



Maryland Department of Transportation
The Secretary's Office

Martin O'Malley
Governor

Anthony G. Brown
Lt. Governor

Beverley K. Swaim-Staley
Secretary

Darrell B. Mobley
Deputy Secretary

November 30, 2011

The Honorable Edward J. Kasemeyer
Chairman
Senate Budget and Taxation Committee
3 West Miller Senate Office Building
Annapolis MD 21401-1991

The Honorable Norman Conway
Chairman
House Appropriations Committee
121 House Office Building
Annapolis MD 21401-1991

The Honorable Sheila Hixson
Chair
House Ways and Means Committee
131 House Office Building
Annapolis MD 21401-1991

Dear Chairs:

Please see the attached report prepared by the Maryland Transit Administration (MTA) concerning *MTA's Farebox Recovery Ratios*. This report was prepared to meet the requirements set forth in Chapter 397, Acts of 2011 in HB 72 of the Budget Reconciliation and Financing Act. The language requires:

"For fiscal year 2009 and each fiscal year thereafter, the Administration shall separately recover from fares and other operating revenues at least 35 percent of the total operating costs for:

- *The Administration's bus, light rail, and Metro subway services in the Baltimore region; and all passenger railroad services under the Administration's control.*

The Administration shall submit, in accordance with § 2-1246 of the State Government Article, an annual report to the Senate Budget and Taxation Committee, House Ways and Means Committee, and House Appropriations Committee by December 1 of each year that includes:

Separate farebox recovery ratios for the prior fiscal year for:

- *Bus, light rail, and Metro subway services provided by the Administration in the Baltimore region;*
- *Commuter bus service provided under contract to the Administration in the Baltimore region; and*
- *Maryland Area Rail Commuter (MARC) service provided under contract to the Administration;*

A discussion of the success or failure to achieve the farebox recovery requirement established in paragraph (1) of this subsection; and

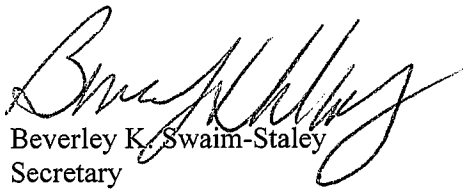
The Honorable Edward J. Kasemeyer
The Honorable Norman Conway
The Honorable Sheila Hixson
Page Two

Comparisons of farebox recovery ratios for the Administration's mass transit services and other similar transit systems nationwide; and

The estimated fare prices necessary to achieve the farebox recovery requirement established in paragraph (1) of this subsection for the next fiscal year."

Please feel free to contact Mr. Ralign Wells, Administrator, Maryland Transit Administration, at 410-767-3943 if you have questions regarding this report. Of course, you should always feel free to contact me directly.

Sincerely,



Beverley K. Swaim-Staley
Secretary

cc: Members of the Budget Committees
Mr. Ralign Wells, Administrator, Maryland Transit Administration

The Honorable Edward J. Kasemeyer
The Honorable Norman Conway
The Honorable Sheila Hixson
Page Three

bcc: Ms. Sarah Albert, Library Associate, Mandated State Agency Reports, Library
& Information Services Division, Department of Legislative Services -**MSAR #8920** (5 copies)
Mr. Matthew Bennett, Committee Staff, Senate Budget and Taxation Committee
Mr. Joe Bryce, Executive Director, Governor's Legislative Office
Mr. Jack Cahalan, Director, Office of Public Affairs, Maryland Department of
Transportation
Mr. Patrick Fleming, Director of External Affairs, Maryland Transit Administration
Mr. Bruce W. Gartner, Director, Office of Policy and Governmental Affairs,
Maryland Department of Transportation
Ms. Chantelle Green, Committee Staff, House Appropriations Committee
Mr. Martin L. Harris, State Legislative Officer, Maryland Department of
Transportation
Ms. Jaclyn Hartman, Legislative Analyst, Department of Legislative Services
Ms. Diane Lucas, Budget Analyst, Department of Budget and Management
Mr. Jon Martin, Legislative Analyst, Department of Legislative Services
Mr. Darrell Mobley, Deputy Secretary, Maryland Department of Transportation
Ms. Shanetta Paskel, Deputy Legislative Officer, Governor's Legislative Office
Ms. Wonza Spann-Nicholas, Deputy Director, Office of Finance, Maryland
Department of Transportation
Mr. Stan Ward, Committee Staff, Ways and Means Committee

A Report to the Maryland General Assembly's
Senate Budget and Taxation Committee,
House Appropriations Committee, and
House Ways & Means Committee

regarding

Farebox Recovery Attainment and Operational Requirements
(Chapter 397, Acts of 2011 (HB 72))

Maryland Transit Administration
The Maryland Department of Transportation

December 2011

Farebox Recovery Attainment and Operational Requirements (Chapter 397, Acts of 2011 (HB 72))

Introduction

This report was prepared to meet the requirements of Chapter 397, Acts of 2011 (HB 72), of the Budget Reconciliation and Financing Act of 2011. The language requiring this report directs:

“For fiscal year 2009 and each fiscal year thereafter, the Administration shall separately recover from fares and other operating revenues at least 35 percent of the total operating costs for:

- *The Administration’s bus, light rail, and Metro subway services in the Baltimore region; and all passenger railroad services under the Administration’s control.*

The Administration shall submit, in accordance with § 2–1246 of the State Government Article, an annual report to the Senate Budget and Taxation Committee, House Ways and Means Committee, and House Appropriations Committee by December 1 of each year that includes:

Separate farebox recovery ratios for the prior fiscal year for:

- *Bus, light rail, and Metro subway services provided by the Administration in the Baltimore region;*
- *Commuter bus service provided under contract to the Administration in the Baltimore region; and*
- *Maryland Area Rail Commuter (MARC) service provided under contract to the Administration;*

A discussion of the success or failure to achieve the farebox recovery requirement established in paragraph (1) of this subsection; and

Comparisons of farebox recovery ratios for the Administration’s mass transit services and other similar transit systems nationwide; and

The estimated fare prices necessary to achieve the farebox recovery requirement established in paragraph (1) of this subsection for the next fiscal year.”

Background

Historically, the Maryland Transit Administration (MTA) has been subject to requirements that a certain percentage of operating expenses for its system be recovered from farebox revenue, specifically:

- Chapter 684, Acts of 2008 (HB 1185), amended the farebox recovery requirement to 35% and explicitly added farebox recovery data to MTA’s annual performance report; and

Farebox Recovery Attainment and Operational Requirements (Chapter 397, Acts of 2011 (HB 72))

- Chapter 397, Acts of 2011 (HB 72), provided MTA “may not reduce the level of services provided by the Administration for the purpose of achieving the farebox recovery requirement.”

Measurement

The farebox recovery ratio is the ratio of gross revenue to adjusted expenses, and measures only the subsidy level of transit service operated, not efficiency or cost-effectiveness. The numerator of the ratio is gross revenue, which are the total of fare revenue and an allocated share of certain non-passenger operating revenue. The denominator is adjusted expense, which is the gross expense less certain capital and in addition to allocated administrative costs. Tables 1 and 2 summarize the revenue and expense components of the measure.

Table 1: Expense inclusions & exclusions, MTA farebox recovery

Include	Exclude
Insurance	Paratransit and commuter rail service expenses
Changes in inventory levels	Past pension service liabilities
Pro-rated share of administrative costs	New services for the first 36 months of service
	Capital costs, including 20 percent of revenue vehicle maintenance costs

Table 2: Revenue inclusions & exclusions, MTA farebox recovery

Include	Exclude
Passenger fare revenues	Paratransit and commuter rail revenues
Advertising revenues	New services revenues for the first 36 months
Lease and rental income	

Factors in Revenue and Expenditure Growth

MTA’s operating revenue is entirely a function of ridership, which itself is a function of the level of service provided and economic factors such as employment levels and gas prices. In terms of influences on expense, MTA relies heavily on three factors to operate and maintain transit service:

- 1) *Union labor*: Approximately 75% of MTA’s workforce is represented by unions and works under the terms of collective bargaining agreements which set wages, hours, conditions of employment, and fringe benefit arrangements. MTA recently completed interest arbitration with its largest union, Amalgamated Transit Union (ATU) Local 1300, representing approximately 2,500 MTA operations employees, including all operators and mechanics. The arbitration board awarded Local 1300 employees an hourly wage

Farebox Recovery Attainment and Operational Requirements (Chapter 397, Acts of 2011 (HB 72))

increase totaling 11.5% from FY 2009-12, and increased pension benefits by approximately 40% in the same period. Table 3 illustrates the increasing share of MTA's budget attributable to union wage and benefit costs. Contracts with all three Unions will be expiring over the next year and one-half. The MTA is preparing for negotiations.

Table 3: MTA Union Labor as Share of Operating Expense

	FY08	FY09	FY10	FY11	Projected FY12
Union Labor Cost	\$203,499,806	\$203,405,809	\$214,980,650	\$236,676,783	\$254,992,077
<i>Annual Growth</i>		0.0%	5.7%	10.1%	7.7%
Total Operating Expense	\$556,602,216	\$591,720,288	\$610,286,666	\$621,917,180	\$651,404,746
<i>Annual Growth</i>		6.3%	3.1%	1.9%	4.7%
Union % Of Total	36.6%	34.4%	35.2%	38.1%	39.1%

- 2) *Diesel fuel*: MTA is the largest purchaser of diesel fuel in State government, and the second largest purchaser in Maryland. In FY 2011, MTA purchased approximately 7.7 million gallons of diesel fuel, costing a total of \$20.7 million. MTA has begun to move its fleets to hybrid-electric buses and increase the use of biodiesel to improve fuel efficiency, but fluctuations in service levels and per gallon prices still present a large cost to MTA. While diesel prices were historically low for much of FY 2009, MTA's price per gallon for diesel fuel increased 42% from June 2010 to June 2011. Table 4 below shows diesel fuel price fluctuations in recent years.

Table 4: MTA Diesel Fuel, Average Price per Gallon, FY 2008-11

	FY 2008	FY 2009	FY 2010	FY 2011
Jul	\$2.26	\$3.96	\$1.81	\$2.16
Aug	2.226	3.416	2.005	2.226
Sep	2.385	3.320	1.920	2.241
Oct	2.483	2.931	2.050	2.408
Nov	2.779	2.173	2.139	2.492
Dec	2.781	1.658	2.095	2.651
Jan	2.786	1.580	2.227	2.765
Feb	2.794	1.477	2.162	2.936
Mar	3.280	1.365	2.277	3.217
Apr	3.523	1.575	2.367	3.399
May	3.796	1.597	2.321	3.225
Jun	3.996	1.899	2.188	3.117
Annual	\$2.92	\$2.25	\$2.13	\$2.69

Farebox Recovery Attainment and Operational Requirements (Chapter 397, Acts of 2011 (HB 72))

- 3) *Repair parts*: MTA's bus fleet has an average age of 7.13 years and average annual mileage in excess of 32,000 miles. The most-used buses in the fleet cover over 36,000 miles per year on average. MTA's Light Rail fleet is over 20 years old, and the Metro subway fleet was purchased and put in service nearly 30 years ago. Both rail fleets increase total mileage annually, and all MTA fleets operate in the full spectrum of weather conditions. The annual mileage accumulated by MTA's aging fleets requires a regular maintenance regimen and a significant inventory of spare parts, many of which have to be re-engineered since manufacturers have gone out of business. The cost of these parts escalates each year, and newer, more sophisticated buses and trains often require more expensive parts.

Because these three cost elements increase annually due to inflation and market factors, the cost to provide the same level of service in the Baltimore area from year to year increases automatically.

The revenue side of the farebox recovery equation is dependent on ridership and fare prices. Ridership is a function of service provision and quality, employment, population, and economic factors including gas and parking costs. Research has established that ridership increases are driven first by service availability and quality, and secondly by economic factors such as the relative cost of transit compared to other modes of travel.

Maintaining a constant farebox recovery ratio means that ridership (and thus fare revenues) must increase at the same rate as expenses each year. To improve farebox recovery, ridership and revenue growth must exceed the rate of growth in spending, or spending growth must be lower than ridership and revenue growth. Because of the spending factors cited above, MTA would typically need a 4-6% annual increase in Baltimore-area ridership to keep farebox recovery constant at current levels. This growth in costs is typical of the transit industry, and properties nation-wide face the same issues in providing consistent, quality service while trying to attain sufficient revenues.

Historical farebox recovery expense and revenue totals for Baltimore local service and MARC are shown in Table 5. Note that in FY 2009, low diesel prices and record growth in ridership, MTA decreased expense and increased revenue, increasing the farebox recovery ratio for Baltimore local service. FY 2010 saw record snowstorms that decreased revenues and the impact of the union arbitration agreement that increased costs, resulting in lower farebox recovery. There was a recovery in ridership in FY 2011 and MTA continued to manage costs resulting in a slight increase in farebox recovery.

Farebox Recovery Attainment and Operational Requirements (Chapter 397, Acts of 2011 (HB 72))

Table 5: MTA Farebox Recovery Expense and Revenue, FY 2007-11

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Baltimore-area local service					
Total farebox expense	\$263,838,585	\$285,426,204	\$277,953,055	\$282,798,224	\$272,724,561
Annual increase	11%	8%	-3%	2%	-4%
Total farebox revenue	83,740,871	84,123,558	85,162,843	80,059,893	78,775,663
Annual increase	6%	0%	1%	-6%	-2%
Farebox recovery ratio	32%	29%	31%	28%	29%
MARC service					
Total farebox expense	\$57,697,294	\$65,271,107	\$84,415,429	\$91,556,511	\$90,347,063
Annual increase	6%	13%	29%	8%	-1%
Total farebox revenue	32,436,266	34,438,315	37,181,293	43,839,805	43,591,147
Annual increase	1%	6%	8%	18%	-1%
Farebox recovery ratio	56%	53%	44%	48%	48%

Current Projections

MTA's latest estimate of farebox recovery is shown in Table 6. Farebox recovery ratios for the Baltimore-area continue to fluctuate around 30%, ending FY 2011 at 29%. MARC farebox recovery is projected to remain well above the 35% requirement specified in Section 7-208 of the Transportation Article through FY 2013.

Table 6: Farebox Recovery Ratios, FY 2010 - 2013 (Est.)

	Actual FY 2010	Actual FY 2011	Estimated FY 2012	Estimated FY 2013
Baltimore area service	28%	29%	29%	30%
MARC	48%	48%	44%	43%

MARC expense is driven by the level of service and the contracts MTA holds with Amtrak and CSX, who operate MARC service using MTA-owned rail equipment. Amtrak and CSX are responsible for the operations of trains and stations, as well as maintenance of rail equipment and track. Additionally, the fees for track access in each contract have escalated in recent years, adding expense without increasing service.

Because of this imbalance in expense and revenue growth, farebox recovery on MARC service is projected to decline through FY 2013, though it will remain well above the statutory requirement of 35%. MTA is in the process of processing a third party provider agreement for Brunswick and Camden line service currently operated by CSX, which will reduce expense growth in the future.

Farebox Recovery Attainment and Operational Requirements (Chapter 397, Acts of 2011 (HB 72))

Attaining Required Farebox Recovery Ratios

Tables 7, 8, and 9 outline the actions required to meet the 35% Baltimore-area ratio through either fare increases or cuts to existing service levels, beginning in FY 2013 and continuing through FY 2017. Because of the requirements for public hearings and input for both fare increases and service adjustments, implementing either solution in FY 2012 is not feasible.

Reaching the prescribed ratio would require either an initial fare increase from \$1.60 to \$2.10 (+31%). Subsequent fare increases would be required to maintain the 35% farebox recovery level. Fare amounts shown below are rounded.

Table 7: Fare increases required to meet the 35% farebox recovery ratio (Baltimore)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Core riders (proj.)	96,415,592	97,075,102	97,902,345	98,578,271	99,262,237	99,954,400
	0.68%	0.68%	0.85%	0.69%	0.69%	0.70%
Core expense (proj.)	\$288,546,307	\$286,927,092	\$293,985,498	\$302,511,078	\$311,374,653	\$321,027,267
	3.61%	-0.56%	2.46%	2.90%	2.93%	3.10%
Fares @ 35% FBR	\$100,991,207	\$100,424,482	\$102,894,924	\$105,878,877	\$108,981,128	\$112,359,543
	\$1.60	\$2.25	\$2.25	\$2.50	\$2.50	\$2.50
	Current fare	New fare required				
% increase of fare compared with previous year		40.6%	0.0%	11.1%	0.0%	0.0%

Estimated service cuts to meet the 35% farebox recovery level are shown in Table 8. The size of the required service cut shown in Table 8 would necessitate layoffs of both union and management employees, as well as the sale or retirement of large portions of MTA's bus fleet in advance of their useful life cycle, requiring repayment of federal funds to the Federal Transit Administration.

Table 8: Service cuts required to meet the 35% farebox ratio (Baltimore)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Core riders (proj.)	97,075,102	97,902,345	98,578,271	99,262,237	99,954,400
Fare revenue (proj.)	\$78,176,469	\$78,850,262	\$79,389,597	\$79,935,256	\$80,487,362
Projected expense	\$286,927,092	\$286,927,092	\$286,927,092	\$286,927,092	\$286,927,092
Expense @ 35% FBR	\$223,361,339	\$225,286,462	\$226,827,420	\$228,386,447	\$229,963,890
Required annual service cuts to meet FBR	-22%	-21%	-21%	-20%	-20%

Farebox Recovery Attainment and Operational Requirements

(Chapter 397, Acts of 2011 (HB 72))

It is an understatement to say that a 20% reduction in service would affect MTA's customer base and the future success of Baltimore-area transit operations. Fully 55% of MTA's Baltimore-area riders are dependent on transit as their primary mode of transportation. Reducing service and reliability so extensively would virtually guarantee that riders would be driven away from transit options, reducing revenue and requiring further cuts to meet the farebox recovery ratio. This cycle of declining service and declining ridership should be avoided at all costs.

Table 9, below, shows the impact on the Transportation Trust Fund of both the fare increase and service reduction options.

Table 9: Impacts to the Transportation Trust Fund, FY 2013-17

	FY2013	FY 2014	FY 2015	FY2016	FY2017
MTA fare increases					
Revenue to TTF	\$24,430,146	\$24,640,707	\$32,252,024	\$32,473,698	\$32,697,991
MTA service reductions					
Savings to TTF	(\$63,565,753)	(\$61,640,630)	(\$60,099,672)	(\$58,540,645)	(\$56,963,202)

MTA has made great strides in increasing the efficiency, cost-effectiveness, and productivity of its operations in the last four years. In FY 2011, 90% of MTA's operating budget went directly to operating statewide transit service. Recent efforts to make MTA more cost-effective include reducing overtime use, implementing a new absenteeism policy, and developing internal systems to track MTA's efficiency and productivity with regular reviews of data and results.

Additionally, MTA has reduced the number of management positions by 58 (8%), deferred system-wide service expansions, and reduced administrative costs by \$8 million since April 2008. Because of the large fixed cost of operations as well as MTA's commitment to maximizing ridership and available service, gains from efficiency are not sufficient enough to impact significantly the farebox recovery ratio.

Conclusion

MTA's farebox recovery ratio is to a large extent affected by external factors that the MTA cannot influence. The current statutory requirement reflects the collective wisdom of the legislature in recognizing that an arbitrarily high recovery rate could lead to fare increases that would disproportionately affect transit-dependent persons and lower-income individuals who cannot easily adjust their personal budgets to accommodate higher transportation costs.

Farebox recovery provides a good snapshot of changes to MTA's revenue in comparison to expenses, but should only be used to evaluate the MTA's effectiveness and efficiency in the broader context of the performance measures due to the fact that MTA reports annually to the General Assembly its overall mission. MTA was created to meet the need for a public service

Farebox Recovery Attainment and Operational Requirements *(Chapter 397, Acts of 2011 (HB 72))*

that could no longer be provided profitably by private enterprise. With that mission, the MTA works continuously to strike the delicate balance between reducing expenses and providing high quality transit service to attract a growing number of riders. MTA is committed to acting as a prudent steward of the taxpayers' resources that provide the majority of its funding, at a time when demand for transit service and the associated stress on the existing system continues to rise.