

J00H01
Maryland Transit Administration
Maryland Department of Transportation

Operating Budget Data

(\$ in Thousands)

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$502,211	\$533,727	\$540,175	\$6,448	1.2%
Contingent & Back of Bill Reductions	0	0	-141	-141	
Adjusted Special Fund	\$502,211	\$533,727	\$540,034	\$6,306	1.2%
Federal Fund	54,392	56,094	56,094	0	
Adjusted Federal Fund	\$54,392	\$56,094	\$56,094	\$0	0.0%
Adjusted Grand Total	\$556,602	\$589,822	\$596,128	\$6,306	1.1%

- The fiscal 2010 allowance increases \$6.3 million, or 1.1%, compared to the fiscal 2009 working appropriation. This accounts for the contingent reduction to matching deferred compensation payments totaling \$0.1 million.
- The budgets for fiscal 2009 and 2010 understate what the Maryland Transit Administration (MTA) intends to spend in each fiscal year. As a result, in fiscal 2009, MTA will process a budget amendment for \$18.9 million that transfers funding from the pay-as-you-go (PAYGO) capital budget to the operating budget. A similar transfer from the PAYGO budget to the operating budget is planned for in fiscal 2010, totaling \$17.3 million.
- MTA's adjusted fiscal 2009 spending plan will total \$608.7 million, while the fiscal 2010 spending plan totals \$613.4 million, an increase of \$4.6 million, or 0.8%, compared to the fiscal 2009 spending plan.

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

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PAYGO Capital Budget Data

(\$ in Thousands)

	Fiscal 2008	Fiscal 2009		Fiscal 2010
	<u>Actual</u>	<u>Legislative</u>	<u>Working</u>	<u>Allowance</u>
Special	\$93,317	\$156,040	\$105,142	\$213,389
Federal	\$109,165	\$144,579	\$210,522	\$213,479
Total	\$202,482	\$300,619	\$315,664	\$426,868

- The fiscal 2009 working appropriation increases \$15.0 million compared to the legislative appropriation due to cash flow changes in projects and the use of federal funds instead of special funds.
- The fiscal 2010 allowance is \$111.2 million more than the fiscal 2009 working appropriation due to a number of large procurement contracts and cash flow requirements for projects.

Operating and PAYGO Personnel Data

	FY 08 <u>Actual</u>	FY 09 <u>Working</u>	FY 10 <u>Allowance</u>	FY 09-10 <u>Change</u>
Regular Operating Budget Positions	2,934.50	3,021.50	3,021.50	0.00
Regular PAYGO Budget Positions	<u>105.00</u>	<u>115.00</u>	<u>115.00</u>	<u>0.00</u>
Total Regular Positions	3,039.50	3,136.50	3,136.50	0.00
Operating Budget FTEs	31.00	18.00	18.00	0.00
PAYGO Budget FTEs	<u>2.00</u>	<u>1.00</u>	<u>1.00</u>	<u>0.00</u>
Total FTEs	33.00	19.00	19.00	0.00
Total Personnel	3,072.50	3,155.50	3,155.50	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	126.09	4.02%
Positions and Percentage Vacant as of 01/01/09	96.00	3.06%

- The fiscal 2010 allowance does not include any increases or decreases for regular positions or full-time equivalent contractals compared to the fiscal 2009 working appropriation.
- The fiscal 2010 allowance has turnover budgeted at 4.02% requiring 126 vacant positions. As of January 1, 2009, the agency’s turnover rate was 3.06% and 96 vacant positions. To meet the budgeted turnover amount, the agency will not be able to fill vacant positions and may need to find savings elsewhere in its budget.

Analysis in Brief

Major Trends

Transit Boardings Increasing: Transit boardings for MTA increased 5.2% in fiscal 2008 as fuel prices spiked and the economy slowed. Core bus service increased 4.0% which is significantly more than in past years. The highest increases were for light rail (12.0%), Mobility (35.0%), and commuter bus (10.0%). **The Department of Legislative Services (DLS) recommends that MTA discuss with the committees the reasons for growth and what increased ridership means for the ongoing costs and maintenance of the system.**

On-time Performance: Core bus service continues to have the worst on-time performance. In addition, Maryland Rail Commuter (MARC) on-time performance has been gradually declining since fiscal 2006; however, the newest MARC and Mobility contracts include financial incentives which may increase on-time performance. **DLS recommends that MTA discuss how effective the financial incentives have been and what actions can be taken to improve core bus on-time performance.**

Farebox Recovery: Chapter 684 of 2008 reduced the farebox recovery rate to 35% for Baltimore core services and MARC service beginning in fiscal 2010. In fiscal 2010, MTA estimates the farebox recovery rate at 26% for Baltimore core services. MTA does compare favorably to other comparably sized transit agencies providing bus service but not so favorably for light rail and Metro. The farebox recovery rate for MARC service is expected to be greater than 35%, but the rate is declining. **DLS recommends that MTA discuss with the committees the cause of the farebox recovery decline for Baltimore area services and MARC even with increased ridership. In addition, MTA should discuss the impact of monthly and weekly passes on revenue.**

Performance Goals: Chapter 684 of 2008 also required that MTA submit performance goals for passenger trips per revenue vehicle mile, operating expenses per passenger trip, and operating expenses per revenue vehicle mile. In general, passengers per revenue mile is increasing as ridership increases, and operating expenses per service mile and rider are generally increasing, except on light rail where ridership growth is exceeding expenses. **DLS recommends that MTA discuss its performance goals with the committees.**

Issues

Service Reductions Implemented for MARC and Commuter Bus: In the fall of 2008, MTA announced proposed reductions to its MARC and Commuter Bus services due to the downturn in revenues. Through the public hearing process, several changes were made to the original proposals, and the reductions were implemented on January 12, 2009. **DLS recommends that MTA brief the committees on the service reductions, why a fare increase was not implemented, and if additional service reductions are necessary.**

MTA’s Pension System and Other Post Employment Benefits Liability Are Both Underfunded: MTA has its own pension system for union employees that is 41.7% funded as of June 30, 2008. Similar to State employees, MTA has a separate Other Post Employment Benefits (OPEB) liability that needs to be accounted for in the Maryland Department of Transportation’s financial statements. The OPEB liability totals \$411.4 million for active and retired employees. **DLS recommends that MTA discuss the funding level of its pension system as well as its outstanding OPEB liability.**

MTA and StateStat: MTA began attending StateStat meetings early in calendar 2008. A major focus of MTA StateStat meetings has been overtime and absenteeism. As a result of the meetings, MTA has implemented several administrative processes to limit the number of lost days to absenteeism and reduce overtime spending. **DLS recommends that MTA discuss with the committees what steps it has taken to reduce absenteeism and overtime.**

Update on Three Major Transit Lines: MTA continues to move through the federal planning process for the Red Line, Purple Line, and Corridor Cities Transitway. Each of the projects experienced reductions in funding due to the economic downturn. In the long-term, it is not clear how the State can afford to build one or all three of the lines. **DLS recommends that MTA brief the committees on the status of each project and that committee narrative be adopted that would require MTA to report on how to finance each of the projects.**

Budget Transfers to Close Out Fiscal 2008: To close out its fiscal 2008 budget, MTA had funds from several modes transferred into its budget. The fund transfer was processed by a budget amendment and there was no legislative oversight. In addition, the transfer of funds adversely impacted the department’s coverage ratios. **DLS recommends that MDOT discuss why MTA had such significant overspending in fiscal 2008, what impact was experienced by the modal administrations from which funds were transferred, and if the department envisions similar modal transfers in fiscal 2010 of which the budget committees should be aware.**

Operating Budget Recommended Actions

1. Add budget bill language expressing the intent of the General Assembly that the Maryland Transit Administration should increase fares and reassess rider benefits.

PAYGO Budget Recommended Actions

	<u>Funds</u>
1. Reduce funds for the capital program that are to be transferred to the operating budget and require that these significant proposed changes be appropriated either by deficiency or budget amendment. This action would ensure legislative oversight.	\$ 17,432,000
2. Adopt committee narrative requesting an updated report on the three major transit lines in planning and financing options for each.	
Total Reductions	\$ 17,432,000

Updates

Purple Line Report: The 2008 *Joint Chairmen’s Report* required MTA to submit a report addressing a number of issues concerning the Purple Line. A summary of the report is provided.

Service Enhancements: Fiscal 2009 budget bill language requires MTA to notify the budget committees prior to a contract extension or enhancement of contracted transit service before being approved by the Board of Public Works. One enhancement was provided to add Bay Bridge commuter bus service while bridge repairs were made; however, MTA announced it intends to scale back this service.

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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.

Boardings Increasing

Exhibit 1 provides detail on the number of boardings for services provided by MTA. Nationally, transit ridership grew as fuel prices spiked in spring 2008 and continues even though fuel prices have declined. MTA ridership grew rapidly in fiscal 2007 and 2008 compared to prior fiscal years. This is reflected by 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. Of note is that core bus service grew by 4.0%, which is considerable given its past performance, with MTA indicating route changes and higher gas prices as the reasons for the increase. Light rail growth in recent years is largely due to the completion of the double tracking project and riders returning to the service. In fiscal 2009 and 2010, MTA is estimating that ridership will continue to grow at a rate of 3.4 and 3.9%, respectively. **The Department of Legislative Services recommends that MTA discuss with the committees the reasons for growth on the transit system and what this growth means moving forward for the ongoing maintenance and operating costs of the system.**

Exhibit 1
MTA Boardings and Percent Change
Fiscal 2005-2010

	<u>2005</u> <u>Actual</u>	<u>2006</u> <u>Actual</u>	<u>2007</u> <u>Actual</u>	<u>2008</u> <u>Actual</u>	<u>2009</u> <u>Estimated</u>	<u>2010</u> <u>Estimated</u>
Bus	-1%	0%	1%	4%	2%	3%
Metro	4%	0%	2%	6%	5%	5%
Light Rail	-16%	11%	32%	12%	5%	5%
Paratransit	1%	19%	11%	12%	2%	16%
TaxiAccess		84%	18%	10%	16%	16%
MARC	2%	6%	3%	5%	5%	5%
Contracted Commuter Bus	9%	8%	5%	10%	5%	5%
Total	-0.5%	1.9%	3.5%	5.2%	3.4%	3.9%

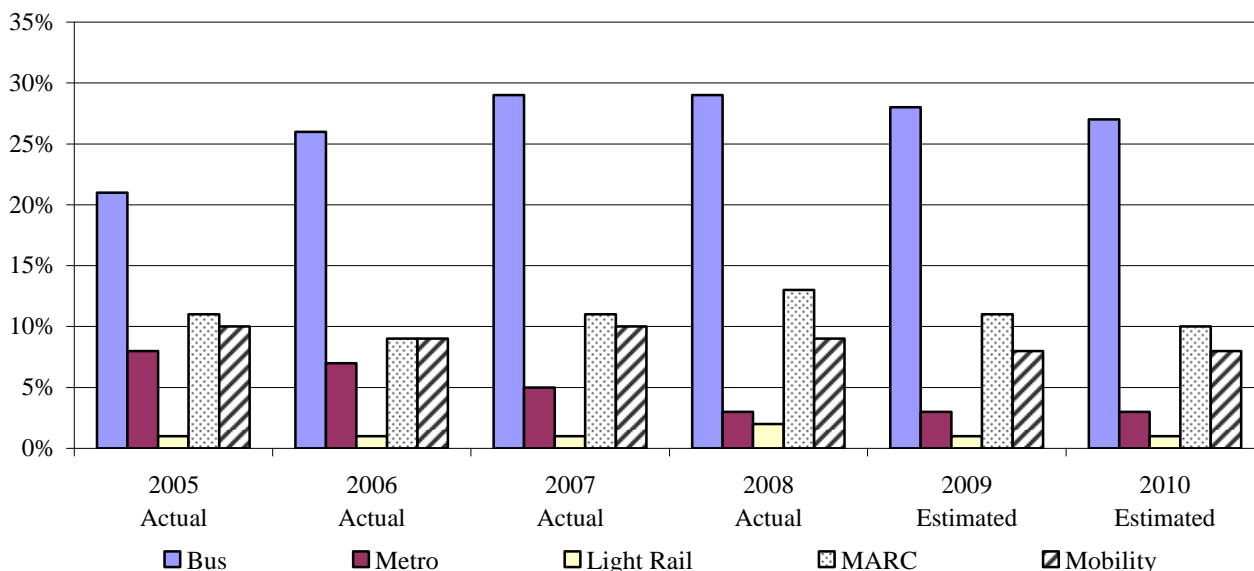
Source: Maryland Transit Administration

On-time Performance

MTA seeks to provide high on-time performance for all of its service. **Exhibit 2** provides data on the percentage of service not provided on-time for bus, Metro, light rail, and MARC. Light rail and Metro typically have good on-time performance as reflected in the exhibit. Core bus service has poorer on-time performance. Nearly 30% of bus trips were not on-time in fiscal 2007 and 2008; however, MTA estimates that service will improve slightly. Bus service is more likely to experience delays than other transit services as it does not have a dedicated lane and can be delayed by outside factors.

The chart also indicates that the on-time performance for MARC service gradually declined from fiscal 2006 to 2008. Weather and the lack of a dedicated rail for MARC service are the primary causes of delays. To increase the on-time performance of Mobility and MARC service, MTA has inserted financial incentives in the new Amtrak and Mobility contracts; however, the age of the locomotives and the time required to load passengers at some stations will likely continue to result in delays for MARC. The estimate for fiscal 2009 and 2010 shows improvement in on-time performance partially due to financial incentives as well as new locomotive purchases coming on line. **DLS recommends that the agency discuss with the committees how effective financial incentives will be in improving on-time performance and the likelihood of its success. In addition, the agency should discuss what actions can be taken to improve on-time performance for core bus service.**

Exhibit 2
Percentage of Trips Not On-time
Fiscal 2005-2010



MARC: Maryland Rail Commuter

Source: Maryland Transit Administration

Farebox Recovery

Chapter 684 of 2008 reduced the statutory farebox recovery rate to 35% for Baltimore area core services and MARC service beginning in fiscal 2010; however, the Managing for Results (MFR) goal is 26% for Baltimore area services in fiscal 2010. **Exhibit 3** shows the farebox recovery by mode of transit and Baltimore core services. The farebox recovery rate for Baltimore services declined from 32% in fiscal 2007 to 29% in fiscal 2008. The largest decline in farebox recovery occurred with Baltimore core bus and commuter bus services. In fiscal 2009 and 2010, the farebox recovery rate for core bus is expected to be 29 and 28%, respectively. The overall decline in farebox recovery is attributed to operating expenses (*e.g.*, electricity, fuel, wages, etc.) exceeding revenue growth. For example, MARC contracts’ increases exceeded the level of revenue growth thus reducing the farebox recovery.

Exhibit 3
Farebox Recovery Rate
Fiscal 2005-2010

	<u>2005</u> <u>Actual</u>	<u>2006</u> <u>Actual</u>	<u>2007</u> <u>Actual</u>	<u>2008</u> <u>Actual</u>	<u>2009</u> <u>Estimated</u>	<u>2010</u> <u>Estimated</u>
Baltimore Area Services	33.7%	33.2%	31.7%	29.0%	26.0%	26.0%
Core Bus	37.2%	37.2%	35.0%	31.0%	29.0%	28.0%
Metro	33.2%	30.6%	28.0%	28.0%	25.0%	27.0%
Light Rail	15.4%	16.0%	19.0%	18.0%	15.0%	16.0%
MARC	59.4%	58.9%	56.2%	53.0%	44.0%	42.0%
Washington Commuter Bus	37.2%	36.2%	34.0%	33.0%	32.0%	32.0%

MARC: Maryland Rail Commuter

Source: Maryland Transit Administration

Of note is that in fiscal 2008, ridership increased 5.2%, and the farebox recovery rate for every mode of transit continued to decline except for Metro. MTA indicates that there are two reasons for this. The first is that costs continue to increase for service, therefore, reducing the level of operating revenues. The second reason is that as more individuals use transit, they are using monthly or weekly passes which allow for unlimited ridership at a fixed price, meaning the revenue associated with increased ridership is not fully captured. This is particularly true with core bus, Metro, and light rail service. In addition, even with the service reductions in fiscal 2009 and increased ridership, the farebox recovery rate for most modes will continue to decline or remain flat. **DLS recommends that MTA discuss with the committees the causes of the continued decline in the farebox recovery rate for Baltimore services and MARC despite the cost containment and increased ridership. In particular, MTA should discuss with the committees the impact of monthly and weekly passes on revenue and whether these passes should be discontinued or repriced. DLS also**

recommends MTA discuss with the committees what impact its revised spending plan will have on farebox recovery.

Exhibit 4 compares MTA’s farebox recovery for fiscal 2007 to other peer jurisdictions according to the National Transit Database as required under Chapter 684 of 2008. 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. Compared to other peer transit systems, core bus service had the third 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 that feed into one another. Commuter rail service had the lowest recovery rate of peer systems, largely due to the recent run-up in contract costs for the MARC service.

Exhibit 4
Comparison of Farebox Recovery Rates by Mode
Fiscal 2007

	<u>Bus</u>	<u>Light Rail</u>	<u>Heavy Rail</u>	<u>Commuter Rail</u>
Cincinnati	32.2%	n/a	n/a	n/a
Philadelphia	32.1%	31.1%	51.1%	50.9%
Baltimore	28.4%	16.7%	24.6%	40.1%
Los Angeles	27.9%	14.4%	27.2%	n/a
Boston	23.5%	54.0%	48.0%	54.1%
Pittsburgh	22.5%	14.5%	n/a	n/a
Cleveland	22.2%	1.8%	11.0%	n/a
Washington	22.0%	n/a	58.1%	n/a
Portland	21.6%	39.8%	n/a	n/a

Source: National Transit Database; Maryland Transit Administration

Performance Goals

Chapter 684 of 2008 also required that MTA 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 5** shows the actual figures for fiscal 2007 and 2008 and the goal for fiscal 2009.

Exhibit 5
Fiscal 2009 Performance Goals

	<u>Actual 2007</u>	<u>Actual 2008</u>	<u>Goal 2009</u>
Core Bus			
Passengers Per Revenue Mile	4.0	4.2	4.2
Operating Expenses Per Passenger Trip	\$2.76	\$2.81	\$2.88
Operating Expenses Per Revenue Vehicle Mile	\$11.04	\$11.98	\$12.21
Light Rail			
Passengers Per Revenue Mile	2.4	2.9	3.0
Operating Expenses Per Passenger Trip	\$5.90	\$5.63	\$5.40
Operating Expenses Per Revenue Vehicle Mile	\$14.21	\$15.68	\$16.28
Metro			
Passengers Per Revenue Mile	2.8	2.7	2.8
Operating Expenses Per Passenger Trip	\$3.84	\$3.55	\$3.63
Operating Expenses Per Revenue Vehicle Mile	\$10.68	\$9.55	\$9.69

Source: Maryland Transit Administration

Bus Performance: Due to increases in ridership, passenger trips per revenue vehicle mile increased in fiscal 2008 and are expected to remain flat in fiscal 2009. Operating expenses per passenger trip are expected to increase as utility, fuel, and wage expenditures outpace ridership growth. Similarly, expenditure growth will outpace service growth and lead to higher operating expenses per revenue mile.

Light Rail Performance: Light rail ridership growth has increased as the double tracking project has been completed, and individuals have turned to light rail as gas prices increased. As a result, passengers per revenue mile increased in fiscal 2007 and 2008 with slower growth expected in fiscal 2009. Ridership growth has exceeded the rate of expenditure growth and has resulted in declining operating expenditures per passenger. However, there has not been growth in the number of service miles; therefore, operating expenses per revenue vehicle mile have increased.

Metro Performance: Metro ridership did not change significantly and is not expected to change significantly as reflected in the goal. Operating expenses have been increasing due to inflation for utilities and fuel; however, there was a dip in fiscal 2008 due to the transfer of elevator/escalator expenses to the capital budget. In fiscal 2009, operating expenses are expected to increase at a rate greater than service or ridership.

The Department of Legislative Services recommends that MTA discuss how its performance goals may or may not change based upon its revised spending plan.

Fiscal 2009 Actions

Impact of Cost Containment

The October Board of Public Works abolished 63 positions without cutting the funding for those positions. The funds from the reduction were used to offset spending shortfalls in the fiscal 2009 budget. Of the 63 abolished positions, 30 were vacant management positions, 20 were filled management positions, and 13 were vacant union maintenance positions. In addition, Chapter 10 of 2008 required the Governor to reduce the fiscal 2009 general fund budget by \$50 million. As part of that reduction, overbudgeted health insurance funds were withdrawn by the Board of Public Works, and MTA's share of that totaled \$221,745 in special funds.

Proposed Budget

The fiscal 2010 allowance totals \$596.1 million, an increase of \$6.3 million, or 1.1%; however, there is little relationship between what is in the Governor's allowance and what MTA intends to spend in fiscal 2009 or 2010. The Maryland Department of Transportation and MTA indicate that because of the revenue downturn, MTA could not process the deficiencies that it had in the past for fuel or union wage increases. As a result, internal reductions needed to be identified to offset projected spending increases.

The internal realignment of spending totaling \$29.9 million is not currently reflected in the fiscal 2009 working appropriation. MTA intends to process a budget amendment totaling approximately \$19.0 million to increase spending in fiscal 2009 to \$608.7 million, as shown in **Exhibit 6**. Many of the increases provided for in the fiscal 2009 budget amendment will carry forward into fiscal 2010. To account for this, MTA intends to process a budget amendment in fiscal 2010 of \$17.3 million to reflect this additional spending. This will increase the fiscal 2010 allowance to \$613.4 million, an adjusted increase of \$4.7 million, or 0.8%. **DLS recommends that MTA and MDOT submit this additional spending as a deficiency so that it can be evaluated during legislative deliberations on the fiscal 2011 allowance.**

Exhibit 6
Proposed MTA Spending Plan
Fiscal 2009-2010

	<u>2009</u>	<u>2010</u>	<u>\$ Change</u>	<u>% Change</u>
Governor's Allowance	\$589.8	\$596.1	\$6.3	1.1%
Budget Amendment from PAYGO	18.9	17.3		
Total Revised Spending Plan	608.7	613.4	\$4.7	0.8%

MTA: Maryland Transit Administration

PAYGO: pay-as-you-go

Source: Maryland Transit Administration; Maryland Department of Transportation

Budget Issues

The MTA allowance presents a number of issues.

Subobject Detail Has Little Meaning

MTA and MDOT have indicated that for fiscal 2009 and 2010 they are working to manage to a bottom line level of spending. As such, the amount budgeted in a program or subobject may change during the course of the fiscal year depending on needs. As a result, understanding how the agency intends to allocate funds in its budget is difficult.

Underfunding in the Allowance

Even with the adjustments in spending in fiscal 2009 and 2010 as presented by MTA, there may not be enough funding in the budget to support the ongoing level of operations without additional internal reductions. For example, DLS estimated the fiscal 2010 baseline budget for MTA to be approximately \$650 million prior to the service reductions announced by the agency. This is about \$36 million higher than the fiscal 2010 budget if it is adjusted as MTA suggests.

Impact on the Financial Forecast

The MTA's spending level in the financial forecast is \$585 million and \$597 million in fiscal 2009 and 2010, respectively. By adding at least \$19 million and \$17 million in new spending that is not accounted for in the financial forecast, there is a concern as to what impact these new level of spending will have on the net income coverage test.

Explaining the Fiscal 2009 and 2010 Spending Plan

The following section will describe the spending reductions and increases as explained by MTA and MDOT in the fiscal 2009 and 2010 budgets.

Spending Reductions

In fiscal 2009, MTA has made reductions totaling \$29.9 million to what was the legislative appropriation and reallocated that spending for other purposes in fiscal 2009. Those reductions were then carried into fiscal 2010 as well. **Exhibit 7** summarizes the internal reductions in spending for fiscal 2009 and 2010.

Exhibit 7
Reductions to Fiscal 2009 and 2010 Operating Budget
(\$ in Millions)

Description	<u>2009</u>	<u>2010</u>
Reduce increase in Locally Operated Transit System grants that were provided as part of revenue increase	-\$14.8	-\$14.8
Reduce administrative budgets for office supplies, travel, etc.	-7.0	-7.0
Reduce commuter bus service	-3.4	-5.9
Reduce MARC service reductions	-2.0	-5.9
Eliminate vacant positions and 20 layoffs	-2.7	-2.7
Effect energy savings		-0.8
Total	-\$29.9	-\$37.1

MARC: Maryland Rail Commuter

Source: Maryland Transit Administration

The fiscal 2009 reductions were for the following:

- \$14.8 million to reduce the funding to locally operated transit systems (LOTS). In fiscal 2009, LOTS were provided an increase of \$13.9 million due to the revenue enhancement. In addition, \$0.9 million in special funds was cut out of fiscal 2009; however, it was replaced with federal funds meaning the total reduction was only \$13.9 million. MTA and MDOT have elected to show the entire \$14.8 million special fund reduction;
- \$7.0 million in administrative reductions for travel, consultants, computer and equipment replacement, and supplies;
- \$5.4 million in savings from reductions in service to commuter bus and MARC that went in effect on January 12, 2009, with additional annualized savings in fiscal 2010; and
- \$2.7 million to eliminate 43 vacant positions and 20 layoffs.

DLS recommends that MTA discuss with the committees what impact the reduction on the LOTS program will have and why filled positions were abolished as part of the October Board of Public Works action in addition to vacant positions.

Realigned Spending and Increases

MTA intends to process a budget amendment that transfers \$18.9 million and \$17.3 million in fiscal 2009 and 2010, respectively, from the capital program to the operating program to support higher levels of spending. This additional funding coupled with the savings from reductions made in fiscal 2009 and 2010 result in new and realigned spending of \$48.9 million and \$54.4 million in fiscal 2009 and 2010, respectively, as shown in **Exhibit 8**.

Exhibit 8
MTA Operating Budget Spending Changes and Increases
Fiscal 2009 and 2010
(\$ in Millions)

<u>Description</u>	<u>2009</u>	<u>2010</u>
Diesel fuel for bus operations to reflect fluctuating fuel costs	\$15.4	\$15.4
Increase for overtime expenditures	10.4	10.4
Facilities maintenance and spare parts to replenish supplies due to expenditures in fiscal 2009 and 2010 for light rail wheel and bus brake and wheel issues	6.3	8.3
Contract cost escalations across the agency	9.6	9.6
Mobility contract cost increase	3.8	4.1
Utility expense increase due to additional service and higher costs	2.8	2.8
Additional insurance reserve	0.6	0.6
Commuter bus contract increases		0.9
Other		2.3
Total	\$48.9	\$54.4

MTA: Maryland Transit Administration

Source: Maryland Transit Administration

This new and realigned spending will be for the following items in fiscal 2009 and 2010:

- \$15.4 million for diesel fuel due to increased usage and rising fuel costs;
- \$10.4 million increase for overtime to better reflect actual usage since the working appropriation was \$16.6 million less than fiscal 2008 actual expenditures;
- \$9.6 million increase in agency contract cost escalations;

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- \$6.3 million for facilities maintenance and spare parts to replace inventory that was used to fix light rail and bus wheel problems that occurred in the summer of 2008;
- \$3.8 million increase for the new Mobility contract and increased ridership;
- \$2.8 million in increased utility costs due to a higher frequency of light rail trips and higher rates since the working appropriation increased \$0.2 million for utilities;
- \$2.3 million in other spending;
- \$1.2 million for increased contract expenses in fiscal 2010 for commuter bus and Mobility; and
- \$0.6 million in additional spending for an insurance reserve since there have been more payouts for accidents involving MTA.

Potential Underfunded Areas in Fiscal 2010

Due to all the changes in fiscal 2009 and 2010, there are concerns that some areas of the budget may be underfunded. To the extent there is underfunding in the budget, MTA will either need to identify areas for reduction, including service, increase fares, or increase operating budget spending which could adversely impact the net income coverage test. Areas that may be underfunded include:

Overtime

While MTA intends to increase spending in fiscal 2009 and 2010 by \$10.4 million, this is still \$6.6 million less than the fiscal 2008 actual level. MTA indicates that several administrative processes have been implemented to reduce the reliance on overtime; however, given the 24-hour, 7-days-a-week operations of a transit facility and an aging vehicle fleet, unexpected work force demands may occur that increase spending.

Mobility Contract

A new Mobility contract was awarded in fiscal 2009, and the new cost of the contract and increased ridership is reflected in \$3.8 million being added to the fiscal 2009 working appropriation. The fiscal 2010 allowance only increases \$0.3 million compared to the adjusted working appropriation, which is significantly less than past years. MTA indicates that it intends to achieve savings through changes to the TaxiAccess program fee and rules, and that to date, individuals have not migrated from TaxiAccess to Mobility.

Electricity

MTA intends to increase funding for utilities in fiscal 2009 and 2010 by \$2.8 million with \$0.8 million in energy savings for fiscal 2010. The energy savings is due to MTA recognizing savings from recently installed energy-efficient light bulbs along the rail lines and in MTA parking areas. MTA also indicates that its contract with the Department of General Services for electricity is ending and that it hopes to receive a more favorable price.

Union Contract

MTA is in negotiations with the largest union and to date no agreement has been reached, which is later in the process than normal. Since no agreement has been reached, the next step is binding arbitration which could result in higher union personnel costs than originally assumed.

MARC Contract

The CSX MARC contract includes a provision that requires MTA to pay additional fees for CSX to continue operating MARC. MTA has started the process of procuring a third party to operate the MARC CSX portion. This contract could be finalized sometime during fiscal 2010, and it is not clear what, if any, the additional cost of a third party contract could be. **DLS recommends that MTA discuss the status of the third party contract proposal.**

Through its budget amendment report and meetings with DLS, MDOT has indicated that it intends to realign spending and process a budget amendment in fiscal 2009 to increase spending to match its current spending plan. Because much of the spending added in fiscal 2009 is ongoing spending, there will need to be an increase in spending in fiscal 2010. Should the spending plan presented by MDOT and MTA not be implemented, there will be significant underfunding in the fiscal 2009 and 2010 budgets. Either fare increases or service reductions will need to be implemented. **DLS recommends that MTA discuss with the committees the areas identified as being potentially underfunded and the extent to which it intends to increase funding for MTA over the working appropriation and allowance. In addition, MTA should discuss with the committees how it would address an underfunding in its budget given the revenue constraints.**

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.

Impact of Capital Reductions on Capital Program

Due to the economic recession, MDOT identified \$2.2 billion in special fund capital reductions from fiscal 2009 to 2014. Of this total, MTA experienced \$730 million in reductions or 33% of the total reduction, compared to the \$865.7 million that was added to the January 2008-2013 *Consolidated Transportation Program (CTP)* as part of the revenue increase. MDOT has indicated that projects added as part of the revenue increase were the projects most likely to be removed from the capital program.

Exhibit 9 provides a summary of the major projects that were affected by the reduction to the capital program. These projects represent 63% of the total six-year reduction.

Exhibit 9
Major Projects Reduced as a Result of the Revenue Downturn
Fiscal 2009-2014
(\$ in Thousands)

<u>Project</u>	<u>Six-year Total</u>
Maryland Rail Commuter (MARC) Growth and Investment Plan	\$126,035
Red Line	54,642
Corridor Cities Transitway	45,034
Various Locally Operated Transit System Projects	44,824
Kirk Bus Division Modernization	33,513
Purple Line	30,193
Various Reductions to the Metro program	28,401
Environmental Compliance Efforts	27,478
Freight Rail Improvements	21,177
Light Rail Mid-Life Overhaul	18,866
Bus Replacement Purchases	17,124
New Main Bus Shop	13,400
Total	\$460,687

Source: Maryland Department of Transportation, 2009-2014 *Consolidated Transportation Program*

The largest reduction was for the MARC Growth and Investment Plan. The MARC Growth and Investment Plan is a long-term vision for MARC service, including a dedicated track. Funding was added in fiscal 2009 as part of the revenue increase to begin funding enhancements to the MARC service. Due to the economic downturn, funding has largely been eliminated for this initiative except

for the procurement of new coaches. **DLS recommends that MTA discuss with the committees the future of MARC service in light of funding for the MARC Growth and Investment Plan being reduced.**

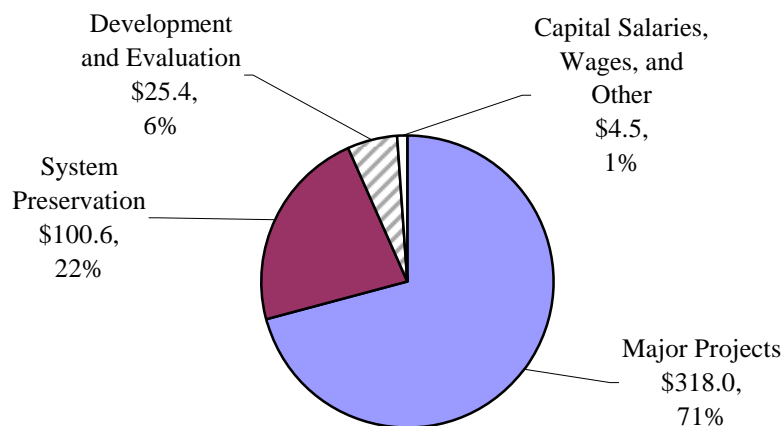
Most of the remaining reductions were to projects added as part of the revenue increase. Of note is that each of the three major transit lines were reduced, and each has sufficient funding to continue through the planning phase. Other notable reductions include the Kirk Bus Division Modernization which was for a new facility to address community concerns and environmental compliance efforts in response to Environment Protection Agency’s findings of underground fuel tanks that were leaking. **DLS recommends that MTA discuss with the committees if there will be any penalties or adverse findings by not funding environmental compliance efforts.**

A number of the larger system preservation projects such as bus procurements, light rail and Metro overhauls, and MARC locomotive replacements largely were not impacted by the reductions. The transit system as a whole has been aging, and this is reflected in the light wheel flattening problems over the summer and MARC locomotives breaking down when temperatures reach a certain level in the summer. **DLS recommends that MTA and MDOT discuss the policy decision to largely maintain funding for system preservation projects.**

Fiscal 2009 to 2014 Consolidated Transportation Program

The fiscal 2010 allowance totals \$426.9 million, an increase of \$111.2 million compared to the fiscal 2009 working appropriation. There is \$21.5 million in non-State sources, largely in local funds being contributed to State projects. As shown in **Exhibit 10**, funding for major projects totals \$318.0 million, or 71%, of all funding and system preservation funding totals \$100.6 million, or 22%.

Exhibit 10
Summary of Fiscal 2010 Allowance
(\$ in Millions)

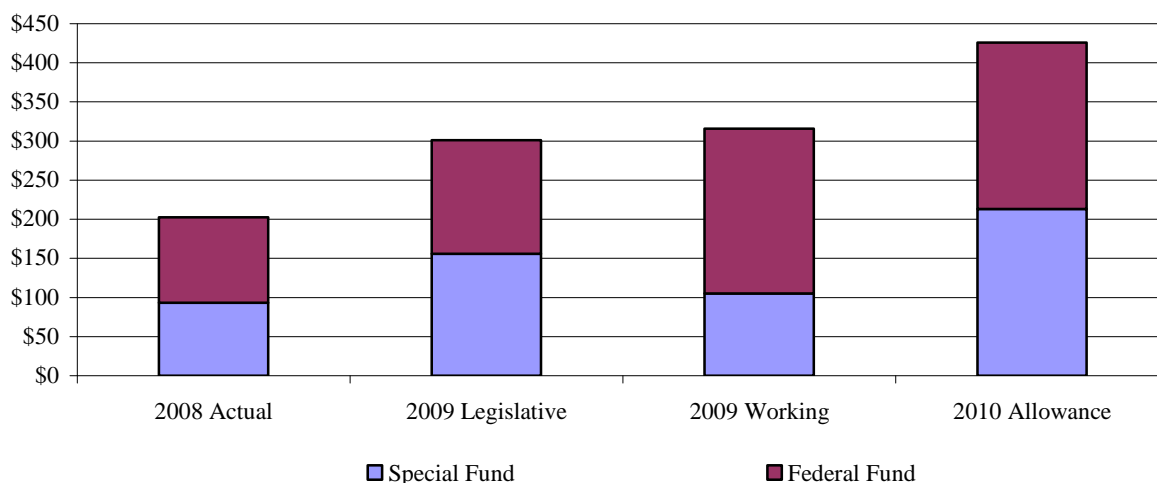


Source: Maryland Department of Transportation, 2009-2014 Consolidated Transportation Program

Fiscal 2009 and 2010 Cash Flow Analysis

The fiscal 2009 working appropriation increases \$15.0 million compared to the legislative appropriation, as shown in **Exhibit 11**. MTA indicates that it could largely maintain its capital program by shifting in federal funding totaling \$65.0 million as the exhibit shows. It should be noted that approximately \$18.9 million of the special fund capital budget is to be used to fund the operating budget in fiscal 2009.

Exhibit 11
Cash Flow Changes
Fiscal 2008-2010
(\$ in Millions)



Source: Maryland Department of Transportation, 2009-2014 *Consolidated Transportation Program*

The fiscal 2010 allowance is \$426.9 million, an increase of \$111.2 million, compared to the working appropriation. Of note is that the capital program was reduced by \$94.0 million in special funds in fiscal 2010 due to the revenue downturn. The overall increase in the allowance is due to a number of projects that have large expenditures in fiscal 2010 as part of the normal cash flow of projects such as bus procurements and diesel locomotives. In addition, federal funds were used to replace special funds, which explains why the allowance is increasing in total even though special funds are reduced. For example, in the 2008-2013 CTP, MTA was projected to spend \$469.0 million, \$42.0 million more than the fiscal 2010 allowance, and federal funds totaled \$181.0 million, \$32.0 million less than the fiscal 2010 allowance. It should be noted that \$17.4 million is to be transferred to the operating budget as part of MTA’s projected spending plan. **DLS recommends that MTA discuss with the committees its ability to spend over \$400.0 million in capital projects given its recent history of not spending all available funds and the policy decision to maintain more funding for transit. DLS also recommends reducing the fiscal 2010 special fund allowance by \$17,432,000 to reflect the amount that MTA intends to transfer from its capital budget to its operating budget. This action is consistent with the DLS recommendation to prohibit transfers from the pay-as-you-go (PAYGO) budget to the operating budget. Funds should be appropriated by deficiency or budget amendment from the fund balance, which preserves legislative oversight of these significant proposed changes.**

Exhibit 12 provides a list of major CTP projects funded in fiscal 2010. The following projects account for 86% of total funding in the construction program.

Exhibit 12
Maryland Transit Administration Major Construction Projects
Funded in Fiscal 2010
(\$ in Thousands)

<u>Project</u>	<u>2010 \$</u>	<u>Total \$</u>	<u>Completion of Fiscal Year Cash Flow</u>
Maryland Rail Commuter (MARC) Improvements on Camden, Brunswick, and Penn Lines – ongoing program of improvements on MARC lines	\$27,976	\$149,055	2014
MARC Mid-life Overhaul – mid-life overhaul of 28 MARC II cars	7,292	114,489	N/A
MARC Locomotive Overhaul – conduct mid-life overhaul of electric locomotives	29,173	116,933	2012
Silver Spring Transit Center and MARC Station Relocation – two-phase project to provide a fully integrated transit center at the Silver Spring Metrorail Station	53,019	85,406	2011
MARC Halethorpe Station Improvements – platform and access improvements to improve service and reduce boarding times	6,837	23,953	2012
Light Rail Vehicle Mid-life Overhaul	5,303	70,195	2014
Owings Mills Joint Development – develop areas adjacent to transit stations	14,100	31,695	2010
Metro Fire and Security Management Systems – replace existing equipment	16,677	78,711	2012
Bus Procurement – purchase 40-foot buses to be used in an annual replacement program of buses in service of 12 or more years	68,120	302,009	2014
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	20,054	198,583	2014
Mobility Vehicle Procurement – procure paratransit service vehicles	7,477	46,133	2013
Replacement of Fare Collection Equipment and Implement SmartCard	3,356	93,616	2011
Closed Circuit Television Improvements – Improvements will enhance safety and security at key Maryland Transit Administration locations	5,000	19,215	2011
Southern Maryland Commuter Bus Initiative – several park and ride lots in Southern Maryland	5,182	36,305	2012
Montgomery County Local Bus Program – funding for annual bus replacement	4,740	47,224	2014
Total	\$274,306	\$1,413,522	

Source: Maryland Department of Transportation, 2009-2014 *Consolidated Transportation Program*

Projects Added to the Development & Evaluation Program

As shown in **Exhibit 13**, one project was added to the Development and Evaluation (D&E) program.

Exhibit 13
Projects Added to the D&E Program
Fiscal 2010
(\$ in Thousands)

<u>Project</u>	<u>2010 \$</u>	<u>Total \$</u>	<u>Completion of Fiscal Year Cash Flow</u>
MARC West Baltimore Station Parking Expansion	\$400	\$511	2010

D&E: Development and Evaluation
MARC: Maryland Rail Commuter

Source: Maryland Department of Transportation, 2009-2014 *Consolidated Transportation Program*

Federal Stimulus Funding

The President signed the American Recovery and Reinvestment Act on February 17, 2009. Under the bill, it is expected that MTA will receive approximately \$130 million, and 50% of the funding will need to be obligated within 180 days. The Administration has identified \$142 million in projects that it calls Phase 1. Phase 2 projects will focus on how special funds removed from Phase 1 projects will be used. **Exhibit 14** provides a list of the projects highlighted in the overview response. **DLS recommends that MTA and MDOT discuss with the committees what types of projects it intends to fund with the stimulus funding, what projects and enhancements will be funded beyond bus purchases, and how this additional funding will impact service and the operations of the department. DLS also recommends that MTA discuss how it will track the use of funds it receives and how it will report this information to the legislature.**

Exhibit 14
MTA Phase 1 Projects
(\$ in Millions)

<u>Description</u>	<u>Cost</u>
Bus Procurement and Equipment	\$65.6
Light Rail System Renewal and Improvements	5.3
MARC BWI Station Renovation	3.0
MARC Laurel Station Southbound Platform Rehabilitation	2.9
MARC Martins Yard Improvements	0.4
MARC Penn Station Improvements	4.0
Metro Fastener and Bolt Replacement	3.1
Metro Public Address System	6.1
Metro Stations Restoration	5.0
Metro Tunnel and Underground Station Repairs	4.5
Metro Bridge and Elevated Structures Rehabilitation	4.8
Metro Railcar Truck Overhaul	20.3
Local Transit Vehicles/Facilities Urban	5.0
Local Transit Vehicles/Facilities Small Urban	5.0
Local Transit Vehicles/Facilities Rural	6.8
Total	\$141.8

BWI: Baltimore-Washington International Thurgood Marshall Airport
MARC: Maryland Rail Commuter

Source: Maryland Transit Administration

Issues

1. Service Reductions Implemented for MARC and Commuter Bus

In fall 2008, MTA proposed a number of service reductions to the MARC and Commuter Bus service as a result of declining Transportation Trust Fund revenues. MTA indicated that the service reductions were part of a broader effort to reduce its budget. Furthermore, the specific runs of service that were proposed to be eliminated were where ridership was minimal and service was not cost effective. Baltimore core transit services were not included in the round of reductions.

The Transportation Article (Title 7-506) requires a public hearing process before any service reductions can be implemented. The public hearing process began on November 17, 2008, and continued through November 25, 2008, with individuals able to provide written comments through December 26, 2008. Based upon the feedback received, MTA changed its original proposal and implemented the following reductions on January 12, 2009.

Service Reductions

MARC Service

- Instead of eliminating two evening round trips, only one round trip will be eliminated and two mid-morning trains will be combined;
- Eliminated train No. 871 on the Brunswick line, except on Fridays;
- Instead of terminating service at Brunswick, individuals traveling to West Virginia will pay an additional \$2.00 for a one way ticket effective February 1, 2009;
- Eliminated shuttle bus service between Odenton and Laurel MARC stations; and
- Eliminated ten-trip ticket.

Commuter Bus

- Instead of eliminating service between Columbia and Baltimore on route Nos. 310, 311, and 320, five trips will be provided on the 310 and four on the 320 with additional financial assistance from Howard County;
- Eliminated Saturday service and five off-peak trips between Columbia and Washington on route No. 929;
- Eliminated one round trip between Columbia and Washington on No. 955;

J00H01 – MDOT – Maryland Transit Administration

- Eliminated service between Bel Air and Baltimore on route No. 412;
- Eliminated one round trip from Harford County to Baltimore on route Nos. 410, 411, and 420;
- Eliminated service between Annapolis and New Carrollton on route No. 921; and
- Eliminated service between Waldorf to Suitland on Route 913; however, an additional trip was provided on route 903.

Several recommendations were altered due to riders' feedback and the financial assistance of local governments. The decision to eliminate one route was deferred due to ridership feedback. In total it is estimated that the service reductions will save approximately \$12 million. **DLS recommends that MTA discuss the following:**

- **why no core Baltimore area services were modified;**
- **why a fare increase, either for all services or for the specific services reduced, was not considered;**
- **if additional service reductions may be needed; and**
- **if in the future other local governments, or West Virginia, will be asked to pay a share of the service provided for their residents.**

2. MTA's Pension System and Other Post Employment Benefits Liability Are Both Underfunded

Introduction

MTA union employees, excluding MTA police officers who are part of the State system, have a retirement system administered by MTA, but independent of the retirement system for State employees. Similar to the State, MTA is required to report its long-term Other Post Employment Benefits (OPEB) liability on its financial statement. Currently, both the retirement system and OPEB liability are underfunded. The MTA pension system currently is funded at 41.7%. The OPEB liability was valued at \$411.4 million as of June 30, 2008. For fiscal 2008, a charge of \$41.4 million will be reported on the MDOT financial statement for its OPEB liability. MTA is in compliance with the OPEB accounting requirements; however, due to funding limitations, MTA cannot set aside funding in fiscal 2009 or 2010 for the OPEB liability, or increase funding for its pension liability.

MTA Union Retirement System Background

MTA union employees are covered under a separate defined benefit pension system that is administered by MTA with assets invested by the Maryland State Retirement Agency. The benefits

offered in the MTA union plan are calculated slightly differently than the benefits received by State employees. A smaller multiplier is used, overtime is included, there is no employee contribution for the MTA plan, and the employee payment is capped. As of June 30, 2008, there were 4,488 participants.

Exhibit 15 shows that the MTA Pension Plan is funded at 41.7% of the total actuarial liability. The measure of fiscal soundness for most pension plans is 80%. Funding levels below 80% will require significantly higher contribution levels in future years. The annual required contribution totals \$24.7 million in fiscal 2008. This represents the liability for that year, plus a portion of the unfunded liability.

Exhibit 15
Funding Status of MTA Pension Obligations as of June 30, 2008

Total Actuarial Liability	\$326,988,360
Assets for Valuation Purposes	136,294,419
Unfunded Actuarial Liability	190,693,941
Funding Ratio	41.7%
Total Annual Contribution Required	\$24,782,204

Source: Maryland Transit Administration

OPEB Liability

In June 2004, the Government Account Standards Board issued a new accounting rule (GASB 45) that requires public entities to report the full value of future health benefits, otherwise known as OPEB for retired employees in fiscal 2008. The State has established a Blue Ribbon Commission to evaluate the State's OPEB liability and ways to reduce that liability. The OPEB liability for MTA union employees is not currently being considered by the Blue Ribbon Commission or calculated in the State's OPEB liability; however, beginning in its fiscal 2008 financial statements, MDOT began reporting MTA's OPEB liability.

Exhibit 16 shows that the MTA's unfunded OPEB actuarial liability totals \$411.4 million for active employees and retirees. To fully fund the OPEB liability, the annual required contribution to pay off the liability plus interest over 25 years would total \$41.4 million in fiscal 2008. In fiscal 2008, MTA paid out \$9.7 million in health care costs for retirees which are deducted from the annual contribution to create the net OPEB liability that is reflected on the MDOT balance sheet of \$31.5 million (\$0.2 million difference due to interest).

Exhibit 16
Unfunded OPEB Obligations
(\$ in Thousands)

	<u>Current and Future Unfunded Health Costs</u>
Active Employees	\$233,600
Retirees and Dependents	177,800
Total Actuarial Liability	\$411,400
Total Annual Contribution Required and Interest	\$41,400
Less Benefit Paid and Interest	9,900
Net OPEB Liability as of June 30, 2008	\$31,500

OPEB: Other Post Employment Benefits

Source: Maryland Transit Administration

The current funding constraints limit MTA's ability to fully fund the annual required contribution (ARC). MTA indicates that a delay in fully funding the liability adds approximately \$1.5 million to the ARC. By not fully funding the liability, MTA frees up cash for ongoing operations, but the charge to MDOT's balance sheet will increase.

The State has created an OPEB trust fund, managed by the State Retirement Agency, where OPEB payments can be deposited and invested to help reduce the long-term OPEB liability. The funds in the trust would be used to offset the actuarially accounted liability. MTA could create a similar trust where money appropriated could be transferred to a trust account to offset the future cost of retiree health insurance. MTA advises that it is still working toward creating this account.

Bond rating agencies have indicated they will consider a public entities' OPEB liability. Now that MDOT must report the MTA OPEB liability on its financial statements, the liability could adversely impact the rating of MDOT debt issuances. **DLS recommends that MTA and MDOT discuss with the committees the following:**

- **how much will future MTA retirement contribution rates increase in the next five years and how will higher contribution rates affect the MTA operating budget and farebox recovery levels;**
- **what actions are being taken to reduce and monitor the OPEB liability;**
- **whether MTA will create a trust to deposit any future OPEB deferral payments; and**

- **what impact the OPEB liability may have on future bond issuances.**

3. MTA and StateStat

Introduction

StateStat is an administrative initiative designed to be a management accountability process for Executive Branch agencies. The process relies on information collected from agencies to track agency performance, to identify areas of concern, and to address those concerns. Through regular meetings and continuous follow-up, ongoing or individual agency performance issues are discussed to determine the problem and possible solutions.

MTA StateStat Measures

MTA began participating in StateStat meetings early in 2008. A major focus of MTA StateStat meetings has been absenteeism within the workforce. The goal of reducing the level of absenteeism is to reduce the cost of overtime and the cost of a lost day of service. To evaluate the drivers of overtime, StateStat officials have focused on each bus division's level of overtime and absenteeism.

Discussions have focused on what administrative actions can be taken to reduce the overall level of overtime. MTA has implemented several management processes to oversee the level of overtime to ensure that it is used as a last option. It should be noted that there is always overtime when operating a 24-hour, 7-days-a-week facility that is responsible for service. MTA has focused on not relying on overtime to meet needs but to identify less costly alternatives.

Another major driver of absenteeism and cost is the number of days lost due to injury claims. MTA indicates that most injury claims are a result of the physical nature of the work and an aging workforce. In recent years, the number of days lost due to injury claims has increased. For example, from December 2007 to December 2008, workers' compensation claims increased 21%. The fiscal 2010 allowance for workers' compensation claims increases \$1.4 million, or 15.9%, due to increased claims and the Injured Worker's Insurance Fund (IWIF) analysis of MTA's claim history. With the help of StateStat, MTA has initiated an aggressive program to monitor IWIF claims on a monthly basis and to meet bi-weekly with IWIF to review claims and discuss strategies for how to have employees return to work.

Other issues reviewed during StateStat meetings include public safety issues, updates regarding performance and maintenance issues, and ridership updates. For example, several StateStat meetings have involved the MTA police and questions regarding criminal activities, coordination with Baltimore City Police Department, and how police resources are allocated to respond to recent incidents. **DLS recommends that MTA discuss with the budget committees the value of StateStat meetings and how StateStat has assisted the department's operations. In addition,**

MTA should discuss with the committees the administrative initiatives taken to reduce injuries and the reliance on overtime.

4. Update on Three Major Transit Lines

MTA continues to move through the federal planning process for three major transit lines. These lines are the following:

- **Baltimore Red Line** – An east-west rapid transit system from the Social Security Administration to the Fells Point/Patterson Park area in Baltimore to address traffic congestion and support new and future transit-oriented economic development and revitalization. Bus rapid transit, light rail, bus enhancements, and “no build” options are all currently being considered.
- **I-270 Corridor Cities Transitway** – Either a bus rapid transit system or light rail system to help relieve congestion from Shady Grove to I-70. Highway improvements to I-270 are also being considered.
- **Purple Line** – A transitway between New Carrollton and Bethesda Metrorail stations. Currently, light rail, bus rapid transit, and “no build” are all options being considered.

Reductions Due to Economic Downturn

Each of the three transit lines had its level of funding reduced as part of the economic downturn. As shown earlier in Exhibit 8, the Red Line was reduced by \$54.6 million over the six years, the Corridor Cities Transitway (CCT) by \$45.0 million, and the Purple Line by \$30.2 million. The Purple and Red Lines each have six-year funding totals of approximately \$80.0 million and the CCT is at \$40.0 million. MTA indicates that this funding level is sufficient for the project to continue moving through the planning phase. MDOT was able to reduce the overall level of special funds for the Purple Line and CCT by assuming additional federal New Starts funding for the projects despite the projects not being approved for the New Starts program. **DLS recommends that MTA discuss this assumption with the committees in further detail and whether or not it is presumptuous to assume New Starts funding for a project that has not necessarily been approved by the Federal Transit Administration.**

Current Status

The Purple and Red Lines have completed the Alternatives Analysis and Draft Environmental Impact Statement and the public hearing process. At this time, MTA has solicited the public for feedback and is preparing for the Governor to announce the locally preferred option. MTA has indicated that a locally preferred option should be announced in the spring of 2009. The CCT is a few months behind the Red and Purple Lines in terms of schedule; however, the public comment period should begin at some point in 2009.

The next step, once a locally preferred option is selected, is for the information to be submitted to the Federal Transit Administration (FTA) under the New Starts program. **Exhibit 17** provides a timeline of events from now to construction for the Purple and Red Lines. If FTA approves the project application, then the project can move ahead to the preliminary engineering stage where further analysis and more refined planning for the project is completed. Then a Final Environmental Impact Statement (FEIS) must be submitted to FTA for approval. The Purple and Red Lines each anticipated FTA making a final decision on the FEIS in the fall of 2010. If FTA decides in favor of a project, then final design activities and funding negotiations begin.

Exhibit 17
Timeline of Milestones for Red and Purple Line

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

Source: Maryland Transit Administration

State Funding

Currently, funding is provided through fiscal 2014 for engineering work to be completed. If FTA moves ahead with one or all of the projects, the State will need to prove that it has adequate financial resources to support the construction and operation of all rail line. In the recent past, the federal government has paid approximately 40% of the total project cost, meaning the State would need to fund the balance. Depending on the type of line and alignment, the Red and Purple Lines could cost between \$500 million to \$2.5 billion each.

In the Alternatives Analysis documents, MTA writes that it will seek federal funding totaling 40 to 60% of the total project. The document also indicates that a majority of the funding for the project will come from the Transportation Trust Fund and that Baltimore City and Baltimore, Montgomery, and Prince George’s counties will need to make capital fund contributions. The Red Line document indicates on page 108 of the Alternatives Analysis that “a further funding revenue increase will be pursued over the next several years to fund the priority transit projects in Maryland.” In addition, each document also discusses special taxing districts, private sector funding, and local

option taxes and that “funding for the Red Line Locally Preferred Alternative and other priority New Start projects will be in place by 2011.”

Currently, MTA intends to begin final planning for the project in fiscal 2011, and at that point, the full funding package for the project needs to be developed. Given the current economic environment and funding provided for in the CTP, it is unclear how the State will be able to afford one project, much less all three projects. **DLS recommends that MDOT and MTA discuss the following:**

- **the timeline for each of these projects for a preferred locally preferred option, FTA approval, and construction;**
- **how the State will be able to afford the project even with federal, local, and private dollars;**
- **what sort of local and private contribution is envisioned in the financing of the project;**
- **if MDOT intends to pursue an additional revenue increase as indicated in the Alternative Analysis documents;**
- **the likelihood of the federal government approving for funding one, two, or all three of the projects;**
- **plans to implement special taxing districts and whether this will require legislation;**
- **how much revenues would have to be raised in order to fund each line; and**
- **what is the projected operating impact of each line and how that level of funding would be found.**

In addition, DLS would recommend committee narrative that would have MTA report back to the committees as to the status of each of the major transit line projects and its ideas for how to finance the construction of each line, local and private involvement, when a financing package for the federal government may be required, and any legislative changes needed to implement the financial package.

5. Budget Transfers to Close Out Fiscal 2008

In closing out its fiscal 2008 budget, the MTA had a \$21.7 million funding shortfall, \$8.0 million in its capital program and \$13.7 million in its operating budget. To close this budget gap, as shown in **Exhibit 18**, \$1.7 million was reduced from MTA’s Statewide Operations budget. In addition, \$2.8 was transferred from the Secretary’s Office for operating grants-in-aid and information technology services, \$4.6 million from the Maryland Port Administration’s (MPA) operating budget, \$4.6 million from the Maryland Aviation Administration’s (MAA) operating budget, and \$8.0 million from the Motor Vehicle Administration’s (MVA) capital budget.

Exhibit 18 Fiscal 2008 Closeout Transfers to MTA (\$ in Millions)

<u>Description</u>	<u>Increase</u>	<u>Decrease</u>
MTA – Transit Administration	\$1.0	
MTA – Bus Operations	7.4	
MTA – Rail Operations	5.3	
MTA – Capital Budget	8.0	
Subtotal	\$21.7	
Secretary’s Office – Operating Grants		0.3
Secretary’s Office – Information Technology Services		2.5
Port Administration – Port Operations		4.6
Motor Vehicle Administration – PAYGO budget		8.0
Airport Administration – Airport Operations		4.6
Subtotal		\$21.7

MTA: Maryland Transit Administration
PAYGO: pay-as-you-go

Source: Department of Budget and Management

Since all of the funds were transferred within the MDOT appropriation, the budget committees were not afforded the opportunity to see what impact the movement of funds would have. This is particularly true of MPA and MAA, which each had a sizeable portion of its operating budgets reduced and transferred to MTA.

More importantly, the transfer of funds from MVA’s capital budget increased the overall level of operating budget spending which adversely impacts the department’s coverage ratios. This transfer of funds from the capital program to the operating budget highlights the importance of the earlier DLS recommendation to prohibit the transfer of PAYGO funds to the operating budget due to the adverse impact the transfers have on the coverage ratio. **DLS recommends that MDOT discuss:**

- **why MTA experienced such sizable funding shortfalls in fiscal 2008;**
- **the impact of the fund transfers from MTA, the Secretary’s Office, MPA, and MVA; and**
- **if the department envisions similar modal transfers in fiscal 2010 of which the budget committees should be aware.**

Operating Budget Recommended Actions

1. Add the following language:

It is the intent of the General Assembly that fares should be increased by the Maryland Transit Administration in fiscal 2010 for all modes of service. Further provided that the free transit ridership benefit provided to State employees and the provision of daily, weekly, and monthly ridership passes which permit unlimited ridership for a fixed price should be reevaluated in an effort to maximize revenues. The Maryland Department of Transportation should submit a report by June 15, 2009, to the budget committees which addresses:

- (1) the implementation of a fare increase;
- (2) the estimated loss of fare revenue associated with free transit ridership for State employees and whether that policy should be continued; and
- (3) the estimated loss of fare revenues associated with the sale of daily, weekly, and monthly passes which permit unlimited rides for a fixed price, and whether the policy should be reconsidered.

The budget committees shall have 45 days to review and comment following receipt of the report.

Explanation: The Maryland Transit Administration (MTA) currently does not meet the statutory requirement for Baltimore core services. In addition, MTA reduced service for MARC and commuter bus service in January 2009 due to the revenue downturn. A fare increase would better enable MTA to pay for the services it provides while managing demand through a period of growth. In addition, MTA should evaluate the benefits provided to State employees, who ride at no cost, and daily, weekly, and monthly passes. In each case, MTA is not capturing revenue for services that it provides. Furthermore, MTA has indicated the need to increase the operating budget beyond the level included in the financial forecast. To pay for this additional level of spending and to offset the impact on the financial forecast, all available revenue options should be evaluated.

Information Request	Authors	Due Date
Report on fare increase, State employee benefits, and daily, weekly, and monthly passes	Maryland Department of Transportation MTA	June 15, 2009

PAYGO Budget Recommended Actions

- | | <u>Amount
Reduction</u> |
|--|------------------------------------|
| 1. Reduce funds for the capital program. This reduction is equal to the amount that the Maryland Transit Administration has identified in its budget amendment report to be transferred to the operating budget to support higher levels of spending. The funding necessary for the transfer is not attached to a specific project. Rather than transferring the funding, this reduction will allow for the funding to be placed in the fund balance and brought into the budget either by budget amendment or through a deficiency appropriation; either of which entails legislative oversight. This action is consistent with an earlier recommendation to prohibit transfers from the paygo budget to the operating budget for the Maryland Department of Transportation, similar to the General Fund. | \$ 17,432,000 SF |

2. Adopt the following narrative:

Three Major Transit Lines Update and Financing: The Maryland Transit Administration (MTA) is currently in the planning phase for three major transit lines: Red Line, Purple Line, and Corridor Cities Transitway. Each of these projects will be applying soon for federal New Starts funding. The committees request that MTA submit a report by November 13, 2009, that provides an update to the committees regarding the status of the projects in terms of planning and the federal process. In addition, the report should include detailed information as to how the Maryland Department of Transportation (MDOT) will finance the construction and operation of all three proposed lines. This discussion should include any revenue-raising options, as well as local and private financing options. The report should provide a roadmap for the General Assembly to begin considering how the State will pay for the proposed transit lines if they are federal-aid eligible and the impact on the department’s finances.

Information Request	Authors	Due Date
Report on major transit lines	MTA MDOT	November 13, 2009

Total Special Fund Reductions	\$ 17,432,000
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Updates

1. Purple Line Report

The 2008 *Joint Chairmen's Report* required MTA to submit a report addressing a number of issues concerning the Purple Line. Following is a summary of the report based upon the issues answered.

Background

The Purple Line is a 16-mile east-west transit line running from Bethesda to New Carrollton currently under evaluation by MTA. Due to projected population and employment increases in the area, the demand for transit services will also grow. The proposed Purple Line would serve as an east-west transit line as well as connect existing north-south transit lines. MTA is currently evaluating eight scenarios for the project as required by federal standards. Depending on the route and mode of transit selected, various communities and other landmarks may be affected.

Issue Responses

- 1. Forecasted ridership to determine new mass transit riders.** Based upon MTA's analysis, total transit ridership could range from 40,000 to 68,100 total riders depending on the level of investment selected. The number of new transit riders, individuals who otherwise did not use transit, would range from 11,400 to 20,500, and the number of existing transit riders using the Purple Line totals 28,600 to 47,600.
- 2. Impact on National Naval Medical Center.** MTA estimates that there will be an additional 8,160 trips to the Medical Center because of Base Realignment and Closure (BRAC) from which MTA estimates that 150 trips would use the Purple Line.
- 3. Impact on travel times for Connecticut Avenue, University Boulevard, East West Highway, Georgia Avenue, Colesville Road, New Hampshire Avenue, Baltimore Avenue, and Kenilworth Avenue.** Depending on the alignment and type of transit selected, travel time impacts will vary. The roadways that would experience an increase in traffic time were East West Highway of 1 to 2 minutes, Baltimore Avenue at 0.25 minute increase, and Kenilworth Avenue at 1.5 minutes.
- 4. Impact on vehicle trips between the intersection of I-95/495 and MD-185/I-495.** According to the State Highway Administration, this section of road carried 233,900 vehicles a day in 2007 and is expected to increase 25% by 2030. In 2030, the Purple Line could reduce between 9,000 to 16,800 daily trips depending on the mode of transit.
- 5. Operational and fiscal challenges of adding light rail to the existing heavy rail system.** A decision has not been made as to who would be responsible for the operation of the Purple

Line. If WMATA would operate the Purple Line, then a separate division would likely need to be created, and the operating cost would be allocated by formula.

6. **Outlook for receiving federal assistance in light of the decision to fund Dulles extension due to funding challenges.** The U.S. Department of Transportation decided to move forward with the Dulles extension. In addition, the federal government recently passed legislation that could provide \$3.0 billion in capital funding for system preservation.

Conclusion

Overall, the Purple Line will draw a small number of new transit riders and in doing so reduce the number of vehicles on the road. This benefit would be achieved with minimal impact on existing traffic flows while also providing nominal relief from the expected BRAC impact at the Naval Hospital. In terms of operating and fiscal impacts, there has not been a final decision as to who would be responsible for operating the Purple Line; however, if it were WMATA, the cost of the Purple Line would be allocated by formula to Maryland.

2. Service Enhancements

Fiscal 2009 budget bill language requires that MTA notify the budget committees prior to a contract extension or enhancement of contracted transit service before being approved by the Board of Public Works. One enhancement was provided for through January 2009. Specifically, six additional round trips between Kent Island and Washington, DC were added on September 2, 2008. These additional trips are estimated to cost \$1.5 million, and the cost will be paid by the Maryland Transportation Authority. These trips were added to relieve congestion on the Bay Bridge due to lane closures as work was done to temporarily fix barriers on the bridge. The additional trips are approved through August 1, 2009; however, MTA announced in February 2009 that it intends to scale back the level of service.

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 2008					
Legislative Appropriation	\$0	\$458,682	\$53,353	\$0	\$512,035
Deficiency Appropriation	0	22,310	0	0	22,310
Cost Containment	0	-303	0	0	-303
Budget Amendments	0	24,434	2,756	0	27,190
Reversions and Cancellations	0	-2,913	-1,717	0	-4,630
Actual Expenditures	\$0	\$502,210	\$54,392	\$0	\$556,602
Fiscal 2009					
Legislative Appropriation	\$0	\$533,107	\$56,094	\$0	\$589,201
Cost Containment	0	-222	0	0	-222
Budget Amendments	0	843	0	0	843
Working Appropriation	\$0	\$533,728	\$56,094	\$0	\$589,822

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

Fiscal 2008

Fiscal 2008 actual expenditures for MTA totaled \$556.6 million, approximately \$44.6 million more than the legislative appropriation.

Special funds increased a net of \$43.5 million from the legislative appropriation. Budget amendments totaled \$24.4 million, and cancellations totaled \$2.9 million. Fiscal 2008 deficiency appropriations totaling \$22.3 million were for the following purposes:

- \$8.2 million net increase for the Mobility paratransit program due to increased ridership and the relocation of its reservation operations;
- \$6.0 million for union contract increases negotiated each fall;
- \$3.9 million to provide funds for the Commuter Bus program due to increased demand and higher fuel prices;
- \$2.6 million net increase to provide funds for the CSX MARC contract, which included three additional evening trips on the Penn Line and increased maintenance of MARC passenger cars;
- \$1.1 million net increase for core bus service in Baltimore due to additional security maintenance and increasing fuel costs; and
- \$0.5 million net increase to support increased contract obligations and other miscellaneous operating costs.

Special fund budget amendments totaled a net of \$24.4 million and were for the following purposes:

- \$8.4 million in salary wages due to an underestimate in salary and wages for various positions within the agency;
- \$8.2 million for diesel and other fuel products due to rising oil prices;
- \$7.0 million for bus repair parts and facilities maintenance due to the increasing cost of bus parts and bus preventive maintenance activities to improve safety and operation of MTA busses;
- \$2.1 million for inventory purchases that were added during the year;
- \$2.7 million for an underestimate of Taxi Access and paratransit Mobility expenses due to a coding error;

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- \$0.8 million for the fiscal 2008 cost-of-living adjustment approved by the General Assembly;
- \$1.2 million for additional utility costs at bus facilities due to higher than expected costs;
- \$4.1 million decrease of paratransit Mobility services due to a delay in the awarding of the new contract; and
- \$1.7 million decrease in operating grants not used by local jurisdictions and nonprofits.

Special fund cost containment totaled \$0.3 million in salary and wages as part of the vacant position reduction, as required in Chapter 2 of the 2007 special session.

Special fund cancellations totaled \$2.9 million due to insurance costs being reduced by \$418,000, \$1.3 million for diesel fuel expenditures being less than estimated, \$1.1 million for MARC service costs being less than estimated, and \$127,000 due to commuter bus contract costs less than estimated.

The federal fund appropriation increased \$2.8 million due to additional funding for training and support of ongoing canine activities. Cancellations totaled \$1.7 million for operating grants that were not distributed due to service not starting as soon as anticipated or new service costing less than anticipated.

Fiscal 2009

Special fund budget amendments total \$0.8 million largely due to the 2% cost-of-living adjustment as well as a smaller portion to fund an annual salary review adjustment.

In addition, Chapter 10 of 2008 required the Governor to reduce the fiscal 2009 general fund budget by \$50 million. As part of that reduction, overbudgeted health insurance funds were withdrawn by the Board of Public Works, and MTA's share of that totaled \$222,000 in special funds.

Audit Findings

Audit Period for Last Audit:	August 1, 2004 – October 31, 2007
Issue Date:	November 2008
Number of Findings:	9
Number of Repeat Findings:	6
% of Repeat Findings:	67 %
Rating: (if applicable)	n/a

- Finding 1:** MTA lacked adequate controls over keys used to access certain fare revenue equipment.
- Finding 2:** Surveillance videos of passenger fare revenue processing activities were not independently reviewed.
- Finding 3:** MTA did not comply with federal preventive maintenance requirements applicable to transit buses.
- Finding 4:** MTA made a grant payment totaling \$433,000 in violation of the related grant agreement.
- Finding 5:** Access to certain critical files was not properly restricted.
- Finding 6:** Changes made to critical payroll files were not adequately monitored.
- Finding 7:** Controls over materials and supplies were inadequate.
- Finding 8:** Physical inventories of equipment were not completed and related supporting records were not maintained as required.
- Finding 9:** State-owned motor vehicles were significantly underutilized.

*Bold denotes item repeated in full or part from preceding audit report.

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

<u>Object/Fund</u>	<u>FY08 Actual</u>	<u>FY09 Working Appropriation</u>	<u>FY10 Allowance</u>	<u>FY09 - FY10 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	2,934.50	3,021.50	3,021.50	0	0%
02 Contractual	31.00	18.00	18.00	0	0%
Total Positions	2,965.50	3,039.50	3,039.50	0	0%
Objects					
01 Salaries and Wages	\$ 252,308,664	\$ 255,102,121	\$ 259,934,628	\$ 4,832,507	1.9%
02 Technical and Spec. Fees	1,558,137	929,284	929,284	0	0%
03 Communication	1,178,598	1,373,484	1,453,725	80,241	5.8%
04 Travel	713,346	117,039	117,039	0	0%
06 Fuel and Utilities	13,481,806	13,563,773	16,078,074	2,514,301	18.5%
07 Motor Vehicles	62,063,095	53,218,604	68,522,223	15,303,619	28.8%
08 Contractual Services	152,396,561	180,589,981	179,232,393	-1,357,588	-0.8%
09 Supplies and Materials	8,213,673	4,750,367	5,597,191	846,824	17.8%
10 Equipment – Replacement	357,047	248,377	248,377	0	0%
11 Equipment – Additional	838,414	495,989	495,989	0	0%
12 Grants, Subsidies, and Contributions	56,260,407	71,513,578	57,725,685	-13,787,893	-19.3%
13 Fixed Charges	7,151,379	7,918,984	5,934,574	-1,984,410	-25.1%
14 Land and Structures	81,289	0	0	0	0.0%
Total Objects	\$ 556,602,416	\$ 589,821,581	\$ 596,269,182	\$ 6,447,601	1.1%
Funds					
03 Special Fund	\$ 502,210,651	\$ 533,727,350	\$ 540,174,951	\$ 6,447,601	1.2%
05 Federal Fund	54,391,765	56,094,231	56,094,231	0	0%
Total Funds	\$ 556,602,416	\$ 589,821,581	\$ 596,269,182	\$ 6,447,601	1.1%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

Fiscal Summary
MDOT – Maryland Transit Administration Operating Budget

<u>Program/Unit</u>	<u>FY08 Actual</u>	<u>FY09 Wrk Approp</u>	<u>FY10 Allowance</u>	<u>Change</u>	<u>FY09 - FY10 % Change</u>
01 Transit Administration	\$ 44,101,771	\$ 47,749,947	\$ 46,632,488	-\$ 1,117,459	-2.3%
02 Bus Operations	258,825,278	258,782,524	276,455,770	17,673,246	6.8%
04 Rail Operations	174,664,348	186,680,253	190,472,067	3,791,814	2.0%
05 Facilities and Capital Equipment	193,796,305	305,205,001	420,899,432	115,694,431	37.9%
06 Statewide Programs Operations	79,011,019	96,608,857	82,708,857	-13,900,000	-14.4%
08 Major IT Development Projects	8,685,692	10,459,000	5,969,000	-4,490,000	-42.9%
Total Expenditures	\$ 759,084,413	\$ 905,485,582	\$ 1,023,137,614	\$ 117,652,032	13.0%
Special Fund	\$ 595,527,501	\$ 638,869,751	\$ 753,564,383	\$ 114,694,632	18.0%
Federal Fund	163,556,912	266,615,831	269,573,231	2,957,400	1.1%
Total Appropriations	\$ 759,084,413	\$ 905,485,582	\$ 1,023,137,614	\$ 117,652,032	13.0%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

Budget Amendments for Fiscal 2009
Maryland Department of Transportation
Maryland Transit Administration – Operating

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Approved	-\$221,745	Special	Board of Public Works – health insurance reduction
Approved	14,176	Special	Annual Salary Review for Engineers
Pending	827,664	Special	Cost-of-living adjustment for eligible State employees
Projected	62,038,000	Special	Fiscal 2009 cost containment actions to realign with departments financial plan
	<u>-43,119,808</u>		
	18,918,192		
Grand Total	\$19,538,287		

Source: Maryland Department of Transportation

**Budget Amendments for Fiscal 2009
Maryland Department of Transportation
Maryland Transit Administration – Capital**

<u>Status</u>	<u>Amendment</u>	<u>Fund</u>	<u>Justification</u>
Approved	-\$52,381	Special	Board of Public Works – health insurance reduction
Pending	195,782	Special	Cost-of-living adjustment for eligible State employees
Projected	-7,083,000	Special	Adjusts the major information technology project funding to the draft capital program
	<u>4,977,000</u>	Federal	
	-2,106,000		
Projected	-43,958,103	Special	Adjusts the capital program funding to the draft capital program
	<u>60,965,600</u>	Federal	
	17,007,497		
Projected	-18,918,192	Special	Transfer funds to the operating budget
Grand Total	-\$3,873,294		

Source: Maryland Department of Transportation