



**Maryland Department of Transportation**  
The Secretary's Office

**Larry Hogan**  
Governor

**Boyd K. Rutherford**  
Lt Governor

**Pete K. Rahn**  
Secretary

January 31, 2017

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

The Honorable Sheila E. Hixson  
Chair  
House Ways and Means Committee  
The Maryland House of Delegates  
House Office Building, Room 131  
Annapolis MD 21401-1991

The Honorable Maggie McIntosh  
Chair  
House Appropriations Committee  
The Maryland House of Delegates  
House Office Building, Room 121  
Annapolis MD 21401

Dear Chairs Kasemeyer, Hixson, and McIntosh:

Pursuant to the language set forth in the Transportation Article, § 7-208, Annotated Code of Maryland, the Maryland Department of Transportation (MDOT) is required to submit the attached annual report to your respective committees on the status of farebox recovery ratios for the prior fiscal year. Specifically, the language directs:

*"(2) 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:*

*(i) Separate farebox recovery ratios for the prior fiscal year for:*  
*1. Bus, light rail, and Metro subway services provided by the Administration in the Baltimore region;*  
*2. Commuter bus service provided under contract to the Administration in the Baltimore Region; and*  
*3. Maryland Area Rail Commuter (MARC) service provided under contract to the Administration.*

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

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

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

If you should need additional information, please contact Mr. Paul W. Comfort, MTA Administrator and CEO, at 410-767-3943. Of course, you may always contact me directly.

Sincerely

A handwritten signature in black ink, appearing to read "Pete K. Rahn", with a stylized flourish extending to the right.

Pete K. Rahn  
Secretary

cc: The Honorable Thomas V. Mike Miller, Jr., President, The Senate of Maryland  
The Honorable Michael E. Busch, Speaker, The Maryland House of Delegates  
Members of the Budget Committees  
Mr. Paul W. Comfort, Administrator and CEO, MTA  
Ms. Sarah Albert, Library Associate, Department of Legislative Services, (MSAR 8920)

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

regarding

Farebox Recovery-  
Attainment and Operational Requirements  
(Transportation Article, § 7-208(b)(2))

Maryland Transit Administration  
The Maryland Department of Transportation

December 2016

# JCR Report – MTA Farebox Recovery

## 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 is as follows:

*“Options for Meeting Farebox Recovery: Operating costs for the Maryland Transit Administration (MTA) continue to increase; specifically, fuel, spare parts, labor and contracted service costs have outpaced the available revenues from fares despite a continued increase in ridership over that same period. The committees are interested in understanding the financial and ridership impacts of various revenue and expenditure options that MTA might pursue in order to meet the statutory farebox recovery level. By December 15, 2010, MTA should submit a report that outlines:*

- *potential scenarios for increasing farebox in fiscal 2011 or 2012;*
- *the ridership and revenue/expenditure impact of those scenarios;*
- *the impact to MTA’s budget and to the Transportation Trust Fund forecast of those scenarios; and*
- *the efficiencies in service that could be undertaken to improve the farebox.”*

## 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.

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.

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.”

Chapter 429, Acts of 2013 (HB 1515), titled the Transportation Infrastructure Investment Act of 2013 (TIIA 2013), required the Maryland Transit Administration to increase base fares prices and the cost of multiuse passes to the nearest 10 cents for all transit services, except for commuter rail and commuter bus service, by the same percentage as the biennial increase in the Consumer Price Index for all urban customers, effective June 28, 2015 and each subsequent 2-year period for which the amount is being calculated; every 5-years, increase one-way zone fare prices and the cost of multiuse passes to the nearest dollar for commuter rail and commuter bus service by at least the same percentage as the 5-year increase in the Consumer Price Index effective June 28, 2015 and each subsequent 5-year period for which the amount is being calculated and any additional amount the Administration determines is necessary after considering factors affecting commuting costs applicable to the jurisdictions in which the Administration provides commuter service, including: monthly parking fees, the retail price per gallon of motor fuel, the amount of any federal subsidy, fare prices for intercity rail service and any other relevant commuting costs.

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## 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 is 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 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 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 three unions and works under the terms of collective bargaining agreements which set wages, hours, conditions of employment, and fringe benefit arrangements.
  - A. Amalgamated Transit Union Local 1300 (ATU) is the largest of the three unions with over 2,300 members consisting of bus and train Operators, Mechanics and various transportation division staff. Their current contract was ratified May 22, 2016 and will be in effect through Fiscal Year 2018. The ratification included retroactive pay for FY 2015. The increase awarded totaled 11.0% from FY 2015 to FY 2018 and secured its first employee contribution to the MTA Pension Plan at 2%.

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- B. American Federation of State, County and Municipal Employees Local 1859 (AFSCME) is comprised of 188 full time employees that include sworn police officers and corporals, civilian uniformed personnel, police monitoring technicians, and police communications officers. The collective bargaining agreement with Local 1859 expired on December 31, 2015. The MTA is currently in negotiations with Local 1859 and ratification of a new contract is expected by spring of 2017.
- C. Office and Professional Employees International Union Local 2 (OPEIU) is comprised of approximately 166 full-time employees performing primarily clerical functions such as clerks, schedulers, and call center agents. The unit also maintains a small contingency of part-time traffic checkers. The current CBA was ratified July 21, 2016 and is effective through Fiscal Year 2018. The ratification included a 2% lump sum retroactive pay for FY 2016 for all active employees. The increase awarded totaled 8.0% from FY 2016 to FY 2018 and secured its first employee contribution to the MTA Pension Plan at 2%.

Table 3 illustrates the increasing share of MTA’s budget attributable to union wage and benefit costs.

**Table 3: MTA Union Labor as Share of Operating Expense (\$000)**

	Actual FY13	Actual FY14	Actual FY15	Actual FY16	Projected FY17
Union Labor Cost	\$237,817	\$269,329	\$271,127	269,989	\$292,918
Annual Growth	-0.15%	13.25%	0.67%	0.25%	8.49%
Total Operating Expense	\$665,844	\$751,801	\$767,009	\$781,769	\$787,692
Annual Growth	2.95%	12.91%	2.02%	1.92%	0.76%
Union % Of Total	35.72%	35.82%	35.35%	34.54%	37.19%

2. *Diesel fuel:* MTA is the largest purchaser of diesel fuel in State government, and the second largest purchaser in the state. In FY 2016, MTA purchased approximately 9.7 million gallons of diesel fuel, costing \$18.8 million. MTA has begun to move its fleet to clean-diesel buses to improve fuel efficiency. Diesel prices increased in FY 2016 from an average of \$1.40 per gallon to an average of \$1.50 per gallon so far in FY 2017.

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Table 4 below shows diesel fuel price fluctuations in recent years.

**Table 4: MTA Diesel Fuel, Average Price per Gallon, FY 2011-16**

	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Jul	\$3.20	\$2.96	\$3.08	\$2.96	\$1.77
Aug	3.12	3.26	3.15	2.93	1.57
Sep	3.15	3.34	3.15	2.84	1.59
Oct	3.04	3.32	3.08	2.64	1.55
Nov	3.22	3.33	3.04	2.53	1.50
Dec	3.09	3.26	3.14	2.15	1.22
Jan	3.18	3.21	3.12	1.82	1.12
Feb	3.28	3.40	3.35	2.06	1.13
Mar	3.42	3.17	3.23	2.00	1.27
Apr	3.36	3.00	3.09	1.91	1.00
May	3.20	2.99	3.03	2.05	1.49
Jun	2.85	2.97	3.04	2.05	1.57
Annual	\$3.18	\$3.18	\$3.13	\$2.33	\$1.40

- Repair parts:* MTA’s bus fleet has an average age of 7.63 years and traveled in excess of 22 million miles in FY 2016. The most-used buses in the fleet cover approximately 68,000 miles per day 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. The MTA has 53 Light Rail cars that are in the process of being overhauled. Cars are being overhauled one at a time in order to maintain service. It is estimated that the last Light Rail car will be received by May 2020. Both rail fleets increase total mileage annually, and all MTA fleets operate in the full spectrum of weather conditions. Until new railcars are received, MTA will continue to pay increased costs for parts as they are parts that are longer available and requiring them to be re-engineered since several parts manufacturers have gone out of business. The cost of these parts escalates each year, while 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.

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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*. In order to accommodate the 4-6% ridership increase, a corresponding increase in capital would also be required, equating to an additional \$8-10 million annually. This growth in costs is typical of the transit industry, and agencies nationwide 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. FY 2010 saw record snowstorms that decreased revenues along with the impact of the arbitrators' ruling on the previous ATU contract, which significantly increased costs. This resulted in a 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. There was an increase in ridership in FY 2013 even though the Baltimore Metropolitan area suffered flooding and storm damage from Hurricane Sandy. Fare revenue increased at the end of FY 2015 while ridership decreased slightly. Maryland continues to experience severe winter events on an annual basis, having an increased effect on expenses, which in turn affects farebox recovery.

**Table 5: MTA Farebox Recovery Expense and Revenue, FY 2012-16 (\$000)**

(\$000)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>Baltimore-area local service</b>							
Total farebox expense	282,798	272,639	309,923	303,582	319,024	333,004	332,490
Annual increase	2%	-4%	14%	-2%	5%	4%	0%
Total farebox revenue	80,060	79,960	84,452	82,123	83,107	83,448	89,339
Annual increase	-6%	0%	6%	-3%	1%	0%	7%
Farebox recovery ratio	28%	29%	27%	27%	26%	25%	27%
<b>MARC service</b>							
Total farebox expense	91,557	76,085	74,974	78,996	88,659	101,745	112,433
Annual increase	8%	-1%	-1%	5%	12%	15%	11%
Total farebox revenue	43,840	42,001	43,183	40,576	44,373	45,168	49,428
Annual increase	18%	-1%	3%	-6%	9%	2%	9%
Farebox recovery ratio	48%	55%	58%	51%	50%	44%	44%

### Current Projections

MTA's latest estimate of farebox recovery is shown in Table 6. FY 2016 actual figures and FY 2017 projections include the anticipated revenues as a result of the fare increase mandated by the TIA 2013. In FY 2015, MARC experienced a slight drop in farebox recovery due to increased rail line operating contract costs driven by the Association of American Railroad (AAR) price



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index related to labor, the increased popularity of people working a compressed work week, increased teleworking, severe weather and decline in ridership. MARC farebox recovery is projected to remain steady at approximately 44%, just under the 50% requirement in statute through FY 2018.

**Table 6: Farebox recovery ratios, FY 2014 - 2018 (Est.)**

	Actual FY 2014	Actual FY 2015	Actual FY 2016	Estimated FY 2017	Estimated FY 2018
Baltimore area service	26%	25%	27%	26%	26%
MARC	50%	44%	44%	44%	44%

MARC expense is driven by the level of service and the contracts MTA holds with Amtrak and CSX/Bombardier, who operate MARC service using MTA-owned rail equipment. Previously, CSX provided operations of trains and stations along their tracks but requested MTA provide this service. In FY 2013, Bombardier replaced CSX as the third party operator of the Camden and Brunswick lines. Amtrak operates the Penn line and is responsible for the operations of trains and stations along their tracks. Track access fees typically escalate annually, however in FY 2012 and FY 2013 the increase in the Association of American Railroads (AAR) index was lower than previous fiscal years resulting in an increase in farebox recovery. The increase for the AAR index did not occur in FY 2014 but increased in FY 2016 to 4.8%.

### 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 2015 and continuing through FY 2019. Prior to implementing service changes, public hearings are required which take approximately 6 months to implement. Public hearings are only required for fare increases if they are outside the parameters set forth in the TIIA 2013. MTA has recently ratified its Local 1300 and Local 2 union contracts, that included two years of retroactive pay, having an impact on expenses in farebox recovery.

While the TIIA 2013 requires the Maryland Transit Administration to increase base fares prices and the cost of multiuse passes to the nearest 10 cents for all transit services, except for commuter rail and commuter bus service, by the same percentage as the biennial increase in the Consumer Price Index for all urban customers in FY 2015 and on a biennial basis, this is insufficient to achieve the mandated farebox recovery of 35% for core service.

Fare and revenue amounts shown below are rounded and are based on the proposed scenario currently under consideration.

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**Table 7: Fare increases required to meet the 35% farebox recovery ratio - Baltimore core service (\$000) <sup>1</sup>**

	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
Core riders (proj.)	94,712	93,214	96,250	95,324	98,152
	-99.9%	-1.6%	3.3%	-1.0%	3.0%
Core expense (proj.)	\$343,462	\$354,796	\$366,504	\$378,599	\$403,999
	-99.9%	3.3%	3.3%	3.3%	6.7%
<b>Fares @ 35% FBR</b>	<b>\$120,212</b>	<b>\$124,179</b>	<b>\$128,276</b>	<b>\$132,510</b>	<b>\$141,400</b>
<b>New fare required</b>	<b>\$ 2.30</b>	<b>\$ 3.00</b>	<b>\$ 3.80</b>	<b>\$ 5.00</b>	<b>\$ 6.40</b>
Required annual increase	35%	30%	27%	32%	28%

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 assumes all costs are variable for demonstration purposes.

**Table 8: Service cuts required to meet the 35% farebox ratio – Baltimore core service (\$000)**

	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
Core riders (proj.)	94,712	93,214	96,250	95,324	98,152
<b>Fare revenue (proj.)</b>	<b>\$89,813</b>	<b>\$93,953</b>	<b>\$102,033</b>	<b>\$100,639</b>	<b>\$110,210</b>
<b>Projected expense</b>	<b>\$343,462</b>	<b>\$354,796</b>	<b>\$366,504</b>	<b>\$378,599</b>	<b>\$403,999</b>
<b>Expense @ 35% FBR</b>	<b>\$256,609</b>	<b>\$268,437</b>	<b>\$291,522</b>	<b>\$287,539</b>	<b>\$314,885</b>
<b>Required annual service cuts to meet FBR</b>	<b>-25%</b>	<b>-24%</b>	<b>-20%</b>	<b>-24%</b>	<b>-22%</b>

It is an understatement to say that a 25% reduction in service would affect MTA’s customer base and the future success of Baltimore-area transit operations. 55% of MTA’s Baltimore-area riders are totally 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 “vicious 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.

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**Table 9: Impacts to the Transportation Trust Fund, FY 2017-21 (\$000)**

	FY2017	FY2018	FY2019	FY2020	FY2021
<b>MTA fare increases</b>					
Revenue to TTF	\$30,398	\$30,226	\$26,244	\$31,871	\$31,190
<b>MTA service reductions</b>					
Savings to TTF	\$86,853	\$86,359	\$74,982	\$91,060	\$89,114

MTA has developed a master transit plan that will create an interconnected transit system known as the BaltimoreLink, and will redesign the entire local and express bus systems throughout Baltimore. BaltimoreLink will include City Link, 12 new high-frequency, color-coded bus routes that improve connections to jobs and other transit modes.

The BaltimoreLink system will deliver a unified transit network and include renaming existing Maryland Transit Administration (MTA) modes: LocalLink (Local Bus), Light RailLink, Metro SubwayLink and MobilityLink to create an interconnected transit system. Other key elements of the BaltimoreLink system include transit ways, transit hubs and Transit Signal Priority.

## 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. These individuals 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, and can be used to evaluate the MTA’s effectiveness and efficiency in the broader context of the performance measures MTA reports annually to the General Assembly and of the MTA’s overall mission. MTA was created to meet the need for a public service 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.