnel expenses in addition to the ongoing expenses of operating a large transit system.

Note: Numbers may not sum to total due to rounding.

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PAYGO Capital Budget Data

(\$ in Thousands)

	Fiscal 2009	Fiscal 2010		Fiscal 2011
	<u>Actual</u>	<u>Legislative</u>	<u>Working</u>	<u>Allowance</u>
Special	\$95,394	\$213,333	\$188,493	\$150,570
Federal	\$173,130	\$306,581	\$263,221	\$282,776
Subtotal	\$268,524	\$519,914	\$451,714	\$433,346
Other	\$316	\$21,500	\$20,400	\$35,100
Total	\$268,840	\$541,414	\$472,114	\$468,446

- The fiscal 2010 working appropriation is approximately \$69.3 million less than the legislative appropriation due to American Recovery and Reinvestment Act of 2009 spending being less than originally estimated and the impact of special funds reductions taken as part of the March 2009 downward revenue revision.
- The fiscal 2011 allowance decreases \$3.7 million with special funds decreasing \$37.9 million due to projects ending in fiscal 2010 and federal funds increasing \$19.6 million, largely for bus procurement. Other funding increases \$14.7 million due to the cash flow needs of Paul S. Sarbanes Transit Center project.

Operating and PAYGO Personnel Data

	<u>FY 09 Actual</u>	<u>FY 10 Working</u>	<u>FY 11 Allowance</u>	<u>FY 10-11 Change</u>
Regular Operating Budget Positions	3,032.50	3,014.50	3,014.50	0.00
Regular PAYGO Budget Positions	<u>104.00</u>	<u>100.00</u>	<u>100.00</u>	<u>0.00</u>
Total Regular Positions	3,136.50	3,114.50	3,114.50	0.00
Operating Budget FTEs	15.00	15.00	15.00	0.00
PAYGO Budget FTEs	<u>0.16</u>	<u>1.00</u>	<u>0.00</u>	<u>-1.00</u>
Total FTEs	15.16	16.00	15.00	-1.00
Total Personnel	3,151.66	3,130.50	3,129.50	-1.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	106.20	3.41%
Positions and Percentage Vacant as of 12/31/09	76.50	2.46%

- The department had 22.0 positions eliminated, including 15.0 filled positions, as part of the August 2009 Board of Public Works reductions.
- The fiscal 2011 allowance does not include any new positions or abolitions; however, a 1.0 contractual full-time equivalent position was eliminated in the capital budget as part of cost containment.
- As of December 31, 2009, the department had 76.5 vacant positions, for a vacancy rate of 2.46% compared to the fiscal 2011 allowance turnover rate of 3.41% requiring 106.2 vacant positions. To achieve the necessary savings from turnover, the department will not be able to fill positions as they become open or savings will need to be identified elsewhere in the budget.

Analysis in Brief

Major Trends

Quadrennial MTA Performance Audit: Statute requires MTA to complete a quadrennial performance audit that focuses on the efficiency and effectiveness of services provided by MTA. The audit was completed, and the major findings were that the cost of passenger trips increased, the level of service increased, and expenditures grew more rapidly than ridership over the audit period. **The Department of Legislative Services (DLS) recommends that MTA discuss why contracted services grew so much, why commuter bus and light rail service did not compare favorably to its peers, and what can be done to reduce expenditure growth for Mobility services.**

Boardings Increasing: Ridership grew in spring 2008 with rising gas prices but has slowed in recent months due to the recession and high unemployment rates. Specifically, ridership grew by 5.2% in fiscal 2008, 4.0% in fiscal 2009, and is estimated to grow 3.2 and 3.1%, in fiscal 2010 and 2011, respectively. **DLS recommends that MTA discuss what impact the recession has had on ridership and revenues.**

On-time Performance: Overall, the level of on-time performance improved in fiscal 2009 compared to prior years. The only area not to improve is MARC due to mechanical problems and the lack of a dedicated rail. **DLS recommends that MTA discuss what actions can be taken to further improve the on-time performance of core bus and MARC service.**

Farebox Recovery: The farebox recovery rate for Baltimore area services improved in fiscal 2009 due to cost containment and ridership growth. The farebox recovery is expected to decline slightly in fiscal 2010 and 2011 as ridership is expected to grow less than expenditures. To meet the statutory farebox recovery, MTA estimates that expenditures would need to be reduced \$90 million or fares would need to increase from \$1.60 to \$2.15. MARC's farebox recovery rate declined in fiscal 2009 from 53 to 44% due to increased contract costs.

Performance Goals: Chapter 684 of 2008 requires MTA to develop performance goals for passenger trips per revenue vehicle mile, operating expenses per passenger trip, and operating expenses per revenue vehicle mile. Due to cost containment in fiscal 2009, measures involving spending generally came in less than the goal, and ridership-related goals were better than the goal due to ridership being up in fiscal 2009. **DLS recommends that MTA discuss why goals were or were not met in fiscal 2009 and the fiscal 2010 goals.**

Issues

Underfunding in Fiscal 2011 Allowance: As part of its baseline budget process, DLS estimated that the fiscal 2011 budget would increase approximately \$40 million compared to fiscal 2010. Furthermore, the department's financial forecast shows MTA's budget increasing \$30 million annually from fiscal 2012 to 2015; however, the fiscal 2011 allowance increases less than \$10 million. Based upon the DLS estimate and the department's financial forecast, there is concern that the fiscal 2011 allowance may be underfunded, which would have adverse consequences for the department's financial forecast. **DLS recommends that the Maryland Department of Transportation (MDOT) and MTA discuss the funding levels in fiscal 2011 and what actions will be necessary if funding is insufficient, how the potential cost increases from binding arbitration will be paid, and the impact on the financial forecast if the allowance is insufficient. DLS also recommends adding budget bill language restricting funding contingent upon the submission of two reports regarding the public hearing outcome for a fare increase and a long-term fare increase policy. The second report would detail the impact of the fare increase.**

Three Major Transit Lines: The State continues to move forward with plans for three major transit lines. Based upon current projections, a financial plan for the construction of a federally approved transit line will need to be in place by calendar 2012. Currently, the capital program does not include any construction funding for any of the projects, and the financial forecast does not have the capacity to construct and operate a major transit line without a revenue increase. **DLS recommends that the department discuss how it will be able to construct and operate the future transit lines given its financial constraints. In addition, DLS recommends committee narrative be adopted that would require the department to submit information regarding the draft financial plan it submits with its New Starts application for each line.**

Changes in Paratransit Mobility Services: One of the largest cost drivers in recent fiscal years for MTA has been the Mobility paratransit service. MTA has announced several changes in policy which are expected to save \$2.4 million annually and create service efficiencies to enhance the customer experience. **DLS recommends that MTA brief the budget committees on the Mobility service and the service changes taken and proposed.**

National Gateway Project: CSX has announced a multi-state public-private partnership initiative called the National Gateway to improve the flow of freight between mid-Atlantic ports and the Midwest largely through projects that will provide additional clearance for double stacked rail cars. The State will provide some capital funding to the project, largely for an intermodal facility that is not yet reflected in the capital program. **DLS recommends that MTA discuss the benefits for MARC and the State from the National Gateway initiative and how this additional capital project will be funded.**

MARC Operating Budget Contract Status: The current CSX operating contract is set to expire at the end of fiscal 2010. CSX has indicated its desire to end its involvement in the operation of the MARC service. MTA is currently in the procurement process for a third party to operate and maintain the MARC system on the CSX owned lines and is negotiating access fees for MARC service. The new CSX contract for access rights and third party contract could result in additional operating budget

expenses. **DLS recommends that MTA discuss the CSX contract and the potential budgetary impacts. DLS also recommends that committee narrative be adopted requiring a report on the outcome of the third party contract.**

Federal Rail Safety: The fatal June 22, 2009 crash on the Washington Metropolitan Area Transit Authority's Red line has prompted the United States Department of Transportation to propose legislation providing for federal oversight of transit safety. **DLS recommends that MTA discuss with the committees the safety program and opinion of the proposed federal legislation.**

Operating Budget Recommended Actions

1. Add budget language restricting funding contingent upon submission of two reports regarding fares.
2. Add budget bill language regarding the consolidation of police forces.
3. Adopt committee narrative requesting a report on the third party contract.

PAYGO Budget Recommended Actions

1. Adopt committee narrative requesting the financial details provided with the New Starts application.

Updates

Farebox Recovery Report: The 2009 *Joint Chairmen's Report* requested that MTA provide information on what actions would need to be taken to meet the statutory farebox recovery rate of 35% either in terms of revenues or spending. In addition, MTA estimated the loss of revenue associated with free transit ridership for State employees and fare products.

J00H01
Maryland Transit Administration

Budget Analysis

Program Description

The Maryland Department of Transportation (MDOT) supports transit in Maryland through the Maryland Transit Administration (MTA). MTA consists of the following operating budget programs:

- **Transit Administration** provides executive direction and support services for MTA.
- **Bus Operations** manages bus services in Baltimore City and surrounding counties. These services include the operation of fixed route and paratransit lines and contracts with commuter and paratransit service providers.
- **Rail Operations** includes the Baltimore Metro heavy rail line and the Baltimore area light rail line as well as the management of the Maryland Rail Commuter (MARC) contracts with Amtrak and CSX Transportation.
- **Statewide Operations** provides technical assistance and operating grants to local jurisdictions' transit services, including Montgomery County's "Ride-On" and Prince George's County's "the Bus" services. Additionally, the program contracts with private carriers to operate commuter bus services throughout the State. Assistance is also provided to several short-line freight railroads to support the maintenance of State-owned rail lines.

MTA has identified the following goals:

- to provide outstanding service;
- to encourage transit ridership in Maryland;
- to use MTA resources efficiently and effectively and be accountable to the public, customers, and employees, with performance measured against prior years and transit industry peers; and
- to provide a safe, crime free environment for customers and employees.

Performance Analysis: Managing for Results

As part of its allowance submission, MTA submits a number of performance measures including detail on the farebox recovery ratio, on-time performance, and other operating measures including operating cost per passenger.

Quadrennial MTA Performance Audit

MTA is required by statute to complete a quadrennial performance audit that focuses on the effectiveness and efficiency of services provided by MTA. Specifically, the audit is to review farebox compliance, trends in efficiency and effectiveness indicators, and comparisons to similar transit systems. The audit highlights many of the ongoing issues that confront MTA. **Exhibit 1** shows the percent change over the audit period for three different performance measures that look at the relationship between ridership and expenditures. Some of the highlights include:

Exhibit 1
Performance Audit
Fiscal 2004-2008 Percent Change

	<u>Operating Cost Per Passenger Trip</u>	<u>Passengers Per Revenue Mile</u>	<u>Operating Cost Per Revenue Mile</u>
Directly Operated Services	31.9%	-2.4%	28.8%
Core Bus	41.7%	-0.5%	41.3%
Light Rail	-14.8%	-3.4%	-17.9%
Metro	17.6%	-2.4%	14.8%
Contracted Services	30.7%	-21.0%	3.3%
Commuter Bus	17.5%	12.9%	31.5%
MARC	20.1%	11.7%	34.2%
Mobility	22.0%	-17.5%	0.7%

MARC: Maryland Rail Commuter

Source: Maryland Transit Administration Quadrennial Audit

- The Cost of Each Passenger Trip Increased Over the Audit Period:** Overall ridership remained relatively flat over the audit period with total ridership growing 4.5%. Core bus ridership accounts for 70.0% of MTA’s ridership and declined by 1.5% over the audit period. Operating expenditure growth rates, particularly fuel, utility, and labor expenses, outpaced total ridership growth and resulted in the cost of each passenger trip increasing. Light rail was the only mode of transit not to see an increase, but this is attributable to the completion of the double tracking project.

- **Service Productivity, Measured by the Number of Passengers for the Level of Service Provided, Declined Slightly:** As indicated previously, ridership grew 4.5% over the forecast period and the level of service provided (revenue miles) grew 24.0%. Service only grew 4.5% for services provided directly by MTA, with contracted service experiencing most of the service increases. This is particularly true with commuter bus and TaxiAccess service.
- **The Operating Cost for Each Mile of Directly Operated Service Is Increasing Greater Than Contracted Service:** The cost of directly operated services per service mile increased 29.0% from fiscal 2004 to 2008 compared to 3.3% for contracted services. Contracted service expenditures per service mile grew at a reduced rate largely due to the level of service increasing.

Specific Service Trends

An analysis of each type of service delivered and comparison to comparable systems was completed. Following is more specific information on the ridership, service, and expenditure trends used in the calculations shown in Exhibit 1. When compared to peer transit agencies, only MARC and Metro compared favorably based upon the efficiency and effectiveness measures. Following is a summary of the major findings:

- **Core Bus:** The number of passenger trips decreased 1.5%, and the level of service provided declined 1.0% over the audit period while operating expenses increased 39.7%. When compared to other peer transit systems over the audit period, the operating expense per passenger trip was the lowest; however, the operating expense for the service provided was one of the highest. In terms of the number of trips compared to the level of service provided, MTA had the best ranking.
- **Light Rail:** Operating expenses for light rail increased 11.2% with ridership increasing 30.5% due to the completion of the double tracking project. Compared to peer agencies, MTA had the lowest efficiency and effectiveness rankings.
- **Metro:** Similar to the light rail, operating expenses increased during the audit period but so did service and passenger trips, albeit at a lesser rate. Compared to the peer averages, Metro performed favorably.
- **Commuter Bus:** Ridership for commuter bus services increased 37.5% and service grew 22.7%, but operating expenditures increased 61.5%, resulting in the service becoming less cost effective. Commuter bus services did not compare favorably to its peers on the efficiency measure.
- **MARC:** MARC expenditures increased 41.6%, totaling \$94.6 million in fiscal 2008, and passenger trips increased 17.9% over the audit period. When compared to its peers, MARC performed relatively favorably.

- **Paratransit and TaxiAccess:** TaxiAccess service began during the audit period. The level of service grew 169.0% over the audit period. Expenditures grew 171.0%, totaling \$54.5 million in fiscal 2008. Ridership grew enough that measures for cost effectiveness remained unchanged. MTA did not compare favorably to other peer systems that provide paratransit services and none of the peer systems provide a similar TaxiAccess service. The cost per passenger was 57.0% higher than the peer average, and the cost for the service provided was 64.0% higher than the peer average.

Conclusion

As has been the case during the past several fiscal years, operating budget expenditures have exceeded ridership growth. Therefore, efficiency measures that compare ridership to expenditures have not improved over time. Further adding to the problems, is that most of the service increases in the past have been for contracted services which typically are more expensive to provide than directly operated services. When compared to other transit agencies, MTA's service generally did not compare favorably, except for MARC and Metro services. **The Department of Legislative Services (DLS) recommends that the agency discuss the following:**

- **why service growth was so much greater for contracted services during the audit period;**
- **why commuter bus and light rail service did not compare favorably to its peers; and**
- **why the paratransit Mobility service did not compare favorably to other agencies.**

DLS recommends that legislation be introduced that would remove the statutory requirement for a quadrennial audit given that much of the information is already covered in the annual Managing for Results (MFR) data and other statutory reports submitted by the agency.

Current MFR Measures

The quadrennial audit already highlighted many of the performance issues confronting the agency now. Following is an update of information from fiscal 2009 to 2011 for various measures.

Boardings Increasing

Exhibit 2 provides detail on the number of boardings for services provided by MTA. Nationally, transit ridership grew as fuel prices spiked in spring 2008; however, ridership has started to return to the historical trend in recent months. MTA ridership grew rapidly in fiscal 2007 and 2008 compared to prior fiscal years. This is reflected in total ridership growth of 5.2% in fiscal 2008, with growth particularly strong in the second half of the fiscal year when gas prices spiked. Growth in fiscal 2009 remained relatively high with growth of 4.0%. In fiscal 2010 and 2011, MTA is estimating that ridership will continue to grow at a rate of 3.2 and 3.1%, respectively; however, it will bear watching what impact high unemployment will have on ridership. There are several other trends:

- **Core Bus:** Core bus ridership grew 5% in fiscal 2009 due to higher gas prices earlier in the fiscal year. This growth is sizable compared to its recent past. Ridership is projected to grow 3% annually in fiscal 2010 and 2011.
- **Paratransit Services:** TaxiAccess had a drop in ridership in fiscal 2009. The ridership decline is due to changes in the service delivery model that altered who and to what extent an individual could benefit from the service. This will be discussed later as an issue.

DLS recommends that MTA discuss with the committees what impact the recession has had on ridership and what impact, if any, reduced ridership levels will have on its budget.

Exhibit 2
MTA Boardings and Percent Change
Fiscal 2006-2011

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Estimated</u> <u>2010</u>	<u>Estimated</u> <u>2011</u>
Bus	0.0%	1.0%	4.0%	5.0%	3.0%	3.0%
Metro	0.0%	2.0%	6.0%	-3.0%	3.0%	2.0%
Light Rail	11.0%	32.0%	12.0%	9.0%	5.0%	5.0%
Paratransit	19.0%	11.0%	35.0%	12.0%	6.0%	6.0%
TaxiAccess	84.0%	18.0%	10.0%	-12.0%	-2.0%	1.0%
MARC	6.0%	3.0%	5.0%	2.0%	2.0%	2.0%
Contracted Commuter Bus	8.0%	5.0%	10.0%	7.0%	5.0%	5.0%
Total	1.9%	3.5%	5.2%	4.0%	3.2%	3.1%

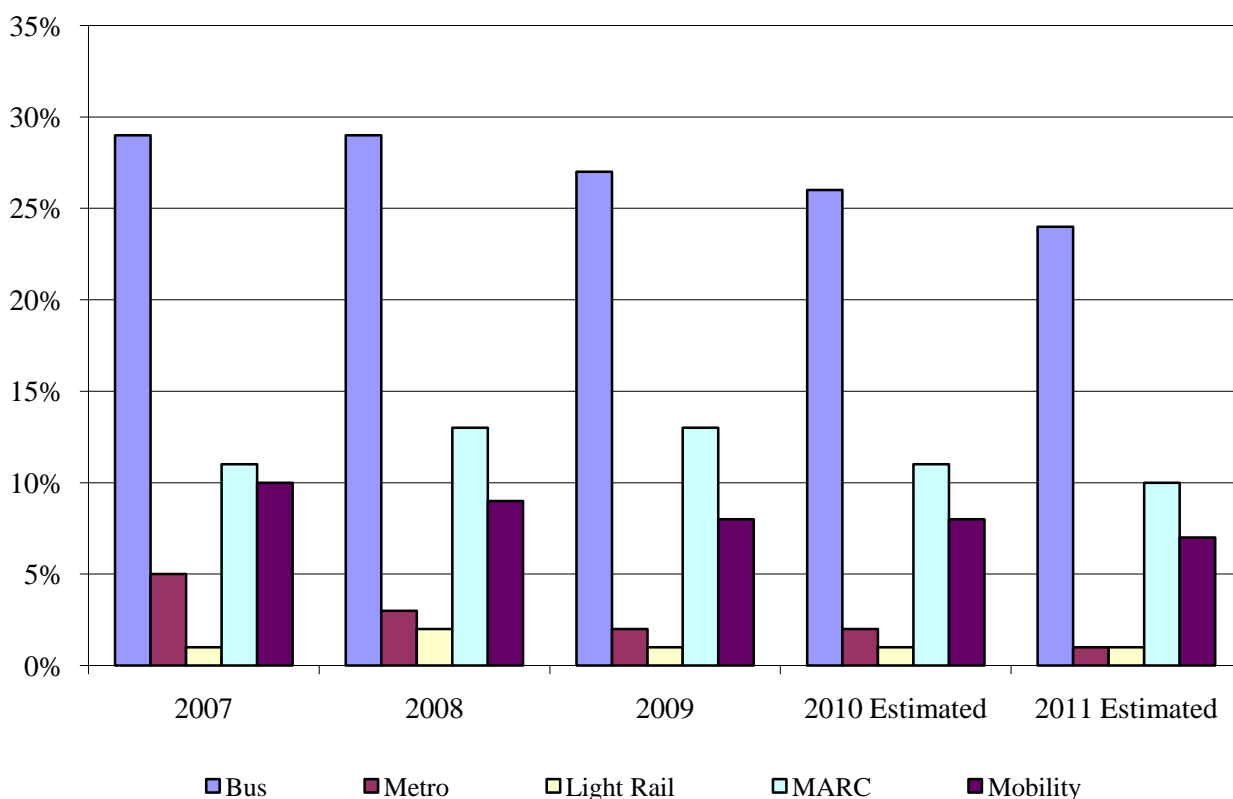
MARC: Maryland Rail Commuter
MTA: Maryland Transit Administration

Source: Maryland Transit Administration

On-time Performance

MTA seeks to provide high on-time performance for all of its service. **Exhibit 3** provides data on the percentage of service not provided on-time for bus, Metro, light rail, and MARC. Overall, the level of on-time performance improved in fiscal 2009 compared to prior years. The only area not to improve in fiscal 2009 is MARC service due to mechanical problems with locomotives and other breakdowns as well as the lack of a dedicated rail and the time to load passengers. Service is expected to improve moving forward as new locomotives are brought into service and older models are retired. In addition, on-time performance for core bus improved, but in fiscal 2009, over 25% of trips were not on time. Given that 70% of ridership is on core bus, a significant segment of ridership is impacted by the service not being on time. **DLS recommends that MTA discuss what actions can be taken to further improve the on-time performance of core bus and MARC services.**

Exhibit 3
Percentage of Trips Not On-time
Fiscal 2007-2011



MARC: Maryland Rail Commuter

Source: Maryland Transit Administration

Farebox Recovery

Section 7-208 of the Transportation Article sets the statutory farebox recovery rate at 35% for Baltimore area core services and MARC service beginning in fiscal 2010. **Exhibit 4** shows the farebox recovery by mode of transit and Baltimore core services. Baltimore area core services last had a farebox recovery rate of 35% in fiscal 2004, and MARC farebox recovery has been steadily declining. The statutory farebox level has not been met due to costs for utilities, fuel, labor, and the MARC contract costs outpacing ridership growth.

Exhibit 4
Farebox Recovery Rate
Fiscal 2006-2011

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Estimated 2010</u>	<u>Estimated 2011</u>
Baltimore Area Services	33.2%	31.7%	29.0%	31.0%	30.0%	30.0%
Core Bus	37.2%	35.0%	31.0%	33.0%	32.0%	33.0%
Metro	30.6%	28.0%	28.0%	28.0%	27.0%	27.0%
Light Rail	16.0%	19.0%	18.0%	18.0%	20.0%	20.0%
MARC	58.9%	56.2%	53.0%	44.0%	43.0%	42.0%
Washington Commuter Bus	36.2%	34.0%	33.0%	33.0%	34.0%	34.0%

MARC: Maryland Rail Commuter

Source: Maryland Transit Administration

The farebox recovery rate for Baltimore services increased from 29% in fiscal 2008 to 31% in fiscal 2009 largely due to ridership growth in core bus of 5% and cost containment. In fiscal 2010 and 2011, the farebox recovery rate for Baltimore area services core bus is expected to be 30%, still below the statutory mandate. However, the fiscal 2011 estimate is likely underfunded, meaning that the farebox recovery will be lower than currently estimated.

In a report to the budget committees, written as an update, MTA indicated that to meet the statutory farebox recovery requirement for Baltimore services, expenditures would need to be reduced by \$90 million in fiscal 2010 or fares would need to increase from \$1.60 to \$2.15. Furthermore, these estimates would increase annually as expenditure growth continued to outpace revenue growth. A reduction in expenditures would mean less service and reliability driving riders away from the service.

The farebox recovery rate for MARC experienced the largest decline, going from 53% in fiscal 2008 to 44% in fiscal 2009. MTA indicates that operating expenses for MARC increase 10 to 14% annually and account for 25% of the cost for MARC service. Labor charges for train crews

account for 36% of the cost of service and have risen 18% annually. These significant cost increases combined with modest ridership growth result in a declining farebox recovery.

Exhibit 5 compares MTA's farebox recovery for fiscal 2008 to other peer jurisdictions according to the National Transit Database as required under Section 7-208. The National Transit Database includes different transit administrative costs than MTA uses for its performance measure, which reduces the farebox recovery rate compared to the MFR measure. The data shows that Baltimore core bus service had the fourth highest rate of recovery and was higher than the Washington Metropolitan Area Transit Authority (WMATA). The recovery rate for light rail and Metro did not compare as favorably to peers; however, light rail and Metro are individual lines and not part of an integrated system. Commuter rail service had the lowest recovery rate of peer systems due to the recent run-up in contract costs for the MARC service.

Exhibit 5
Comparison of Farebox Recovery Rates by Mode
Fiscal 2008

	<u>Bus</u>	<u>Light Rail</u>	<u>Heavy Rail</u>	<u>Commuter Rail</u>
Cincinnati	36.8%	n/a	n/a	n/a
Philadelphia	32.3%	43.6%	52.8%	57.0%
Los Angeles	30.3%	19.4%	33.2%	n/a
Baltimore	24.0%	18.7%	22.2%	34.9%
Boston	23.0%	58.8%	57.6%	53.9%
Pittsburgh	24.1%	15.9%	n/a	n/a
Washington	21.0%	n/a	60.6%	n/a
Portland	21.3%	37.4%	n/a	n/a

Source: National Transit Database; Maryland Transit Administration

Performance Goals

Section 7-208 also requires MTA to develop performance goals for passenger trips per revenue vehicle mile, operating expenses per passenger trip, and operating expenses per revenue vehicle mile by transit mode. **Exhibit 6** shows the actual figure for fiscal 2008, the goal and estimate for 2009, and the goal for 2010.

Exhibit 6
Performance Goals
Fiscal 2008-2010

	<u>Actual</u> <u>2008</u>	<u>Goal</u> <u>2009</u>	<u>Actual</u> <u>2009</u>	<u>Goal</u> <u>2010</u>
Core Bus				
Passengers Per Revenue Mile	4.3	4.2	4.1	4.0
Operating Expenses Per Passenger Trip	\$3.11	\$3.07	\$2.93	\$3.01
Operating Expenses Per Revenue Vehicle Mile	\$12.76	\$13.01	\$12.76	\$12.82
Light Rail				
Passengers Per Revenue Mile	2.9	3.0	3.1	3.2
Operating Expenses Per Passenger Trip	\$4.70	\$4.59	\$4.34	\$4.36
Operating Expenses Per Revenue Vehicle Mile	\$13.28	\$13.67	\$13.58	\$13.71
Metro				
Passengers Per Revenue Mile	2.7	2.7	2.7	2.6
Operating Expenses Per Passenger Trip	\$3.94	\$4.03	\$3.92	\$4.01
Operating Expenses Per Revenue Vehicle Mile	\$10.59	\$10.74	\$10.13	\$10.23

Source: Maryland Transit Administration

Due to the operating budget reductions made in fiscal 2009, measures that involve the operating budget generally came in less, or better, than the fiscal 2009 goal. Ridership growth in fiscal 2009 was above average which generally helped measures that involved ridership. For fiscal 2010, ridership growth is expected to be moderate and expenditures are expected to increase such that the measures do not improve in fiscal 2010 compared to fiscal 2009.

Fiscal 2010 Actions

Impact of Cost Containment

MTA's fiscal 2010 operating budget was reduced \$2.3 million by the Board of Public Works. The reductions were for the abolition of 22 positions (\$1.4 million) and for the statewide furlough (\$0.9 million).

Proposed Budget

MTA’s fiscal 2011 allowance increases \$9.7 million, or 1.6%, compared to the fiscal 2010 working appropriation. When adjusting for the estimated impacts of the across-the-board actions included in the budget, the allowance increases \$7.4 million, or 1.2%, as shown in **Exhibit 7**.

Impact of Cost Containment

The fiscal 2011 budget reflects several across-the-board actions to be allocated by the Administration. This includes a combination of employee furloughs and government shut-down days similar to the plan adopted in fiscal 2010; a reduction in overtime based on accident leave management; streamlining of State operations; hiring freeze and attrition savings; a change in the injured workers’ settlement policy and administrative costs; and a savings in health insurance to reflect a balance in that account. For purposes of illustration, DLS has estimated the distribution of selected actions relating to employee furloughs, health insurance, and the Injured Workers’ Insurance Fund cost savings.

Personnel

The department’s personnel budget decreases a net of \$1.4 million. The largest decrease in the personnel budget is for additional assistance, which declines \$1.0 million due to cost containment efforts to rely on existing staff instead of outside resources. Other major changes include a \$0.8 million increase for MTA police pension payments and \$0.4 million for regular employee’s pension payments.

Exhibit 7
Proposed Budget
Maryland Transit Administration Operating Budget
(\$ in Thousands)

How Much It Grows:	Special <u>Fund</u>	Federal <u>Fund</u>	<u>Total</u>
2010 Working Appropriation	\$543,199	\$63,736	\$606,936
2011 Allowance	<u>553,931</u>	<u>62,736</u>	<u>616,667</u>
Amount Change	\$10,732	-\$1,000	\$9,732
Percent Change	2.0%	-1.6%	1.6%
Contingent Reductions	-\$2,021	-\$299	-\$2,319
Adjusted Change	\$8,711	-\$1,299	\$7,412
Adjusted Percent Change	1.6%	-2.0%	1.2%

J00H01 – Maryland Transit Administration

Where It Goes:

Personnel Expenses

Increments and other compensation	-449
MTA Police retirement.....	820
Unemployment compensation	261
Employee and retiree health insurance.....	-37
Employee retirement	411
Additional assistance.....	-1,037
Workers' compensation premium assessment.....	-1,762
Turnover adjustments	381
Other fringe benefit adjustments	1
MARC contracts.....	6,761
Mobility paratransit and TaxiAccess contracts	2,165
Software contracts in particular the Nextfare software contract	561
Natural gas per DBM instructions	557
Diesel fuel expenditures based upon price and usage	409
Insurance coverage paid to the State Treasurers' Office.....	341
Commuter bus contracts	218
Water and sewage rates per DBM instructions	53
Other.....	3
Cell phone expenditures based upon fiscal 2009 actual expenditures.....	-39
Light truck and sedan purchases.....	-73
Vehicle insurance	-242
Truck and other vehicle related expenditures.....	-299
Utility expenditures per DBM instructions	-1,592
Total	\$7,412

DBM: Department of Business and Management

MARC: Maryland Rail Commuter

MTA: Maryland Transit Administration

Note: Numbers may not sum to total due to rounding.

Departmentwide Spending Changes

The agency has indicated that there are a number of increases and decreases in the budget related to MTA's attempts to realign spending priorities and correctly budget for items. Overall, the budget is relatively flat except for increases due to instructions from the Department of Budget and Management (DBM), contract increases for information technology, or increases for contracted service. Following is a summary of the major funding changes:

- \$6.8 million increase for the MARC contract;
- \$2.2 million increase for the increased cost of Mobility paratransit contracts;
- \$0.6 million increase in natural gas expenditures per instructions from DBM;
- \$0.6 million increase for systems software based upon existing contract increases as well as the installation of Nextfare software;
- \$0.4 million increase for diesel fuel and oil for vehicles to reflect slightly higher diesel prices and usage;
- \$0.4 million increase for insurance based upon rates paid to the State Treasurer's Office;
- \$0.3 million decrease in the purchase of vehicles, including sedans and sport utility vehicles, which have not been funded in fiscal 2011;
- \$0.2 million decrease in insurance payments; and
- \$1.6 million decrease in electricity expenditures per instructions from DBM.

PAYGO Capital Program

Program Description

MTA's capital program provides funds to support the design, construction, rehabilitation, and acquisition of facilities and equipment for the bus, rail, and statewide programs. The program also provides State and federal grants to local jurisdictions and nonprofit organizations to support the purchase of transit vehicles and the construction of transit facilities.

March 2009 Capital Reductions

In March 2009, the department submitted a revised financial forecast at the request of the budget committees. That financial forecast showed that revenues had been revised downward and as a result the capital program was reduced by \$172.5 million from fiscal 2009-2011 with the projects moved into fiscal 2012-2014. In effect, the capital program was not reduced over the six-year program the department simply moved funding around within the forecast period. MTA’s capital budget was reduced by \$15.0 million in fiscal 2010 for various projects with the funding restored in fiscal 2011.

Federal Stimulus Funding

The American Recovery and Reinvestment Act of 2009 (ARRA) provided additional transit formula funding for states to use on highway projects. The ARRA funding did help to offset the \$2.2 billion in reductions made to the capital program as a result of the recession. Maryland received \$135 million for transit formula funding in the ARRA for MTA; however, favorable highway project bids resulted in savings that could be used for other projects. Approximately \$17 million of the bid savings were transferred to the MTA, leaving MTA with \$152 million. The *Consolidated Transportation Program* (CTP) provides a listing of local ARRA projects, as well as State funded projects, by jurisdiction.

Of the \$152 million in transit funding, MTA received \$108 million and locally operated transit systems received \$44 million. The State-funded projects involved a number of system preservation related projects for Metro and bus facilities. Other projects include light rail and MARC station improvements and bus procurement. The local funding focused largely on bus replacements and facility and equipment upgrades.

Exhibit 8 provides a summary of how much in ARRA funds are advertised or spent by the State or local jurisdictions. As shown, \$103 million, or 68%, of the funding has been advertised, a major milestone in the ARRA legislation. Of the funding provided, \$68 million of the projects are under construction, and \$15 million in projects, all on the State side, have been completed.

Exhibit 8
American Recovery and Reinvestment Act of 2009 Spending Update
(\$ in Millions)

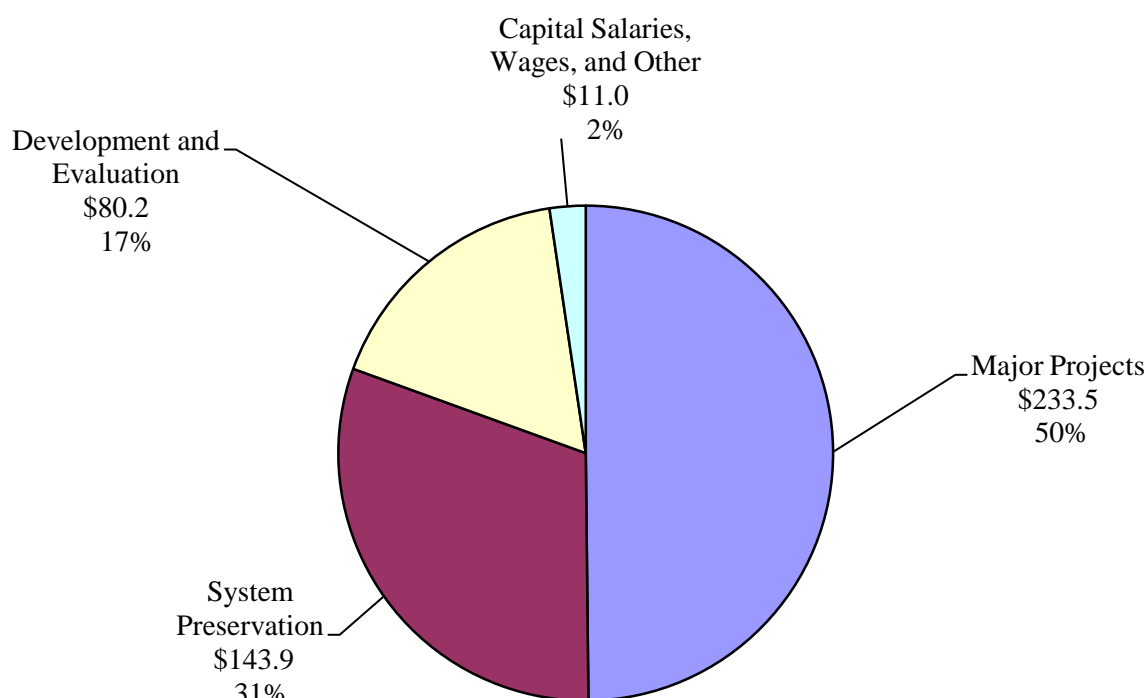
	<u>Value of Projects</u>	<u>Value of Projects Advertised</u>	<u>Value of Projects Under Construction</u>	<u>Value of Projects Completed</u>
State	\$108	\$83	\$65	\$5
Local	44	20	3	10
Total	\$152	\$103	\$68	\$15

Source: Maryland Transit Administration

Fiscal 2010 to 2015 Consolidated Transportation Program

The fiscal 2011 allowance totals \$433.3 million, a decrease of \$18.4 million compared to the fiscal 2010 working appropriation. There is also \$35.1 million in non-State sourced revenue, largely in local funds being contributed to State projects. As shown in **Exhibit 9**, funding for major projects totals \$233.5 million, or 50%, of all funding and system preservation funding totals \$143.9 million, or 31%.

Exhibit 9
Major Funding by Category
(\$ in Millions)

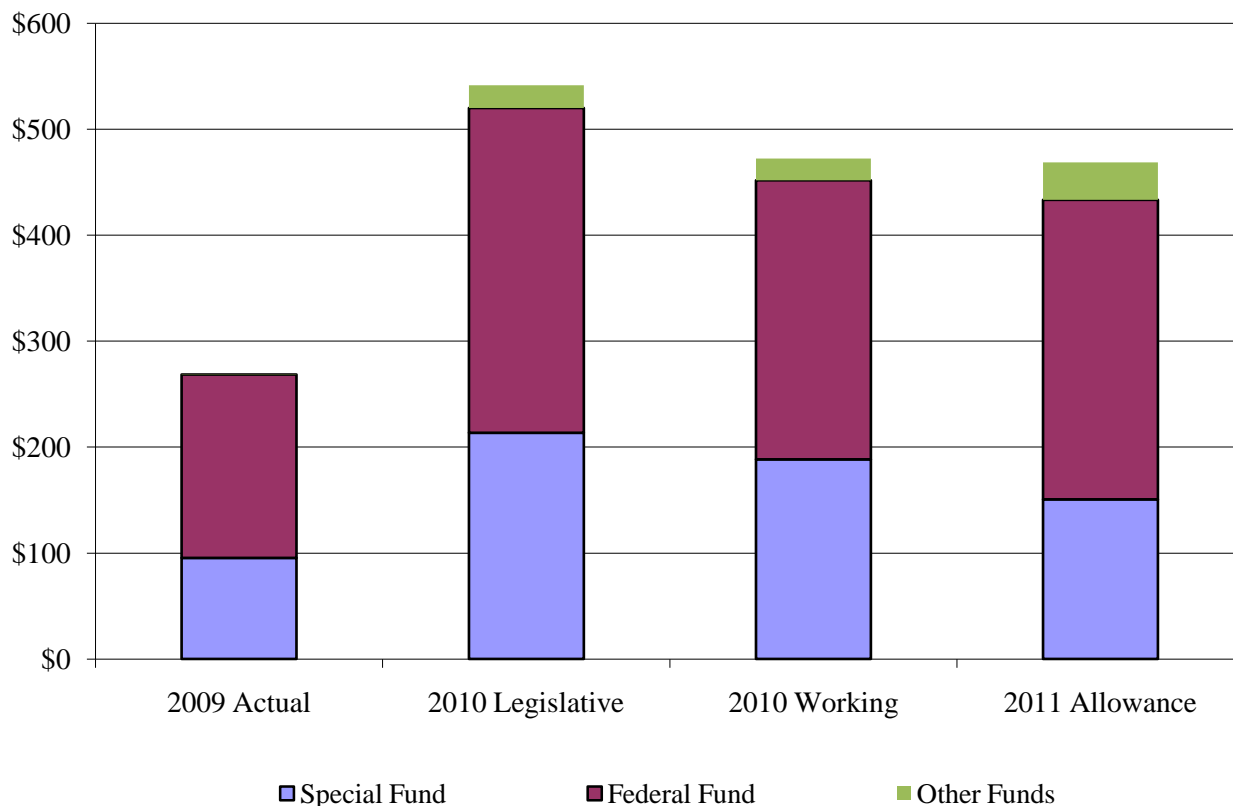


Source: 2010-2015 Consolidated Transportation Program

Fiscal 2010 and 2011 Cash Flow Analysis

The fiscal 2010 working appropriation is approximately \$69.3 million less than the legislative appropriation, as shown in **Exhibit 10**. Special fund spending decreases by \$24.8 million with \$15.0 million due to the March 2009 reductions and the rest due to cash flow changes in a variety of projects. Federal funds decrease \$43.4 million due to the estimate for ARRA spending in fiscal 2010 being revised downward based upon actual spending. Other funds decrease \$1.1 million due to cash flow changes.

**Exhibit 10
Cash Flow Changes
Fiscal 2009-2011
(S in Millions)**



Source: Maryland Department of Transportation, 2010-2015 *Consolidated Transportation Program*

The fiscal 2011 allowance decreases \$3.7 million with special funds decreasing \$37.9 million due to several large projects ending in fiscal 2010. Federal funds increase \$19.6 million as the procurement of new busses has been pushed forward. Other funds increased \$14.7 million due to the cash flow needs of the Paul S. Sarbane Transit Center project.

Exhibit 11 shows the major projects and system preservation projects. These projects total \$262.9 million and represent 70% of the total spending in those categories.

Exhibit 11
Major Construction and System Preservation Projects
Funded in Fiscal 2011
(\$ in Thousands)

<u>Project</u>	<u>2011 \$</u>	<u>Total \$</u>	<u>Completion of Fiscal Year Cash Flow</u>
Maryland Rail Commuter (MARC) Maintenance, Layover, and Storage Facilities – funding for the acquisition and planning of a midday storage and maintenance facility	\$6,750	\$60,981	2013
MARC Improvements on Camden, Brunswick, and Penn Lines – ongoing program of improvements on MARC lines	39,694	178,564	2014
MARC Coaches Mid-life Overhaul – mid-life overhaul of MARC coaches	9,400	115,720	2014
MARC Locomotive Overhaul – conduct mid-life overhaul of electric locomotives	9,062	119,260	2013
Paul S. Sarbanes Transit Center and MARC Station Relocation – two-phase project to provide a fully integrated transit center at the Silver Spring Metrorail Station	48,000	94,783	2012
MARC Halethorpe Station Improvements – platform and access improvements to improve service and reduce boarding times	9,000	24,794	2012
Light Rail Vehicle Mid-life Overhaul	7,919	141,632	Ongoing
Owings Mills Joint Development – develop areas adjacent to transit stations	6,993	31,739	2011
Metro Railcar Overhaul	3,700	118,874	2015
Metro Rail Car Truck Assembly Overhaul	6,000	19,500	2013
Metro Fire and Security Management Systems – replace existing equipment	10,200	79,160	2012
Bus Procurement – purchase 40-foot buses to be used in an annual replacement program of buses in service of 12 or more years	26,990	345,093	2015
Locally Operated Transit Systems Capital Procurement Projects (Local Jurisdictions) – the Maryland Transit Administration provides funding to local jurisdictions in rural and small urban areas for transit vehicles, equipment, and facilities	46,489	238,443	2015
Mobility Vehicle Procurement – procure paratransit service vehicles	3,050	39,653	2013
Replacement of Fare Collection Equipment and Implement SmartCard	7,600	101,507	2011
Agencywide Roof Replacement	7,158	19,926	2015
Southern Maryland Commuter Bus Initiative – several park and ride lots in Southern Maryland	14,925	37,836	2013
Total	\$262,930	\$1,767,465	

Source: Maryland Department of Transportation, 2010-2015 *Consolidated Transportation Program*

Projects Moved from the Development and Evaluation Program to the Construction Program

Two projects were moved from the development and evaluation (D&E) program to the construction program totaling \$19.2 million, as shown in **Exhibit 12**.

Exhibit 12 Projects Moved from the D&E Program to the Construction Program Fiscal 2011 (\$ in Thousands)

<u>Project</u>	<u>2011 \$</u>	<u>Total \$</u>	<u>Completion of Fiscal Year Cash Flow</u>
MARC West Baltimore Station Parking Expansion	\$1,156	\$10,894	2012
Central Maryland Transit Maintenance Facility	3,320	8,320	2011
Total	\$4,476	\$19,214	

D&E: Development and Evaluation

MARC: Maryland Rail Commuter

Source: Maryland Department of Transportation, 2010-2015 *Consolidated Transportation Program*

Projects Moved from the Construction Program to the D&E Program

One project, the Takoma/Langley Transit Center, was moved from the construction program to the D&E program because right-of-way acquisition was higher than expected. This project will receive full federal funding as part of ARRA funding and will move back into the construction program in the next CTP.

Issues

1. Underfunding in Fiscal 2011 Allowance

While the fiscal 2011 allowance increases compared to the working appropriation, there is concern that the allowance is underfunded. For example, in developing its estimate of baseline spending, DLS estimated that the fiscal 2011 allowance would increase \$40 million from the working appropriation with major increases in spending for the MARC contract, union personnel increases, commuter bus contracts, and Mobility paratransit contracts. Furthermore, the department's own financial forecast shows that MTA operating budget expenditures increasing by approximately \$30 million annually from fiscal 2012 to 2015. In discussing the farebox calculation, MTA indicates that expenditure growth has ranged from 3.0 to 11.0% in recent fiscal years, compared to 1.2% in fiscal 2011.

Specific Areas Underfunded

The MARC contract increases \$6.8 million, or 7.3%, in fiscal 2011; however, in a report to the budget committees, MTA indicated access fees have increased 10.0 to 14.0% annually, and labor costs have increased 18.0% annually. In addition, CSX has negotiated a contract that assesses penalties if it continues as the operator of MARC service on CSX-owned lines after fiscal 2010. MTA is in the process of procuring a third party operator that could result in cost increases or large penalty payments with CSX in fiscal 2011 if a third-party operator is not identified.

Another area of concern is that MTA is currently in binding arbitration with its unions regarding salary increases and other employee compensation. The transit agency in New York City and WMATA each recently went through binding arbitration and in each case the decision rendered resulted in sizable compensation increases. It has been the practice of MTA and the department not to budget the salary increases for union employees while in negotiations; therefore, there is no funding in fiscal 2011. The union employees have not had salary increases since fiscal 2008, so if the arbitrator decides that salary increases are warranted in fiscal 2009 and 2010, retroactive payments would be required. Further adding to underfunding in fiscal 2011, union health insurance and the retirement contribution is level funded. With the arbitrator's final decision, these costs are likely to increase just like salaries. The arbitrator's decision is expected to be made late in fiscal 2010 or early fiscal 2011.

There are other areas of potential underbudgeting in the fiscal 2011 allowance. One agencywide concern is what impact inflation will have on commodities, in particular oil related products. MTA's budget makes an assumption of future fuel prices, but if fuel prices spike or rise due to inflation, this would adversely impact the budget. The fiscal 2011 allowance also recognizes savings from changes to the Mobility service, discussed later as an issue, but it will bear watching as to whether or not the savings can be achieved.

Impact on Financial Forecast

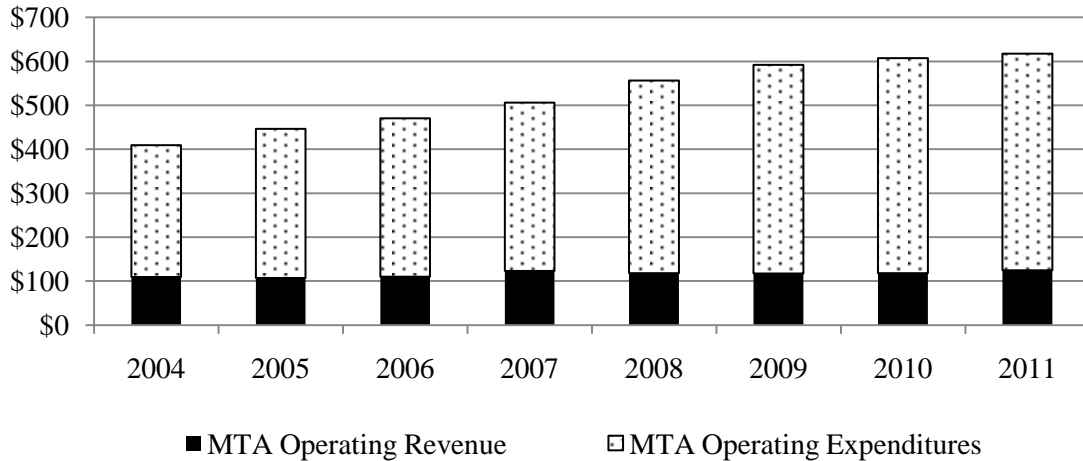
As discussed previously in the MDOT Overview budget analysis, the financial forecast is close to the department's agreed upon coverage limit with bondholders. To the extent there is underbudgeting in the operating budget, this will add further pressure to the department's coverage ratio and financial forecast and could impact service. The potential funding increases in fiscal 2011 could be sizeable depending on the timing and outcome of the binding arbitration decision. A payment in fiscal 2010 would have potentially grim consequences on the financial forecast. If the payment occurs in fiscal 2011, it could be sizeable and would further reduce the department's coverage ratio. **DLS recommends that MDOT and MTA discuss the following:**

- **what actions or reductions will be taken if the budget in fiscal 2011 is insufficient;**
- **how the potential cost increases associated with binding arbitration will be paid and when a decision may be made; and**
- **how the impact of an adverse decision from binding arbitration will be accounted within the budget and financial forecast.**

Fare Policy

MTA last increased fares in fiscal 2004. Since that time, special fund expenditures have increased from \$356.4 million in fiscal 2004 to \$553.9 million in fiscal 2011, an increase of \$197.5 million, or 55%. **Exhibit 13** compares the fare revenues since fiscal 2004 to the special fund expenditure for MTA. The increased spending and the lack of a fare increase helps to explain why the farebox recovery rate has declined from 40% in fiscal 2004 to 30% in fiscal 2011. Exhibit 13 highlights that the increases in the MTA operating budget have largely been funded with Transportation Trust Fund revenues, diminishing available funding for other operating priorities or the capital budget. Instead of adopting a policy of not implementing fare increases, MTA could move to a policy of smaller incremental fare increases each fiscal year to help offset the growing level of expenditures. For example, when WMATA increased fares in 2008, it adopted a policy to increase fares every two years, equal to the rate of inflation in those two years. With the fiscal 2011 allowance likely underfunded, it is expected that the farebox recovery rate will decline further absent a fare increase. **To help offset the additional spending, DLS recommends budget bill language be added that would restrict \$1,000,000 contingent on two reports. One report would outline the results of the public hearing process for a fare increase in fiscal 2011 as well as a long-term fare policy. The second report would detail the impact of the fare increase once implemented.**

Exhibit 13
MTA Operating Expenses Compared Total Operating Revenues
(\$ in Millions)



MTA: Maryland Transit Administration

Source: Department of Legislative Services

2. Three Major Transit Lines

The State continues to move forward with plans for three major transit lines, the Purple Line and Corridor Cities Transitway (CCT) in the metropolitan Washington region and the Red Line in Baltimore City. The locally preferred options for the Red and Purple Line was selected in summer 2009 with the CCT expected to be announced once Montgomery County has completed its master plan.

The project schedule for the Purple and Red Lines are identical with the CCT following close behind. **Exhibit 14** shows that the Red and Purple Lines could conceivably begin construction in 2014. In summer or fall 2010, MTA will submit its New Starts application to the Federal Transit Administration (FTA) which will include draft financial details and planning information. The New Starts application is largely graded on the technical aspects of the project. If approved, the New Starts designation would allow the project to move into the next phase of the process. In addition, it would also allow for the project to be eligible for federal funding to fund the final design. The final environmental impact statement (FEIS) is expected to be completed in the summer of 2012. Once the FEIS is completed, and if FTA approves the application, the next step is to reach a full funding grant agreement with FTA. At the time of the full funding grant agreement in 2012, the State must be prepared to submit a finalized financial plan to show how it intends to pay for the project.

Exhibit 14
Timeline of Milestones for Red and Purple Line

Select Locally Preferred Option	Summer 2009
Contingent on Federal Transit Administration (FTA) New Starts Approval	
Initiate Preliminary Engineering Activities	Summer 2010
Final Environmental Impact Statement Decision/ Record of Decision	Summer 2012
Contingent on FTA-approved Funding	
Initiate Final Design Activities	Fall 2012
Receive Full Funding Grant Agreement	Summer 2012
Begin Right of Way, Permitting, and Agreements	2013
Begin Construction	2014

Source: Maryland Transit Administration

Financing the Costs

While the department continues to plan for all three lines, there is no construction funding provided for in the 2010-2015 CTP. In a report requested by the budget committees, MTA indicated that the total project cost for the Red Line is \$1.63 billion, the Purple Line is \$1.5 billion, and CCT is anywhere from \$87 million to \$778 million. MDOT has assumed that the federal government will provide a match of 50% for the project costs, which is not a guarantee.

Clearly, federal funding is a key component of any funding plan that MDOT will develop. The federal process requires that the transit lines compete for funding with other project across the country. As a result of this competitive process, one or all of the projects may not qualify for federal funding. Recently, the federal government announced a change in the criteria it uses to rate projects nationwide. Instead of focusing on the financial aspects of the project, more weight will be given to environmental and livability issues. This change in policy does not dramatically impact the State's three projects since each was already below the financial threshold. Nationally, the change in policy could allow for more projects to be considered for federal funding, increasing competition for a limited pool of funds.

After the assumption of 50% in federal aid, the department indicated that the cost to the State for all three projects would be \$2 billion. The report indicates that the department is working with local jurisdictions on in-kind contributions that can be made, like land for right-of-way acquisition. In addition, the department will look to private institutions that may benefit from the development of the transit lines for private financing.

The report also indicates that the three major transit lines have been included in the 30-year long-range plans that are adopted by Metropolitan Planning Organizations (MPOs). For a line to be included in the MPO plan it must be financially affordable within that MPOs plan. While the current lines may be included over a 30-year horizon, if one project were to begin construction with the current financial forecast, the State could not afford it without a revenue increase.

Issue

As was indicated in the MDOT Overview, the current capital program already assumes a financial recovery. Therefore, it is not clear how the department, even with in-kind land donations or private investment, will be able to afford the capital, or operating, cost of constructing a major transit line without a revenue increase. Assuming that the State were to build all three lines simultaneously over a six-year period and that the cash flow for each project is evenly distributed, this would translate into an additional \$333 million in spending annually, or roughly a 10-cent motor fuel tax increase. There is also the ongoing cost of operating a transit line that is not inconsequential and not accounted for in the financial forecast.

Another issue is the use of private financing. Currently, there is little oversight of private financing, or public-private partnerships, in statute. There is debate as to whether or not the State would be fairly compensated in such a transaction, how long the commitment would be, and what the true impact on the State budget and debt affordability measures would be. While the department is pursuing other ways to pay for the project beyond just State funds, there are questions as to legislative oversight and the financial benefits of pursuing private financing or public-private partnerships.

Conclusion

The department continues to proceed with the planning of three major transit lines with no funding for construction or operating costs in the current capital program. In addition, the department's ability to deliver the current capital program or to allow for the construction of new projects seems limited at best. Furthermore, efforts to utilize private financing, or public-private partnerships, as a way to minimize the State's investment in the projects is problematic given the current lack of a statutory framework for such transactions. **DLS recommends that the department discuss the construction and operation of future transit lines given the financial constraints faced. In addition, DLS recommends that committee narrative be adopted that would require the department to submit information regarding the draft financial plan it submits with its New Starts application.**

3. Changes in Paratransit Mobility Services

One of the largest cost drivers in the MTA budget in recent years has been paratransit Mobility costs, with ridership nearly doubling in the past five years. According to the American for Disabilities Act (ADA), MTA is required to provide services to individuals with disabilities. Currently, MTA provides service within three-quarters of a mile of any fixed route service in Baltimore City and Baltimore and Anne Arundel counties. Prior service issues resulted in a class

action lawsuit against MTA; however, MTA has made significant strides in recent years to improve service and to address the needs of the disabled community.

In responding to the lawsuit as well as ongoing budgetary pressures, MTA announced several changes in policy which are expected to save \$2.4 million annually and create service efficiencies to enhance the customer experience. Following is a summary of those changes:

- **Revised Origin to Destination Service:** Currently service provided is considered curb-to-curb, meaning that the individual is picked up at the curb. Moving forward, MTA will institute a door-to-door service. This will help to insure that individuals are picked up where they should be and not missed while they wait.
- **Revised No-show Policy:** Currently no-shows account for 10% of the trips provided, double the average of other transit agencies, reducing the ability of MTA to meet the needs of everyone. MTA will now institute a no-show policy intended to deter individuals from abusing the system.
- **Travel Training:** MTA will provide training to individuals who want it to encourage them to use the existing transit and to travel more spontaneously.
- **Conditional Eligibility:** ADA requires that paratransit services only be provided to those who cannot access fixed route services. Moving forward, MTA will implement conditional eligibility. Individuals have to recertify every three years and as part of that recertification process, the eligibility of that individual for paratransit services will be evaluated by an outside vendor.

TaxiAccess

In response to the class action lawsuit, MTA began to provide a premium Mobility service called TaxiAccess. This service is not required as part of ADA. The program allows individuals who call a taxi service to receive service at a reduced rate. At the beginning of the service, individuals could ride anywhere up to \$50 and take up to four trips a day. The service became quite popular and expenditure growth in the program exploded. Beginning in January 2009, the service was altered such that there was only a \$20 limit for rides and that individuals could only take two trips a day. Since these changes have been implemented, ridership is down 38% according to MTA.

DLS recommends that MTA brief the budget committees on the Mobility service and the service changes taken and proposed, the response of the disabled community, the status of the lawsuit, and other steps taken to reduce costs for the Mobility service while meeting the needs of the disabled community.

4. National Gateway Project

CSX has announced a multi-state public-private partnership initiative, called the National Gateway, to improve the flow of freight between Mid-Atlantic Ports and the Midwest largely through projects that will focus on providing additional clearance for double stacked rail cars. The National Gateway project focuses on three major rail corridors:

- I-95 Corridor between North Carolina and Baltimore;
- I-70/I-76 between Washington, DC and Northwest Ohio via Pittsburgh; and
- Carolina Corridor between Wilmington and Charlotte, North Carolina.

The total project cost nationwide is expected to be \$842 million and focuses on upgrading tracks, equipment, and facilities and providing clearance to allow double-stack intermodal trains. With the use of freight rail projected to increase 70% by 2020 and congestion on freight rail an issue, double stacked trains would allow for the increased movement of freight as well as providing benefits to the environment. The project would not address the expensive Howard Street tunnel project in Baltimore. Instead, CSX would construct a depot where goods would be transported from the Port of Baltimore to another facility where they would then be load onto trains.

In total, it is estimated that for every \$1 invested, \$22 in benefits would result. Maryland is expected to receive over \$2 billion in public benefits, including reductions in carbon dioxide emissions, expanding rail market access potential, enhancing the rail infrastructure and creating jobs, and reducing highway congestion by moving freight from trucks to rail.

Maryland's Interest

Maryland's interest in the National Gateway extends not only to the economic benefits to the State and Port of Baltimore, but the MARC system as well. By reducing freight congestion, existing track delays on the MARC service could also be reduced. Maryland and CSX have agreed to fund certain projects for the National Gateway, such as new interlocking and a third track. The 2010-2015 CTP shows an additional \$25 million being added to the capital budget; however, it should be noted that this funding is not new funding, as MTA always provides capital funding for system preservation and improvements. Many of the clearance projects that CSX wants are located outside of Maryland, and the most important project in Maryland is an intermodal facility.

MDOT has also agreed to the construction of an intermodal facility which will serve as a depot for double stacked trains. As part of the Seagirt long-term lease, CSX has agreed to vacate the property by 2014, so there is a need to have the intermodal facility completed before then. The total cost of the facility is expected to be \$150 million, with the State share estimated to be \$75 million. The project is not reflected in the current CTP. Due to the financial constraints confronting the capital budget, it is not clear from where the funding for the project will come. MDOT indicates that one option might be to look at long-term financing options like Maryland Economic Development

Corporation bonds for funding. MDOT is also hoping to receive federal funding for its share of the cost of the project. **DLS recommends that MTA discuss the benefits for MARC and the State from the National Gateway initiative and how the additional costs for the intermodal facility will be funded.**

5. MARC Operating Budget Contract Status

The current CSX operating contract is set to expire at the end of fiscal 2010. CSX has indicated its desire to end its involvement in the operation of MARC service on the Brunswick and Camden lines. As a result, MTA is negotiating an access agreement with CSX to allow for access to the rail line for MARC service as well as being in the process of procuring a third-party operator to operate service on the CSX owned lines. The third party contract will provide for service on the Camden and Brunswick lines, maintenance of the rolling stock and facilities, and provide for a 12-month transition between the current operating and the new one. At this time, it is not clear where a third party would perform the maintenance activities that would be required in the contract. CSX will continue to provide dispatch services for MARC service, which has an impact on daily service and the level of service provided.

In fiscal 2010, it is estimated that the CSX portion of the MARC contract will cost \$43.6 million and \$47.2 million in fiscal 2011, an increase of 8.2%. It is likely that in the next contract that the access fee for MARC service will increase as freight congestion has become an issue as highlighted by the National Gateway initiative. Furthermore, it is not clear if MTA will achieve any savings from the third party contract or have to pay more for the service. If MTA does not find a third-party operator, the existing contract requires MTA to pay increased rates to CSX in the last years of the current contract to incentivize MTA to find a third-party operator when the contract expires. If a third-party operator is not found, it is likely that CSX will charge a higher fee in the contract extension until one is identified. In summary, it is not clear if the fiscal 2011 allowance is sufficient to fund the potential costs increases or penalties associated with MARC service provided by CSX. MTA intends to complete the procurement of the third party contract by the end of fiscal 2010. **DLS recommends that the agency brief the committees on the CSX contract and the potential budgetary impacts. In addition, DLS recommends that committee narrative be adopted requiring a report on the outcome of the third-party contract.**

6. Federal Rail Safety

The fatal June 22, 2009 crash of WMATA's Red Line has prompted the United States Department of Transportation (USDOT) to propose legislation providing for federal oversight of transit safety. Transit systems are the only mode within USDOT without a federal role for safety regulation, oversight, or enforcement. Transit systems are required by federal regulations to provide safety oversight, but each transit system can create its own standards. Currently, there are 27 separate state programs that oversee safety for light rail and subways, resulting in differing safety standards across the country.

USDOT has proposed legislation that would provide a more consistent national framework for transit safety oversight. The proposed legislation would do three things: first, USDOT would be required to establish and enforce minimum federal safety standards for rail systems not already covered by USDOT, with an option for bus systems; second, a program would be created to provide assistance to transit systems to carry out the safety program; and, third, the entity responsible for overseeing a transit system would not be financially dependent on the transit agency they are overseeing.

In Maryland, MDOT is responsible for meeting the current federal safety and security oversight. One position within MDOT oversees WMATA and MTA rail programs. MDOT is currently recruiting one position to be dedicated to the WMATA safety oversight committee, otherwise known as the Tri-State Oversight Committee. The Tri-State Oversight Committee is a six-member monitoring body that does not have employees.

MTA has an Office of Safety, Quality Assurance, and Risk Management with a staff of 25 positions that report directly to the MTA Administrator. The staff has a number of roles and responsibilities that range from walking through maintenance facilities ensuring safety procedures are being followed, to investigating accidents to determine what, if any, information can be learned about what transpired and be passed along for others to learn. For example, when the wheel issue for the light rail occurred in 2008, the safety office played an important role in determining the cause and risks from the accident and the implementation of follow-up oversight procedures. In addition, the safety office is involved in all major procurements as well as construction projects to ensure safety protocols are being met.

Issues

Following are some of the issues with the proposed federal legislation.

- **Funding:** Currently, there is little funding for transit oversight, and many times agencies are paying the expenses for the entities that are overseeing them, creating a conflict of interest. Furthermore, the current funding situation for transit agencies makes it difficult to assume additional costs.
- **Time to Implement:** Many agencies feel that their current regulations are sufficient. It is likely that transit agencies will need some time to fully implement and become comfortable with federal regulations, particularly after they have had the latitude to manage safety internally.

DLS recommends that MTA discuss with the committees its safety program and opinion of the proposed federal legislation. In addition, MTA should discuss what it would take to implement the program and what changes may be forthcoming as a result of the legislation.

Operating Budget Recommended Actions

1. Add the following language to the special fund appropriation:

, provided that \$500,000 of this appropriation made may not be expended until the Maryland Transit Administration (MTA) submits a report to the budget committees which includes:

- (1) the results of the public hearing process for a fare increase to be implemented during fiscal 2011 to partially offset expected spending increases due to underfunding; and
- (2) a policy for implementing regular annual or biannual increases in future years tied to inflation or some other metric for the purpose of meeting the statutory farebox recovery level.

Further provided that an additional \$500,000 of this appropriation may not be expended until MTA submits a report to the budget committees after the effective date of the fiscal 2011 fare increase that details:

- (1) the fares that were increased;
- (2) the expected impact on operating revenues and ridership; and
- (3) a timeline for when the next fare increase is planned.

Upon the receipt of each report the budget committees shall have 45 days to review and comment. Funds restricted pending the receipt of each report may not be transferred by budget amendment or otherwise to any other purpose, and shall be cancelled if the report is not submitted to the budget committees.

Explanation: It is expected that MTA's fiscal 2011 appropriation is underbudgeted. Due to the financial constraints facing the Transportation Trust Fund (TTF) and that the last fare increase was in 2004, it is recommended funding be restricted from MTA's appropriation contingent upon two reports being submitted. The first would be due after the public hearing process for a fare increase to outline the feedback from the public hearing process for a proposed fare increase as well as a plan for how future smaller fare increases will be implemented. The second report would occur after the effective date of the proposed fare increase to detail what the impact of the proposed fare increase is estimated to be as well as the timing of the next fare increase.

J00H01 – Maryland Transit Administration

Information Request	Author	Due Date
Reports on public hearing feedback and effect of fare increase	MTA	After public hearing process concluded After fare increase is in effect

2. Add the following language to the special fund appropriation:

. provided that the Maryland Transit Administration and Maryland Transportation Authority shall not consolidate their police forces prior to submitting a report to the budget committees for 45 days review and comment. The report shall include information on any consolidation of police services being taken, why the consolidation is occurring, the budgetary impact, the status of collective bargaining rights for each police force, and jurisdictional responsibilities.

Explanation: The Maryland Department of Transportation is investigating the consolidation of police forces to create efficiencies and savings. Prior to any efforts to consolidate or merge the Maryland Transit Administration (MTA) Police with the Maryland Transportation Authority (MDTA) Police, a report explaining why such a merger was occurring and the budget impact would be required. The budget committees would have 45 days to review and comment on the action.

Information Request	Authors	Due Date
Notification of police consolidation	MTA MDTA	45 days before consolidation is to occur

3. Adopt the following narrative:

MARC Third Party Contract: The Maryland Transit Administration (MTA) is currently in the process of identifying a third party to operate and maintain portions of the Maryland Rail Commuter (MARC) system. Using a third party to operate and maintain the MARC service represents a departure from past practice. To fully understand the impact of the third party contract, MTA should submit a report to the committees 45 days after the contract has been approved by the Board of Public Works (BPW) that addresses the following:

- the length of the contract;
- the cost of the contract in each fiscal year;
- a comparison of the cost and services provided under the old contract and new contract;
- the level of Minority Business Enterprise involvement;

J00H01 – Maryland Transit Administration

- a discussion of liability insurance;
- what impact the change to a third party contractor will have on riders; and
- any other aspects of the contract of which MTA feels the committees should be made aware.

Information Request	Author	Due Date
Information on third-party contract	MTA	45 days after BPW approval

PAYGO Budget Recommended Actions

1. Adopt the following narrative:

New Starts Financing Plan: Currently the Maryland Transit Administration (MTA) is moving forward with planning for three major transit lines, the Corridor Cities Transitway, the Purple Line, and the Red Line. Due to the existing constraints facing the Transportation Trust Fund, a major revenue increase will be required to pay for one of the transit lines. As part of the federal approval process, MTA is required to submit a New Starts application that provides detailed information on ridership and the planning of the project. Preliminary financial information regarding how the State will pay for the project will also be provided. MTA should submit a report to the committees 45 days after each New Starts submission detailing how it will pay for the Red Line, Purple Line, and Corridor Cities Transitway. The report should include copies of the financial information provided to the Federal Transit Administration (FTA) as well as a discussion of the viability of the financial information presented.

Information Request	Author	Due Date
Financial information for the Red Line, Purple Line, and Corridor Cities Transitway	MTA	45 days after the New Starts application is submitted to FTA for each proposed project

Updates

1. Farebox Recovery Report

The 2009 *Joint Chairmen's Report* requested that MTA submit a report that details what actions would need to be taken to increase revenues or reduce expenditures to meet the statutory farebox recovery ratio of 35%. In addition, MTA should estimate the loss of revenue associated with free transit ridership for State employees and the sale of daily, weekly, and monthly passes which permit unlimited rides for a fixed price. Following is a summary of the report.

Background

Historically MTA has been required in statute to recover a percentage of its operating expenses through the fares it collects. Beginning in fiscal 2001, the farebox recovery requirement was lowered from 50 to 40%, with a sunset provision that would revert the farebox rate to 50%. Beginning in fiscal 2005, the farebox recovery requirement was set at 40% permanently for Baltimore area services. The farebox recovery rate was then lowered again in fiscal 2009 to 35%. Throughout this time, MTA was required to submit information on performance indicators and management audits in the interest of promoting service efficiencies.

Farebox Recovery Dynamics

The farebox recovery calculation fluctuates depending on how expenditures and revenues may increase or decrease in a given year. The major pressures on the operating budget are union-related expenses, fuel-related expenditures, and the cost of repair parts. Each of these cost factors almost always increase annually due to inflation, meaning that the cost of the service provided increases annually. To offset the annual increase in expenditures, revenues from fares need to grow at least at the same rate as expenditures to maintain the ratio. Revenues are driven by ridership which is dependent on a number of factors including fare prices, service quality and availability, and population growth. In recent years expenditure growth has ranged from 3 to 11% while revenue growth is largely 0 to 1%, except one year of 6%.

Attaining Current Farebox Recovery Ratios

To meet the current 35% farebox recovery requirement, expenditures would need to be reduced by \$90 million in fiscal 2010 or fares would need to increase from \$1.60 to \$2.15. Furthermore, these figures would continue to increase annually as expenditure growth continued to outpace revenue growth. The increase in fares would likely result in riders not being able to afford the service, and as a result, fewer riders would mean less revenue and a drop in the farebox recovery. Similarly, a reduction in expenditures would also mean less service and reliability driving riders away from the service. It is likely that the reductions or revenue measures necessary to meet farebox would further exacerbate the farebox issue.

Revenue Loss

Currently, MTA provides three types of fixed-price fare products, monthly, weekly, or daily pass products. These products allow users to ride during the specified time period at a lower rate than if they paid for each trip individually. MTA estimates that 76% of MTA's fare revenue for Baltimore area services comes from fixed price products. In fiscal 2009, MTA estimates that the monthly pass provides a 31% discount, weekly passes provide a 45% discount, and day passes provide a 37% discount. MTA estimates approximately \$51 million in fiscal 2009 was lost due to the fixed price products. Furthermore, MTA estimates that it would gain \$1.9 million in revenue if State employees paid fares. This assumes all State employees would buy monthly passes.

Current and Prior Year Budgets

**Current and Prior Year Budgets
Maryland Transit Administration
(\$ in Thousands)**

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2009					
Legislative Appropriation	\$0	\$533,107	\$56,094	\$0	\$589,201
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	-4,616	10,757	0	6,141
Cost Containment	0	-844	0	0	-844
Reversions and Cancellations	0	-1,821	-957	0	-2,778
Actual Expenditures	\$0	\$525,826	\$65,894	\$0	\$591,720
Fiscal 2010					
Legislative Appropriation	\$0	\$539,867	\$56,094	\$0	\$595,961
Cost Containment	0	-2,320	0	0	-2,320
Budget Amendments	0	5,653	7,642	0	13,295
Working Appropriation	\$0	\$543,200	\$63,736	\$0	\$606,936

Note: Numbers may not sum to total due to rounding.

Fiscal 2009

Actual expenditures in fiscal 2009 totaled \$591.7 million, an increase of \$2.5 million compared to the legislative appropriation.

Special fund budget amendments decreased a net of \$4.6 million for the following purposes:

- \$9.7 million increase to fund a shortfall in fuel;
- \$6.7 million increase in rail operations to repair brakes and the increased cost of parts and greater emphasis on preventive maintenance;
- \$5.7 million increase for bus parts and increased emphasis on bus preventive maintenance;
- \$2.5 million increase for utility costs;
- \$0.8 million increase to fund the statewide 2% cost-of-living adjustment;
- \$14,176 increase for the annual salary review adjustment;
- \$15.5 million decrease in grants to locally operated transit systems;
- \$10.1 million decrease in special funds that was offset by an increase in the use of federal funds largely to support rail preventive maintenance expenditures; and
- \$4.4 million decrease in contract costs for mobility and utility savings.

Special fund cost containment by BPW totaled \$0.8 million, with \$0.6 million for the statewide employee furlough and \$0.2 million due to overbudgeted health insurance funds being withdrawn.

Special fund cancellations totaled \$1.8 million due to diesel fuel costing less than estimated due to declining fuel prices.

Federal budget amendments increased the appropriation by \$10.8 million, with \$10.1 million used to supplant special funds for rail preventive maintenance and \$0.7 million to supplant special funds for locally operated transit systems.

Federal fund cancellations totaled \$1.0 million, with \$0.8 million due to federal funds for locally operated transit systems not being fully utilized by local jurisdictions and \$0.2 million due to preventive maintenance expenditures being less than anticipated.

Fiscal 2010

The fiscal 2010 working appropriation is approximately \$11.0 million greater than the legislative appropriation. Special fund cost containment totals \$2.3 million due to \$0.9 million from the statewide furlough and \$1.4 million due to the reduction of vacant positions. Special funds increase by \$5.6 million and federal funds increase by \$7.6 million for a variety of cost increases across-the-board to reflect actual spending in the financial forecast and additional federal funds for MARC maintenance.

**Object/Fund Difference Report
Maryland Transit Administration Operating Budget**

<u>Object/Fund</u>	<u>FY09 Actual</u>	<u>FY10 Working Appropriation</u>	<u>FY11 Allowance</u>	<u>FY10 - FY11 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	3,032.50	3,014.50	3,014.50	0	0%
02 Contractual	15.00	15.00	15.00	0	0%
Total Positions	3,047.50	3,029.50	3,029.50	0	0%
Objects					
01 Salaries and Wages	\$ 257,952,307	\$ 269,220,066	\$ 270,127,730	\$ 907,664	0.3%
02 Technical and Spec. Fees	1,081,552	919,053	915,142	-3,911	-0.4%
03 Communication	1,265,836	1,319,955	1,230,787	-89,168	-6.8%
04 Travel	425,506	117,039	117,039	0	0%
06 Fuel and Utilities	15,383,763	14,923,772	13,919,451	-1,004,321	-6.7%
07 Motor Vehicles	66,048,507	62,582,524	62,429,230	-153,294	-0.2%
08 Contractual Services	176,251,729	188,178,382	197,800,945	9,622,563	5.1%
09 Supplies and Materials	7,528,651	5,809,884	5,820,074	10,190	0.2%
10 Equipment – Replacement	206,212	82,002	82,002	0	0%
11 Equipment – Additional	380,713	111,621	111,621	0	0%
12 Grants, Subsidies, and Contributions	57,036,145	56,949,542	56,949,542	0	0%
13 Fixed Charges	8,010,611	6,721,718	7,163,904	442,186	6.6%
14 Land and Structures	148,756	0	0	0	0.0%
Total Objects	\$ 591,720,288	\$ 606,935,558	\$ 616,667,467	\$ 9,731,909	1.6%
Funds					
03 Special Fund	\$ 525,826,205	\$ 543,199,412	\$ 553,931,321	\$ 10,731,909	2.0%
05 Federal Fund	65,894,083	63,736,146	62,736,146	-1,000,000	-1.6%
Total Funds	\$ 591,720,288	\$ 606,935,558	\$ 616,667,467	\$ 9,731,909	1.6%

Note: The fiscal 2010 appropriation does not include deficiencies.

Fiscal Summary
Maryland Transit Administration Operating Budget

<u>Program/Unit</u>	<u>FY09 Actual</u>	<u>FY10 Wrk Approp</u>	<u>FY11 Allowance</u>	<u>Change</u>	<u>FY10 - FY11 % Change</u>
01 Transit Administration	\$ 50,923,864	\$ 50,780,856	\$ 52,077,588	\$ 1,296,732	2.6%
02 Bus Operations	266,733,866	273,805,152	275,355,987	1,550,835	0.6%
04 Rail Operations	193,937,882	201,106,202	207,648,617	6,542,415	3.3%
05 Facilities and Capital Equipment	261,873,725	443,584,001	425,446,305	-18,137,696	-4.1%
06 Statewide Programs Operations	80,124,676	81,243,348	81,585,275	341,927	0.4%
08 Major Information Technology Development Projects	6,649,920	8,130,000	7,900,000	-230,000	-2.8%
Total Expenditures	\$ 860,243,933	\$ 1,058,649,559	\$ 1,050,013,772	-\$ 8,635,787	-0.8%
Special Fund	\$ 621,219,769	\$ 731,692,413	\$ 704,501,626	-\$ 27,190,787	-3.7%
Federal Fund	239,024,164	326,957,146	345,512,146	18,555,000	5.7%
Total Appropriations	\$ 860,243,933	\$ 1,058,649,559	\$ 1,050,013,772	-\$ 8,635,787	-0.8%

Note: The fiscal 2010 appropriation does not include deficiencies.

Budget Amendments for Fiscal 2010
Maryland Department of Transportation
Maryland Transit Administration – Operating

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Approved	-\$2,320,227	Special	August 2009 Board of Public Works reductions
Pending	5,652,119	Special	Cost increases for various operating budget expenditures and additional federal funds for MARC maintenance
	13,294,034	Federal	
	7,641,915	Total	
Total	\$10,973,807		

MARC: Maryland Rail Commuter

Source: Maryland Department of Transportation

Budget Amendments for Fiscal 2010
Maryland Department of Transportation
Maryland Transit Administration – Capital

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Approved	-\$567,700	Special	August 2009 Board of Public Works reductions
Pending	-24,271,803	Special	Amending the appropriation to reflect spending in the <i>Consolidated Transportation Program</i>
	-67,631,803	Federal	
	-43,360,000	Total	
Total	-\$68,199,503		

Source: Maryland Department of Transportation