Baltimore Regional Transit Governance and Funding Study

Technical Memorandum #3
Financial Review

April 2021

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Financial Review

INTRODUCTION

The Baltimore Regional Transit Governance and Funding Study will develop alternatives for the structure, organization, and funding of public transit in the Baltimore region. The study is being developed through an iterative process that involves collaboration among the Baltimore Regional Transit Board (BRTB) and regional stakeholders supported by research and analysis. The goal of the study is to develop four governance options that are based on an understanding of transit's historical development in the region, that are realistic about constraints and creative in providing opportunities for change.

This technical memorandum, the third in a series, leverages the inventory and research carried out in previous tasks to provide a comprehensive financial review of transit systems in the Baltimore region.

Overview and Organization

The goal of this technical memorandum is to establish a baseline understanding of transit service operational costs, investment needs, and funding in the Baltimore region, including resources provided through the Federal Transit Administration (FTA), the Maryland Department of Transportation (MDOT), and local governments, to establish a foundation for consideration of alternative funding and governance models. The memo compares and contrasts funding in a variety of ways, including by agency (MDOT MTA and LOTS), by cost type (operating and capital), by mode, and by jurisdiction, where feasible.

The memo is organized in five sections:

1. Funding Structures and Decision-Making
2. Baltimore Region Transit Funding
3. Baltimore Region Financial Data by System, Mode, and Jurisdiction
4. Near- and Longer-Term Funding Challenges
5. Implications for Developing Transit Governance and Funding Alternatives

Additional financial detail on individual LOTS systems in Central Maryland as well as relevant funding programs is provided as Appendix A.

Methods and Assumptions

As compared with previous technical memos, this analysis is based on complicated data. Differences among planning documents, budgets, and actual expenditures and revenues, as well as classifications by funding and expenditure category, can make it difficult to make quick comparisons. As a result, the Nelson\Nygaard team made assumptions about the type of data used and how to organize it with the goal of clarity and consistency:

- Capital and operating costs, as well as revenues, are presented separately for the Locally Operated Transit Systems (LOTS) and for the Maryland Department of Transportation, Maryland Transit Administration (MDOT MTA).
- Financial information is presented by agency and aggregated for the region overall. The analysis includes historic data (past five to 10 years), and available information is utilized to explore expected capital and operating needs for six-, 10-, and 25-year planning horizons.
- State Fiscal Year (FY) 2019 data is generally used as a baseline year for comparative purposes, with some FY 2020 data utilized in the analysis as available and appropriate. The analysis reflects current legislation and funding commitments while also considering the fiscal impact of COVID-19 on state and local budgets and the expected impact on transit funding.

Primary data sources for this analysis include the following:

- Annual MDOT State Report on Transportation (SRT), which includes the Six-year Consolidated Transportation Program (CTP)
- MDOT's Comprehensive Annual Financial Reports (CAFRs) and Transportation Trust Fund (TTF) forecasts
- Regional Transit Plan for Central Maryland, a 25-year plan for transit development in Central Maryland prepared in Fall 2020
- MDOT MTA's Capital Needs Inventory (CNI)
- Data available through the National Transit Database (NTD)
- Interviews and analytical support provided by MDOT MTA and LOTS staff
- Current legislation governing statewide transportation and transit funding

FUNDING STRUCTURES AND DECISION-MAKING

Statewide Transportation Funding

Overview

The Maryland Department of Transportation is funded by a consolidated Transportation Trust Fund (TTF). The concept of a consolidated transportation funding source shared across all modes is fundamental to MDOT's approach to managing and guiding the statewide transportation network. Maryland's TTF is segregated from the General Fund and funded by a combination of transportation user fees and other revenue, including:

- Fuel taxes
- Titling taxes
- Registration fees
- Operating revenues (including transit fares)
- Share of corporate income tax revenue
- Share of sales and use tax revenues on short-term vehicle rentals
- Federal grants (formula and discretionary grants)

MDOT is authorized to distribute TTF funding among five of the six MDOT business units (Maryland Transit Administration (MTA), Maryland Port Administration (MPA), Maryland Aviation Administration (MAA), State Highway Administration (SHA), and Motor Vehicle Administration (MVA)). In addition, Maryland's share of funding for the Washington Metropolitan Area Transit Authority (WMATA) is paid through MDOT. The Maryland Transportation Authority (MDTA) is a business unit of MDOT that is eligible for funding through the TTF, but instead relies upon revenue directly generated by the State's toll facilities. The MDTA Board is chaired by the MDOT Secretary but the agency operates with financial independence.

MDOT also uses the TTF to leverage project financing through bonding and other financial instruments and has taken advantage of public-private partnerships to develop transportation infrastructure. Once committed, funding used to secure debt and project financing are not included in the funding directly available for distribution to the business units.

MDOT's transportation program is constrained by revenues raised by the TTF, unless an explicit exception is made to utilize General Fund monies to address a specific project or need. The Governor has authorization to dedicate General Fund money to specific projects and has used this authority for several program administration expenses, including committing a capital funding stream to WMATA in 2018 (see insert on pages 15-16).

Consolidated Transportation Program

MDOT develops revenue estimates in the late spring to support development of the Draft Consolidated Transportation Program (CTP); the CTP is updated in December each year to support development of the Final CTP (see discussion in next section). MDOT is part of a committee comprised of representatives from the Bureau of Revenue Estimates, the Department of Legislative Services and the Department of Budget and Management, that evaluates assumptions and develops revenue estimates for the major funding sources of the TTF. For several revenue sources, forecasts are provided by the Bureau of Revenue Estimates. Once a total revenue estimate for the TTF is established, MDOT allocates the resources to specific categories as follows:

- Debt service
- Local government transportation programs and the State general fund (as directed by statute)
- Operating costs (Maryland is required to support the subsidy for WMATA as agreed to in a regional agreement, with the determination of the overall subsidy amount made by WMATA's Board)
- Other operating funds to support MVA, MPA, MAA and SHA as well as MDOT MTA, including the LOTS program
- The capital program (remaining funds)

MDOT shares the draft CTP with local jurisdictions for feedback and input. Most local and public input is provided through "county priority letters" and input received during the annual county tour meetings held in the fall each year. Input is also received from the Metropolitan Planning Organizations (MPOs), generally through the content of their constrained long-range transportation plans. In addition, the Department of Budget and Management provides recommendations on the final program to the Secretary in early December as a part of the budget process. Input is also received throughout the year from the Governor's office and specific guidance is received on the draft and final programs.

Revenues and Constraints

MDOT funding is constrained by the revenue raised through the TTF. Concern about these constraints led the State Assembly to pass the Transportation Infrastructure Investment Act of 2013. This legislation, effective in 2014, indexed the excise tax on gasoline and transit fares to the Consumer Price Index (CPI). The same law raised the state sales tax on gasoline.

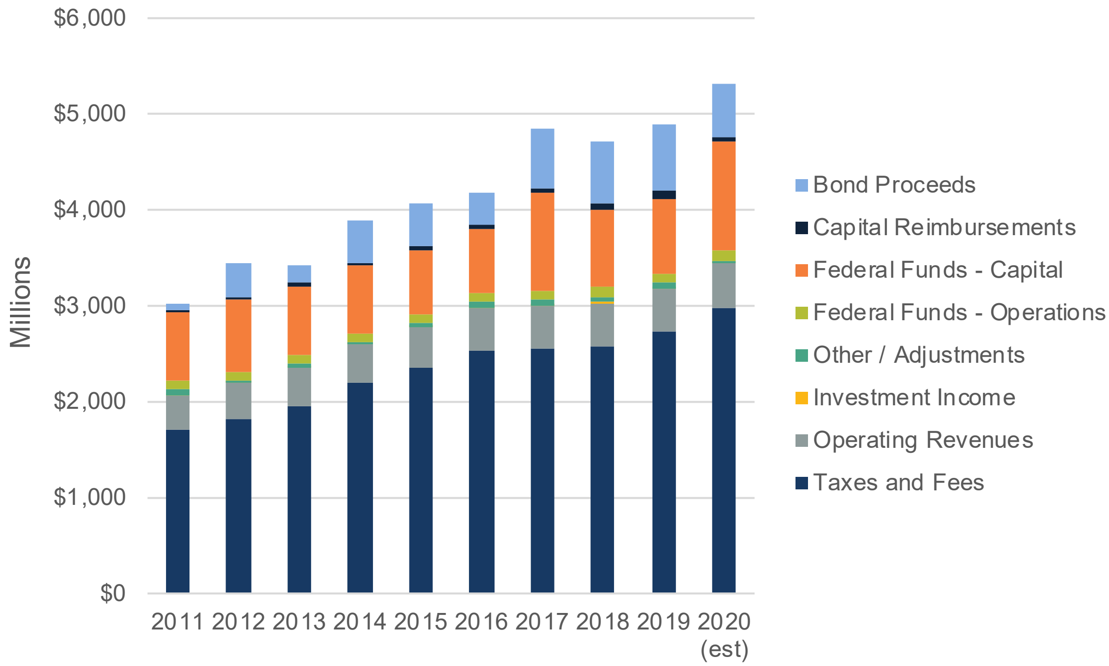
In 2014, Maryland voters also approved a Constitutional amendment that limits the use of the TTF to debt service on transportation bonds and for constructing and maintaining the State's transportation system. This means that except for transfers for local transportation aid or to the MDTA, funds from the TTF may not be transferred to the State's General Fund or any other fund unless the Governor declares a fiscal emergency and the General Assembly approves legislation by a three-fifths vote of both chambers concurring with the use or transfer of funds. In addition, State law requires any funds diverted or transferred from the TTF must be repaid within five years. State law does require, however, that certain transportation revenues be shared with the counties and municipalities as part of the Highway User Revenue program; the percent is legislatively scheduled to decrease in FY 2024.

In FY 2020, the TTF raised approximately $5.3 billion (see Figure 1 for historical TTF revenues).[1] Largely due to the COVID-19 pandemic, TTF revenues declined by approximately $350 million in

[1] Estimated State revenues for the Final FY 2021 – FY 2026 CTP are $1.4 billion less than estimated in the Final FY 2020 – FY 2025 CTP.

FY 2020 (compared with estimated revenues in the Final FY 2020 – FY 2025 CTP). The Final FY 2021 – FY 2026 CTP estimates that FY 2021 revenues will be $575 million lower than the prior Final FY 2020 – FY 2025 CTP estimates. Although most State revenue sources were down in FY 2020 because of the economic and financial impacts of the COVID-19 pandemic, operating and capital grants and contributions for some transportation programs increased due in large part to additional federal aid (i.e., funding provided through the Coronavirus Aid, Relief, and Economic Security Act (CARES Act)).

Figure 1 Transportation Trust Fund Sources of Funds, FY 2011-2020



Source: Maryland Department of Budget and Management Operating Budget Detail[2]

[2] Actuals from completed years; excludes county and municipal funds; https://dbm.maryland.gov/budget/Pages/operbudget/historical-operbud-docs.aspx

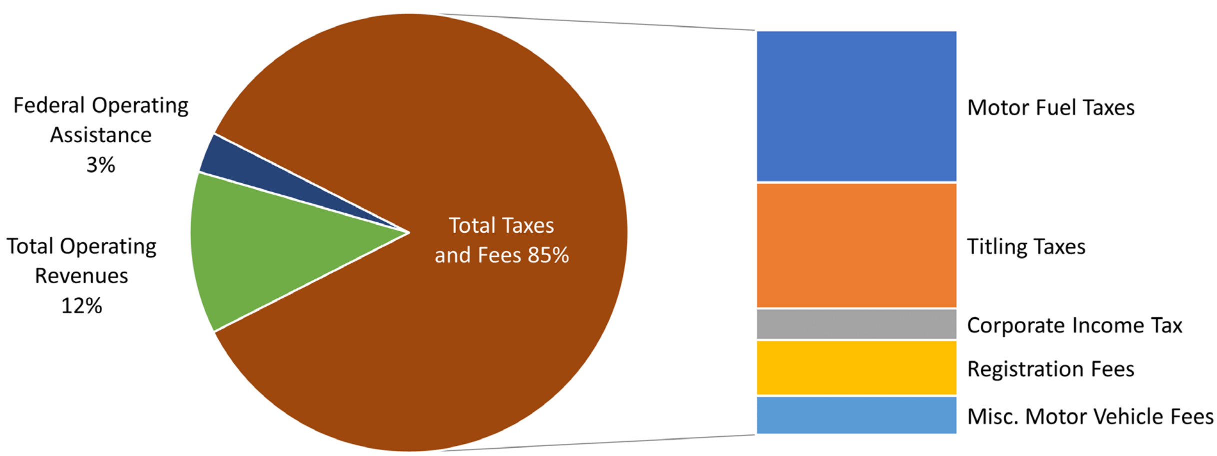
Operating and Capital Funding

MDOT prepares separate budgets for operating and capital programs across all modes. The separate budgets incorporate federal funding programs; federal programs typically allocate resources to capital or operating programs. As a result, once federal and state funds are comingled, budgets for capital and operating programs must be separated.

MDOT's six-year operating program for FY 2021-2026 is budgeted at $21.7 billion, or about $3.6 billion per year (see Figure 2). MDOT's capital program, by contrast is funded at $15.2 billion over the same six-year period with about 40% of the funding raised from federal sources (see Figure 3).

Figure 2 MDOT Operating Revenue Program

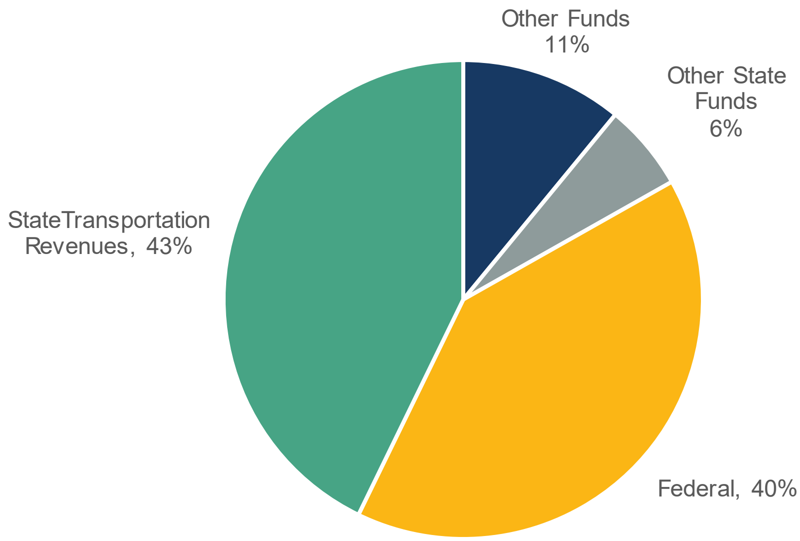
Forecast FY 2021 – 2026 (Total $21.7 billion, Average Annual $3.6 billion)



Note: Does not include bond proceeds, investment income, and small amounts of miscellaneous revenue.
Source: MDOT January 2021 Financial Plan, Summary of Revenue and Receipts, Schedule A

Figure 3 State Transportation Capital Funding Composition

Forecast FY 2021-2026 (Total $15.2 billion, Average Annual $2.5 billion)



Note: Bond proceeds included with State Transportation Revenues category.

Source: MDOT January 2021 Financial Plan, Summary of Revenues, Expenditures, and Fund Balance

Allocation of Transportation Trust Fund to MDOT Business Units and Other Transportation Purposes

MDOT funds transportation investments as a shared network, allocating TTF funding among the modal agencies, including MDOT MTA as well as to Maryland's contribution to WMATA. Funding decisions are guided by the Secretary of Transportation and Governor and balance the needs across MDOT's modal agencies.

As part of the allocation process, MDOT assigns funding according to resources available for capital investments and operating programs.

MDOT conducts capital planning through the CTP (see sidebar). Of MDOT's overall capital budget, the State Highway Administration is assigned nearly half for the FY 2021-26 period, while public transit programs receive 39% of capital spending. Capital budget allocations to MDOT MTA are 21% and WMATA is budgeted to receive 18% (see Figure 4) In terms of operating funds, MDOT MTA is slated to receive 44% of the available operating funds, while WMATA would receive 19% and SHA 13% (see Figure 5;also see discussion in Regional Context section for additional detail). Included in this allocation is revenue derived from fares and other directly generated transit system operating revenues.

Capital Planning and the Consolidated Transportation Program (CTP) Process

As required by state statute (Amended Code of Maryland, Transportation Article, S2-103), MDOT develops an annual State Report on Transportation which includes the CTP. The CTP is a six-year projection of project funding for all modes, including transit. The CTP statute requires that MDOT seek input annually (each fall) from all departments and hear from the jurisdictions regarding their needs and priorities, provided through a formal priorities letter process (see Technical Memorandum 2 for additional detail on the CTP process).

In 2017, the Maryland General Assembly passed Chapter 30, Acts of 2017 (Senate Bill 307), which requires MDOT to develop a project–based scoring system for major transportation projects using the set of defined goals and measures for projects being considered for inclusion in the CTP. The transportation scoring law, as amended in 2017, defines a "major transportation project" as a highway or transit capacity project that exceeds $5 million, and excludes any "projects that are solely for system preservation." Each major transportation capacity project being considered for funding and inclusion in the CTP is evaluated through the Chapter 30 scoring model and ranked based on the score. The project rank is then one of many factors that contribute to the decision of what projects to select for funding and inclusion in the CTP.

Figure 4 Capital Program by Modal Agency, including WMATA

Forecast FY 2021-26
(Total Six-Year Program $15.2 billion)

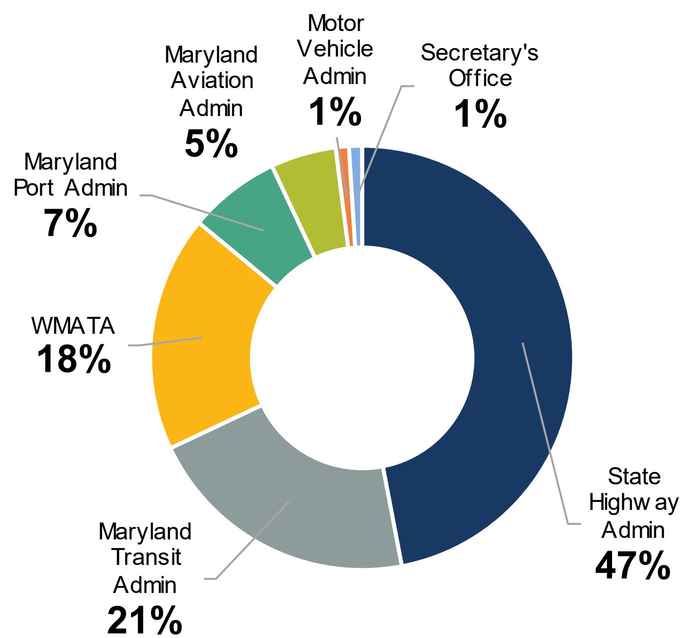
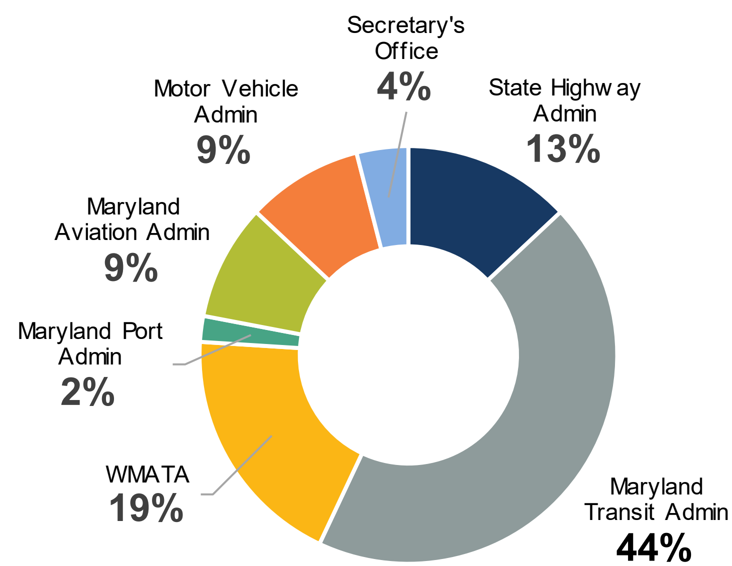


Figure 5 Operating Cost by Modal Agency, including WMATA

Forecast FY 2021-26
(Total Six-Year Program $14.5 billion)



Note: Includes federal funds provided directly to WMATA and some non-TTF state funds.
A detailed breakdown of MDOT MTA's operating budget is available in next section (Figures 6 and 7).
Source: FY 2021 – FY 2026 Maryland Consolidated Transportation Program

Maryland Transit Funding and Decision-Making

As described, MDOT MTA is an integrated business unit of MDOT. As such, the agency's budgeting process is fully integrated within the department planning and budgeting process. Components of MDOT MTA's budget include:

- **Local and regional transit service** in the Baltimore region, including local bus, light rail, subway, and paratransit services directly operated or contracted by MDOT MTA
- **Regional commuter bus and rail service (MARC Train),** which MDOT MTA funds and oversees service through contracted service agreements
- **Funding support to Locally Operated Transit Systems**, providing a significant portion of funding for these locally operated and managed services through federal and state resources

> **Management of Federal Transit Funds**
>
> MDOT MTA is the Direct Recipient of FTA transit funds for the Baltimore Urbanized Area. In addition, MDOT MTA is the Governor's Designated Recipient of formula funding for the entire state (except WMATA, which is the Direct Recipient of funds for the Washington, D.C. Urbanized Area and Montgomery County, which is also a direct recipient).
>
> As the Designated Recipient, MTA administers federal formula funds for small, urbanized areas, rural and specialized programs statewide.

Internal to MDOT MTA, the Department of Planning and Programming develops annual cash flow estimates based on levels of FTA and State funding and a list of projects based upon the 10-Year Capital Needs Inventory (CNI), required by the Maryland/Metro Transit Funding Act (Chapters 351 and 352 of 2018) and federal mandates; the Transit Asset Management (TAM) Plan; and internal and external mandates and requirements influencing capital decisions. In May/June each year, the capital program is submitted to MDOT for review and approval.

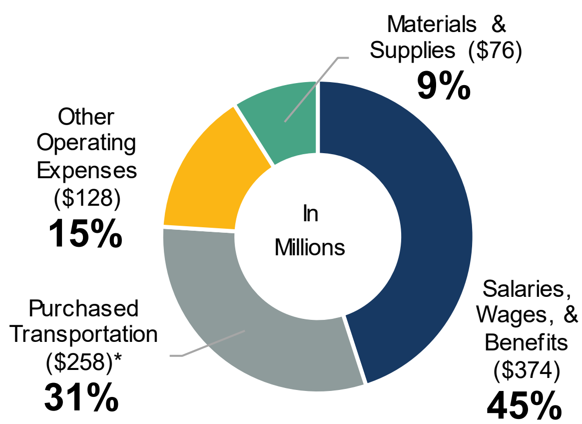
Capital planning considers the TAM Plan, which is required by the FTA and tracks transit assets statewide, focusing on achieving a State of Good Repair (SGR). The TAM Plan feeds into MDOT MTA's Ten-Year Capital Plan, which identifies individual projects and initiatives and is coordinated with MDOT's CTP. Similarly, MDOT MTA uses a separate but consistent TAM Plan process for the LOTS program and uses this process to set allocations to individual LOTS systems. Once allocated, specific decisions about how funds are invested are made at the local level by individual systems.

Within the funds ultimately allocated annually to MDOT MTA, the agency has discretion but not autonomy over how funds are allocated between service types or between the capital and operating allocations established by MDOT. Changes to how funds are programmed are reported to and approved by MDOT. MDOT MTA's funding decisions are further constrained by commitments associated with operating contracts, such as for purchased transportation service, labor agreements, and other contractual obligations (see, for example, the breakdown of expenditures by cost category in Figure 6). Together, purchased transportation and labor costs account for over three-quarters of MDOT MTA's operating expenditures.

MDOT MTA's investment in core bus and transit services (BaltimoreLink Local Bus, MetroSubwayLink, Mobility Link, and Light RailLink)[3] together account for over half of the MDOT MTA's annual operating budget. Regional Commuter Bus and MARC Train services account for approximately 23% and State support of the statewide LOTS Program accounts for another 10% (see Figure 7).

Figure 6 MDOT MTA Operating Expenditures by Cost Type

FY 2019 ($836 million total)

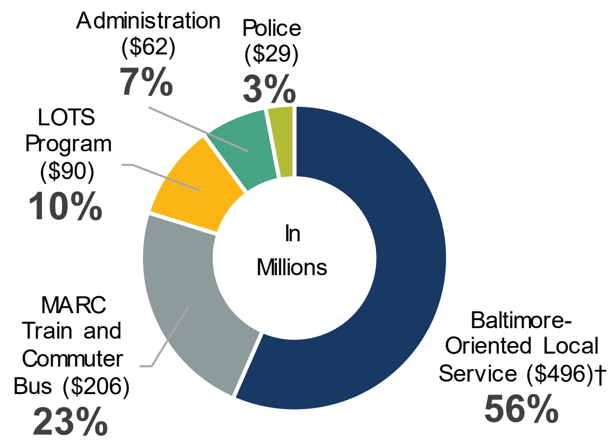


** For example, MARC, Mobility and Commuter Bus service Contracts)*

Source: National Transit Database

Figure 7 MDOT MTA Operating Costs by Mode and Support Function

FY 2019 ($882 million total)



†BaltimoreLink Local Bus, MobilityLink, Metro Subway Link, Light RailLink, & Core Support

Note: Baltimore region LOTS account for approximately 16% of the LOTS Program category (Washington area 63% and Other Statewide 21%). There is no set formula and these figures vary substantially from year to year.

Source: Data provided by MDOT MTA

Note: difference in total expenditures between Figure 6 and Figure 7 reflects differences between data sources and accounting methods. Additional information on LOTS funding (Figure 20) and State of Good Repair Needs (Figure 27) are shown in subsequent sections.

[3] This category also includes costs classified as Core Support in MDOT MTA data systems. The category includes activities such as bus shelters and maintenance of core mode facilities.

Locally Operated Transit Systems (LOTS) Funding and Decision-Making

MDOT MTA's Office of Local Transit Support (OLTS) is responsible for overseeing the statewide LOTS program, including administering funding to subrecipients, and ensuring compliance with all federal and state requirements.

As noted, MDOT MTA's budget includes an allocation for the LOTS agencies, for both capital and operating grants that include a combination of federal and state funds. Statewide, there are LOTS agencies in 23 counties plus Baltimore City, the City of Annapolis, and Ocean City (see sidebar, next page). Within Central Maryland, there are eight LOTS agencies, all of which are managed and operated within local governments and administered as either a county or city department Figure 9, also see Appendix for individual funding profiles for each LOTS system).

LOTS are responsible for their own operations and capital planning as well as ensuring compliance with federal and state requirements. However, the FTA holds MDOT MTA responsible for LOTS compliance, such that OLTS ensures compliance and offers guidance and technical support. As part of its management of the statewide program, MDOT MTA requires the LOTS to prepare periodic five-year transportation development plans (TDPs) with funding and consultant assistance provided through MDOT MTA.

FTA grants require that transit agencies contribute local funds, not including fares, to match federal funds. One-half of the federally required local match is provided with State funds. Localities fund the other half and also often over-match the required amount to address local needs. LOTS budgets are developed with anticipated MDOT MTA grants (comprised of federal and state funds). Additional funds are identified locally and allocated from local funds. While the focus of this discussion is on transit-oriented funding sources, each jurisdiction also balances funding decisions in the context of their overall budgets, including with respect to funding from other state sources such as Highway User Revenue (HUR) funding. Comparisons, thus, should not be made without recognition of these broader funding constructs and jurisdictional differences.

MDOT MTA Investment in Locally Operated Transit Systems

MDOT MTA plays an important role in providing state and federal funding to the Locally Operated Transit Systems(LOTS). There are LOTS in all 23 counties in the State, plus Baltimore City, the City of Annapolis, and Ocean City. In addition, MDOT MTA provides some funding to other regional organizations to support rideshare programs. Funding for the LOTS and rideshare programs includes a combination of state and federal grants. MDOT MTA is not only the designated recipient for FTA funding for the Baltimore Urbanized Area, but is also the designated recipient for FTA funding statewide for both Urbanized Area funding (Section 5307) and Non-Urbanized area funding (Section 5311). Each of the LOTS is awarded funds from different federal and state sources depending on program eligibility, the type of project, and other factors. There are currently six sources of capital funding and ten different sources of operating funds that are administered by OLTS. Six of the programs involve only state funding, while the remaining ten include federal funds combined with state match. As the designated recipient for FTA statewide funding programs, MDOT MTA provides planning assistance, technical assistance, and compliance oversight for the LOTS programs.

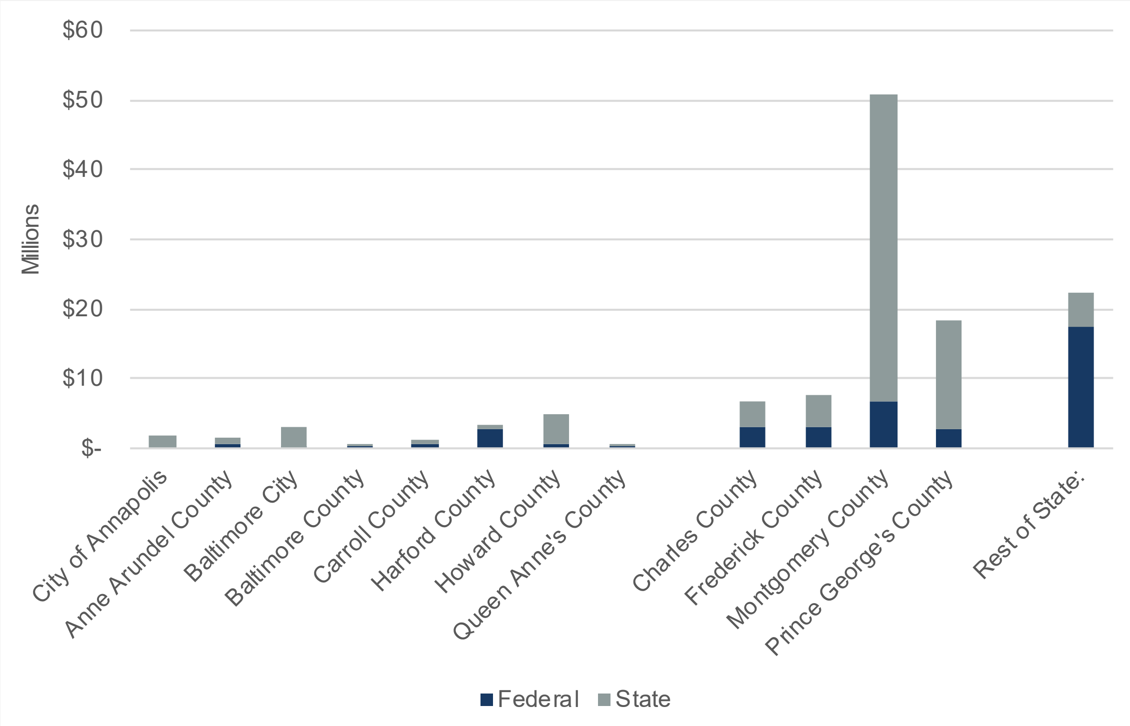
In FY 2019, the State of Maryland distributed $106.9 million to LOTS agencies of which roughly 36% was associated with FTA funds and the remaining 68% in state funding (see below). The distribution of funds by county is indicative only and shows LOTS programs in Central Maryland, the Washington DC region, and the rest of the state[4]. Data reflects a single year and as noted elsewhere, transit agency capital spending varies by year. Data shown in the figure below includes federal and state funding only; MDOT MTA grants require a local match, 25% for operating funds, and 10% for capital. LOTS must provide matching funds and many LOTS programs provide additional local funding beyond the required amounts. Agency budgets also include fare revenue.

The OLTS program also administers MDOT MTA operating and capital grants to Montgomery and Prince George's Counties. This funding source is the Washington Area Grant program, and is for “"eligible service” as defined in 1980 state legislation (Maryland Code, Sections 10-205 and 10-207). This legislation requires the state to assume the portion of WMATA rail and bus costs attributable to those two counties, and also provides grants to support local bus service on non-WMATA routes operated by Montgomery and Prince George's Counties. There are a number of particular elements related to calculation of the grant amounts and tracking of performance indicators. Although these funds are included in the graphic as part of the LOTS program because they are administered by OLTS, based on the legislation and funding source they are part of Maryland's support for transit in the Washington area. Because of the mixture of funding sources, there is no overall formula for the allocation of federal and state funds to individual LOTS, though several of the state programs include allocation formulas for that particular program. Operating awards depend to a large extent on historical factors (including the amount of service operated), and capital awards are based on the MDOT MTA TAM Plan, local TAM plans, and MDOT MTA's own capital prioritization tool[5], which are constrained by the available funding. Most capital funding comes from federal sources and the majority of operating from state funds.

[4] Includes Allegany, Calvert, Caroline, Kent and Talbot, Cecil, Dorchester, Garret, Mid-Shore, Ocean City, Somerset, St. Mary's, Tri-county Lower Eastern Shore, Tri-County Southern, Tri-County Western and Washington County.

[5] MDOT MTA's 10-Year Capital Needs Inventory and Prioritization does not address LOTS capital needs.

Figure 8 MDOT MTA Distribution of Federal and State Funds to LOTS (FY 2019)



Note: includes Washington Area Grant program distributions in addition to LOTS program grant awards.

Source: MDOT MTA Transit Modernization Report, September 2019, p. 32-33, compiled by project team.

Figure 9 Locally Operated Transit Systems (LOTS) and Representative Operating Budgets, FY 2019

County/City	System Name	Service Types	Responsible Transit Organization	Operation	Operating Expenses (FY 2019)
City of Annapolis	Annapolis Transit	Fixed route and demand response ADA	City Department of Transportation	Directly operated	$4.5 million
Anne Arundel County	Office of Transportation	Fixed route and demand response ADA and persons with Disabilities and over age 60	Office of Transportation under the County Administration	All contracted	$6.0 million
Baltimore City	Charm City Circulator and Harbor Connector	Fixed route bus and Ferry	City Department of Transportation	All contracted	$4.5 million
Baltimore County	CountyRide	Demand response, persons with disabilities and seniors, general public in rural area	County Department of Public Works, Transportation Bureau	Directly operated (except for Uber contract)	$1.0 million
Carroll County	Carroll Transit System	Fixed route and demand response ADA and countywide for seniors and dialysis	County Department of Public Works	All contracted	$2.6 million
Harford County	Transit LINK	Fixed route and demand response ADA and for persons with disabilities and seniors	Harford Transit LINK office in County Department of Economic Development	Directly operated	$4.9 million
Howard County	Regional Transit Agency (RTA)	Fixed route and demand response ADA and for persons with disabilities and seniors	Office of Transportation in the County Department of Administration	Contracted	$14.0 million
Queen Anne's County	County Ride	Fixed route and demand response ADA and for persons with disabilities and seniors, veterans	Office on Aging	Directly operated	$1.1 million

Source: National Transit Database and information provided by individual systems

BALTIMORE REGION TRANSIT FUNDING

Regional Context

Transit service in the Baltimore region is delivered as part of a statewide transit program that includes locally oriented and regional services. For this analysis, statewide transit funding is categorized based on geography and mode into five categories:

1. Baltimore-oriented Local Services (BaltimoreLink Local Bus, Light RailLink, Metro SubwayLink, MobilityLink)
2. Regional Services (MARC Train, Commuter Bus)
3. Central Maryland LOTS (City of Annapolis, Anne Arundel County, Baltimore City, Baltimore County, Carroll County, Harford County, Howard County and Queen Anne's County)
4. Other LOTS throughout the State, including those serving the Washington, DC region (e.g., Montgomery County, Prince George's County)
5. Washington Metropolitan Area Transit Authority (WMATA)

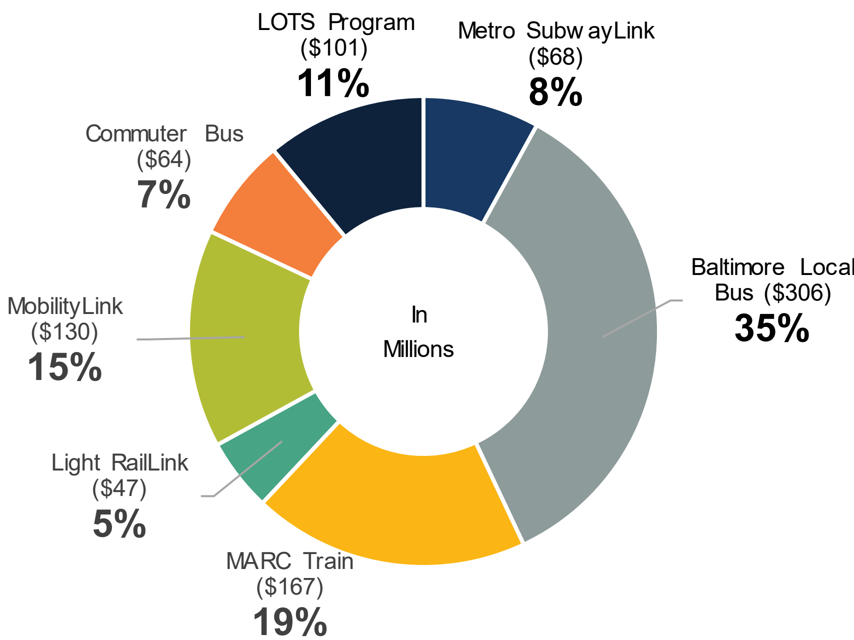
MDOT MTA Operating Spending

In 2019, MDOT MTA spent approximately $880 million for transit operating costs statewide.[6] As shown earlier (see Figure 7), costs are divided among core programs, generally referred to as modes, but also including the statewide LOTS program, as well as support functions such as Administration and Police Services. In Figure 10 below, agency support function costs are allocated among the core programs, or modes, based on relative program budgets.[7]

Using this methodology, the Baltimore-oriented local services (BaltimoreLink Local Bus, Light RailLink, Metro SubwayLink, MobilityLink) together account for 62% of spending ($550 million); Commuter Bus and MARC Train commuter rail services account for 26% ($231 million); and the statewide LOTS program comprises 11%, or $101 million.

Figure 10 MDOT MTA Operating Expenditures by Mode (with Administration, Police and Core Support Allocated to the Modal Programs)

FY 2019 ($882 million total)



Notes: Administrative, Police and Core Support Costs Allocated to Modes based on budgets.

Baltimore region LOTS account for approximately 16% of the total LOTS Program (Washington area 63% and Other Statewide 21%). There is no set formula and these figures vary substantially from year to year. This amount includes allocated administrative costs as well as direct grant awards.

Source: Data provided by MDOT MTA

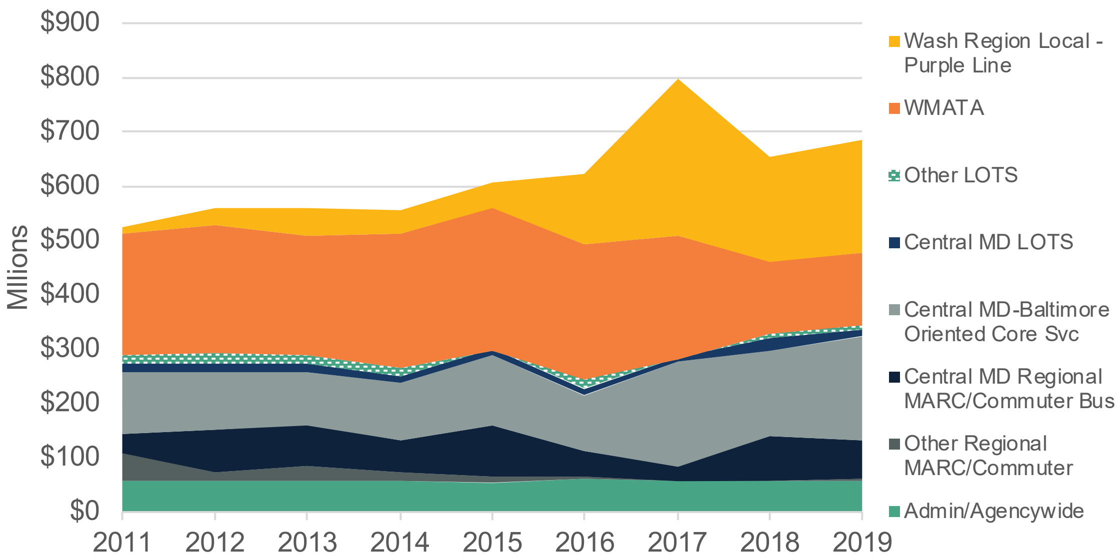
[6] Data provided by MDOT MTA.

[7] Administrative and Policing costs are allocated among all program categories (e.g., BaltimoreLink, Commuter Bus, Statewide LOTS Program, etc. In proportion to each program category's share of all expenditures. The Core Support category costs are allocated only to the Baltimore-oriented local services program categories. This is informed by communication with MDOT MTA regarding the cost items in the Core Support category.

MDOT MTA Capital Spending

Between 2011 and 2019, MDOT capital investments for transit statewide ranged between $500 million and $800 million annually (see Figure 11). Funding for the Baltimore-oriented local services has varied, averaging over$150 million in the last five years. This does not include the Central Maryland LOTS or Agencywide investment categories which are captured separately. This data also shows that as with all capital programs, expenditures are episodic or lumpy for a particular program and region.

Figure 11 Statewide Capital Expenditures, FY 2011-19



Source: Data provided by MDOT MTA, developed for Regional Transit Plan for Central Maryland

WASHINGTON DC REGION: TRANSIT FUNDING

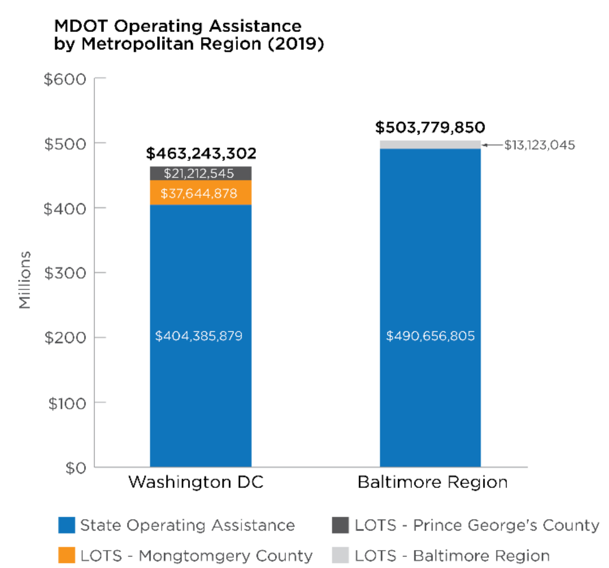
The Washington, DC metropolitan area[8] provides a relevant point of comparison for the Baltimore region on issues related to transit funding and governance. The DC region includes a regional transit operator (the Washington Metropolitan Area Transit Authority, or WMATA) that is coordinated with Washington-area LOTS agencies in Montgomery County and Prince George's County. Both WMATA and LOTS are partially funded by MDOT[9].

Transit funding is organized in terms of operating and capital funds. There are logical reasons for businesses to consider day-to-day expenses and longer-term capital investments differently. For transit agencies, however, creating separate funding categories reflects federal funding programs; the Federal Transit Administration (FTA) offers more money and grant programs to fund capital programs. The FTA also funds capital at a much higher rate as compared with operating funds, especially in

Operating Funding

WMATA raises operating funds through a combination of federal, state, and local revenues, as well as fares and revenues generated through programs like parking at rail stations and advertisements. WMATA raises just under 40% from fare revenues. The remaining 60% - the net operating subsidy - is mostly paid by WMATA's partners, the District of Columbia (the District), regional jurisdictions in Maryland (Montgomery and Prince George's counties [10]), and five jurisdictions in Virginia (the cities of Alexandria, Fairfax, and Falls Church, plus Arlington and Fairfax counties) (see chart below). The amount that each jurisdiction pays is determined by a series of formulas for each of WMATA's primary modes: rail, bus, and ADA complementary paratransit services:

- Metrorail costs are distributed based on population density, weekday ridership, and the number of rail stations.
- Metrobus routes are classified as either regional routes or local routes. Regional routes that cross jurisdictional borders or have regional "significance". WMATA is responsible for regional routes, with costs distributed among partners according to population density, weekday ridership and service hours and miles. Routes classified as "local" are operated by local jurisdictions and not paid by WMATA. In the case of Maryland, costs are paid by passenger fares, state and federal grants and local funding.



Source: National Transit Database, WMATA 2019 Budget Book

[8] The Washington D.C. urbanized area includes four counties, Montgomery, Prince George's, Frederick and Charles. This analysis, however, focuses on Montgomery and Prince George's counties.

[9] The funding construct for the Washington area transit service is in a transition period as the Purple Line is completed and brought online. This will affect future comparisons across jurisdictions and regions.

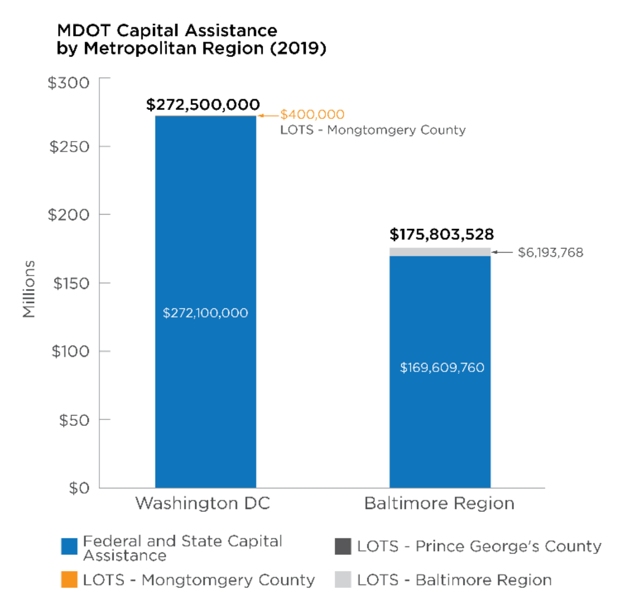
[10] Costs are net of fares. MDOT pays the portion of WMATA's costs assigned to Montgomery and Prince George's counties.

- ADA paratransit is charged back to jurisdictions based on the trip origin of riders.
- WMATA costs assigned to Montgomery and Prince George's counties are paid by MDOT.
- In FY 2019, MDOT's payment to WMATA was $404.4 million.

Montgomery and Prince George's counties operate local service that provides connections to WMATA services and supports travel within each county. These transit services are part of the LOTS program. LOTS service in Montgomery County is branded as RideOn and Prince George's is TheBus. In FY 2019, Montgomery County received $37.6 million from the LOTS program and Prince George's County received $21.2 million. Local funding is also a critical part of these two programs, with county funding accounting for 50% of RideOn's operating funds and 41% of TheBus.

Capital Funding

WMATA's FY19 – FY24 Capital Improvement Program (CIP) totals $8.5 billion. This program is funded with federal and partner contributions, plus a handful of other smaller revenue streams. Actual projects programmed in the CIP vary by year; in FY2019, WMATA planned $1.28 billion in capital programs.[11] Bus capital projects and debt issued for bus and rail projects is distributed among WMATA partner jurisdiction using the same formula for bus operating costs. Costs and projects that cannot be allocated to a specific mode are distributed using an average of the bus and rail formulas. In FY2019, Maryland's share of the programmed CIP investments amounted to $272.5 million.



Source: National Transit Database, WMATA 2019 Budget Book

Montgomery and Prince George's counties have transit capital programs; like WMATA actual capital investments vary by year. In FY2019, Montgomery County's transit capital program was funded with $21.5 million, including $6 million from the FTA and $400,000 from MDOT MTA. Another $15.1 million was raised locally. Prince George's FY 2019 capital program was funded entirely with local resources.

WMATA Dedicated Capital Funding

In 2018, WMATA's partners dedicated funding to the system's capital program with $500 million total per year. These funds provide WMATA with flexibility to plan critical capital projects on a long-term horizon and provide a reliable revenue stream that can be used to issue bonds and take on debt. As part of its commitment to WMATA, the State of Maryland will provide $167 million annually to WMATA's capital fund. This is in addition to Maryland's ongoing support of the funding compact. Maryland will provide this funding from the State's general revenues, not the TTF.

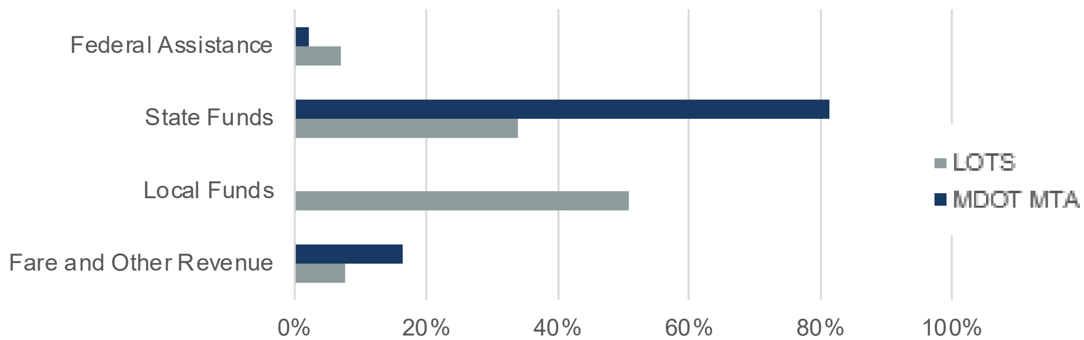
[11] FY2019 capital investments do not include development of the Purple Line.

MDOT MTA and LOTS: Operating and Capital Funding by Source

MDOT MTA and LOTS agencies fund transit differently. While all transit services rely on passenger fares for a portion of their operating revenues, MDOT MTA services depend on state funding for much of their operating revenues.[12] This contrasts with the Central Maryland LOTS agencies, which use a combination of federal, state, and local funds for operating revenues (see Figure 12). MDOT MTA relies significantly on state funding because needs exceed available federal funding and because of some limitations on the application of federal funds.

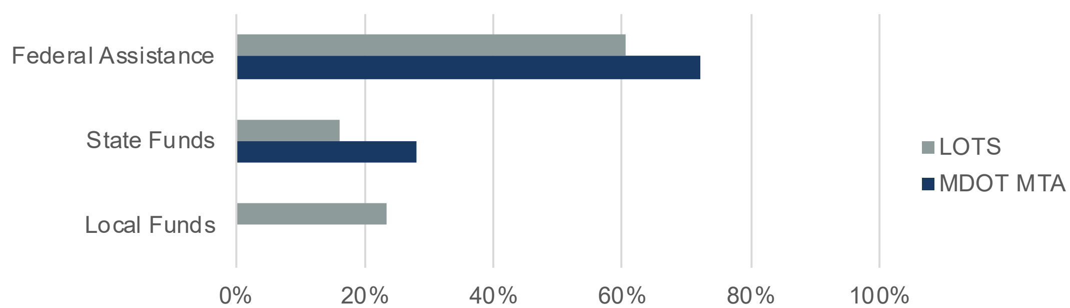
MDOT MTA and the LOTS program also fund capital programs differently. MDOT MTA relies entirely on federal and state funding for its capital investments, whereas the LOTS systems use a combination of federal, state, and local funding (see Figure 13). Fare and other system-generated revenues are fully utilized in the operating program and thus not available for capital funding.

Figure 12 MDOT MTA and Central Maryland LOTS Operating Funding by Source, FY 2019



Source: National Transit Database

Figure 13 MDOT MTA and LOTS Capital Funding by Source, FY 2019



Source: National Transit Database

[12] In most cases, FTA funding cannot be used for transit service operations in large, urbanized areas. Exceptions are made for transit agencies that operate fewer than 100 buses in peak services and some specific programs.

BALTIMORE REGION FINANCIAL DATA BY SYSTEM, MODE, AND JURISDICTION

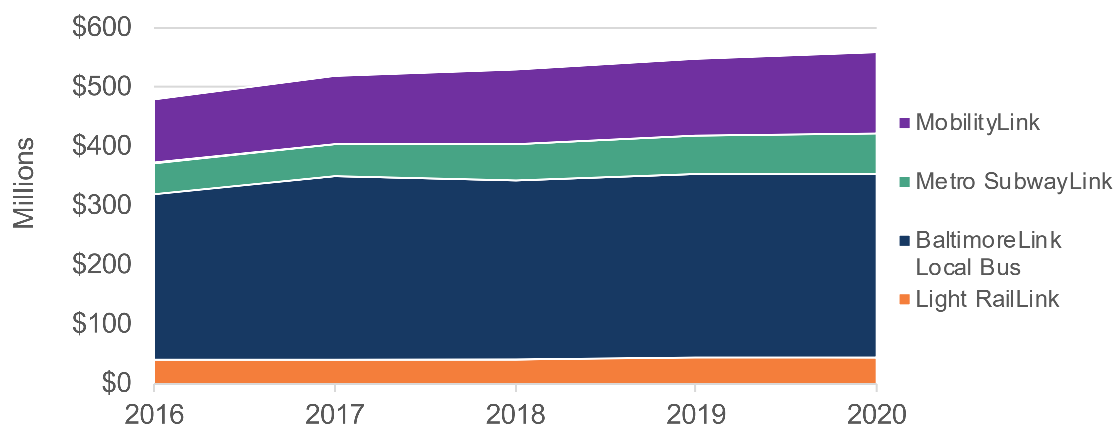
MDOT MTA – By Mode and Total

As described earlier, the current CTP (FY 2021 – FY 2026) allocates roughly 32% of the statewide transportation budget (including all business units and debt service requirements) to the MDOT MTA.[13] Together with WMATA, public transit spending in urbanized areas represents just over 50% of the overall transportation program for the current six-year CTP.

Baltimore-oriented Local Services

MDOT MTA spent approximately $550 million in FY 2019 operating Baltimore-oriented Local Services (BaltimoreLink Local Bus, Light RaiLink, MetroSubwayLink, MobilityLink). Over the last five years, the level of funding allocated to operating these MDOT MTA core program services increased modestly, at about 3.8% per year (see Figure 14). MobilityLink has experienced higher increases in this period, closer to 4.5% per year. Overall, the majority of the cost increases are driven by negotiated wage and benefit rates in contracts, rather than service increases.

Figure 14 Baltimore Oriented Local (Core) Services - Operating Costs by Mode, FY 2016-2020



Note: Administration, Police, and Core Support Costs allocated based on Core Program budgets.

Source: Data provided by MDOT MTA

In FY 2019, MDOT MTA spent $247 million on capital projects within the Baltimore-oriented Local Services category.[14] As mentioned, capital spending varies from year-to-year according to specific project needs and are often episodic due to large projects moving through the program or by unforeseen circumstances and emergencies (see Figure 15). For example, capital spending in FY 2016 was significantly lower than FY 2017.

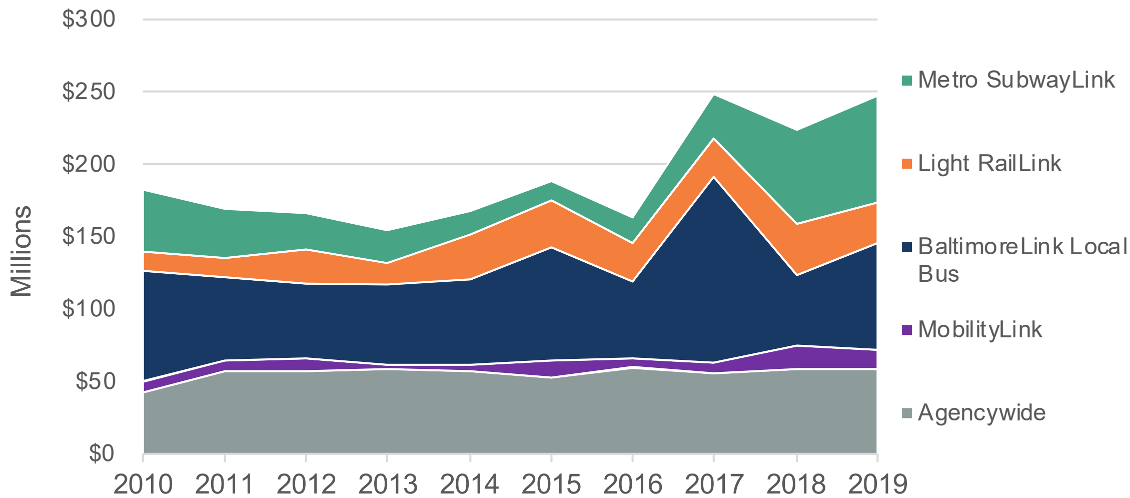
[13] Based on FY 2021-26 Consolidated Transportation Plan.

[14] Data provided by MDOT MTA9

In general, investments in the BaltimoreLink bus service programs have accounted for the greatest portion of capital spending. MobilityLink paratransit services account for the smallest portion of MDOT MTA's capital program.

MDOT MTA's capital cost accounting includes "Agencywide" capital investments, which includes Information Technology, headquarters facilities, and other administrative functions. This category also includes shared capital investments such as shared stations and facilities, such that allocating strictly to one program area or the other is difficult. While it would be ideal to allocate the Agencywide capital investments across the program for the purpose of this analysis, that was not feasible. These costs, therefore, are retained as a separate category of spending and included with the Baltimore-oriented Local Services rather than being allocated statewide.

Figure 15 Baltimore Oriented Local (Core) Services Capital by Mode, FY 2010–2019



Notes: Administration, Police, and Core Support Costs Allocated based on Core Program budgets.

Agencywide capital investments include station and facility, fare collection, signage, shared IT, and other shared investments. Future analysis may treat these costs on an allocated basis. For the current analysis, no such allocation has been made beyond any allocations made by MDOT MTA.

Source: Data provided by MDOT MTA

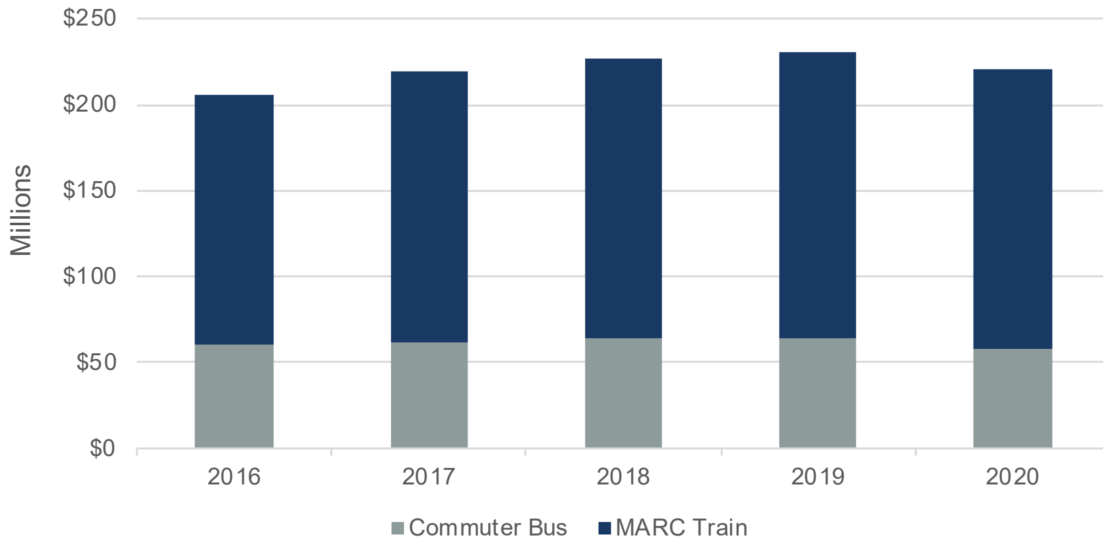
Regional Services (MARC Train, Commuter Bus)

MDOT MTA spent approximately $230 million in FY 2019 operating regional commuter transit services, MARC Train and Commuter Bus. Both MARC and Commuter Bus services are contracted with funding increases included in service contract costs, resulting in average cost increases of 2.8% per year (see Figure 16). Costs declined slightly (2%) in FY 2020, potentially showing early impacts of COVID-related service changes.

Capital investment in the MARC Train varied by year between FY 2010 and 2019, ranging from just over $20 million in FY 2017 to nearly $100 million in FY 2015 (see Figure 17).

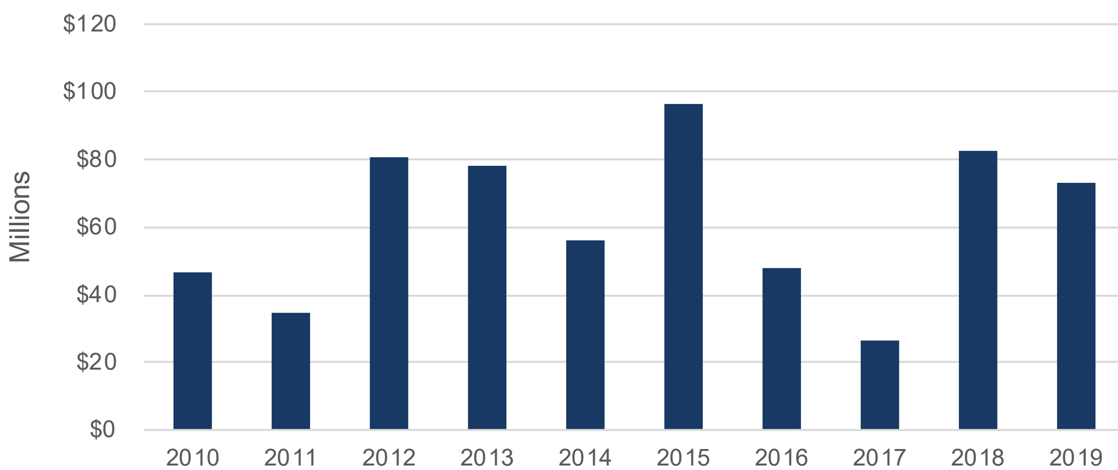
As regional services with shared vehicles and service contracts that operate within and outside the Baltimore Region, MARC and Commuter Bus costs are not easily allocable to a particular region. For the Baltimore Region Combined Total Investment section of this memorandum, revenue miles are used as a high-level illustrative cost allocation proxy. Appropriately allocating MARC and Commuter Bus costs will likely be the subject of future analytical refinement to determine the Baltimore region's portion.

Figure 16 MARC Train and Commuter Bus Operating Costs, FY 2016-2020



Note: Administration, Police, and Core Support Costs allocated based on Core Program budgets.
Source: Data provided by MDOT MTA

Figure 17 MARC Train Capital Investment, FY 2010–2019



Note: Administration, Police, and Core Support Costs allocated based on Core Program budgets.
Source: Data provided by MDOT MTA

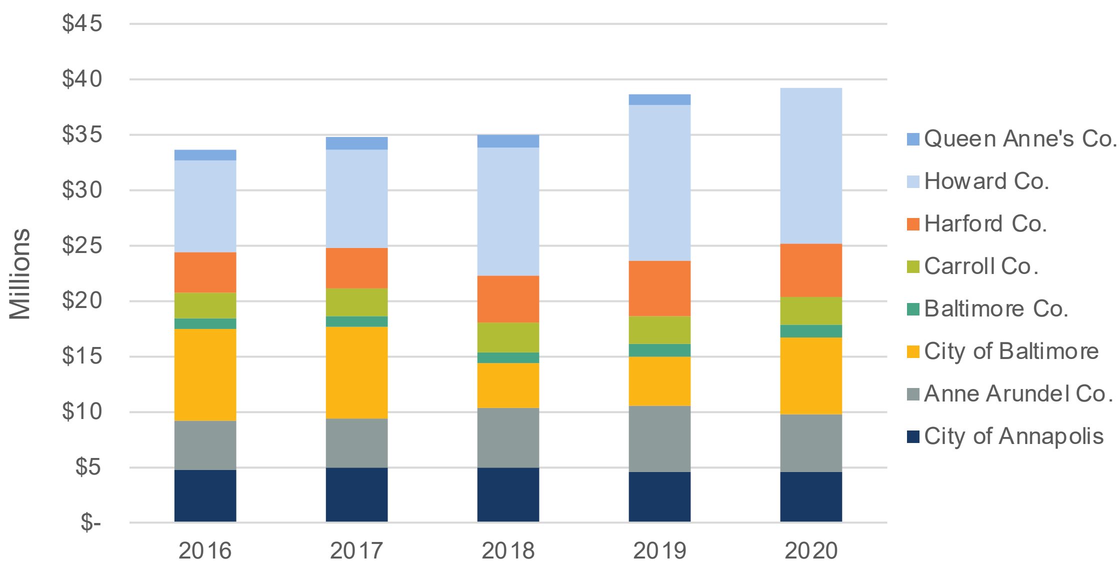
Central Maryland LOTS

To avoid double counting, combined Central Maryland LOTS agency investment is considered here as direct investment by individual LOTS agencies (and not included in MDOT MTA cost categories above for the portion that is supported by state and federal grants provided via MDOT MTA).

As mentioned, while vital to the region, the total investment by LOTS agencies in Central Maryland is significantly smaller as compared to spending on MDOT MTA delivered programs and services. LOTS agency operating costs ranged between $34 million and $39 million between FY2016 and FY 2020 (see Figure 18). Among the LOTS, Howard County has the largest program, followed by the City of Baltimore, Harford County and Anne Arundel County. LOTS capital expenditures vary considerably by year, ranging from $1.5 million to $4.5 million between FY 2016 to 2020 (see Figure 19).

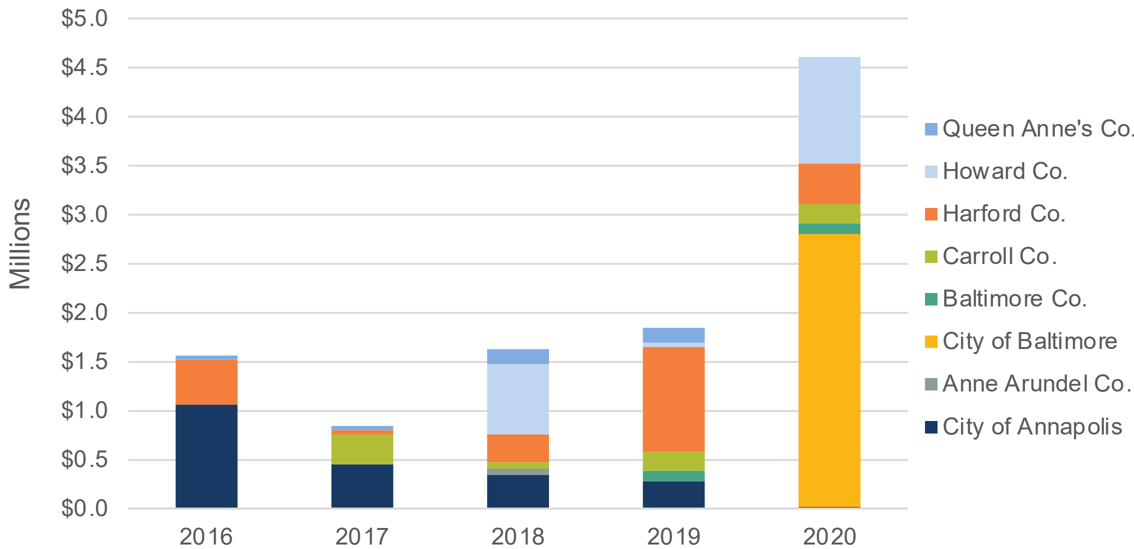
Figure 20 and Figure 21 show the breakdown of funding for each LOTS system for operating and capital investment for the FY 2016 – FY 2020 period.

Figure 18 Central Maryland LOTS – Operating Costs, All Sources, FY 2016 – 2020



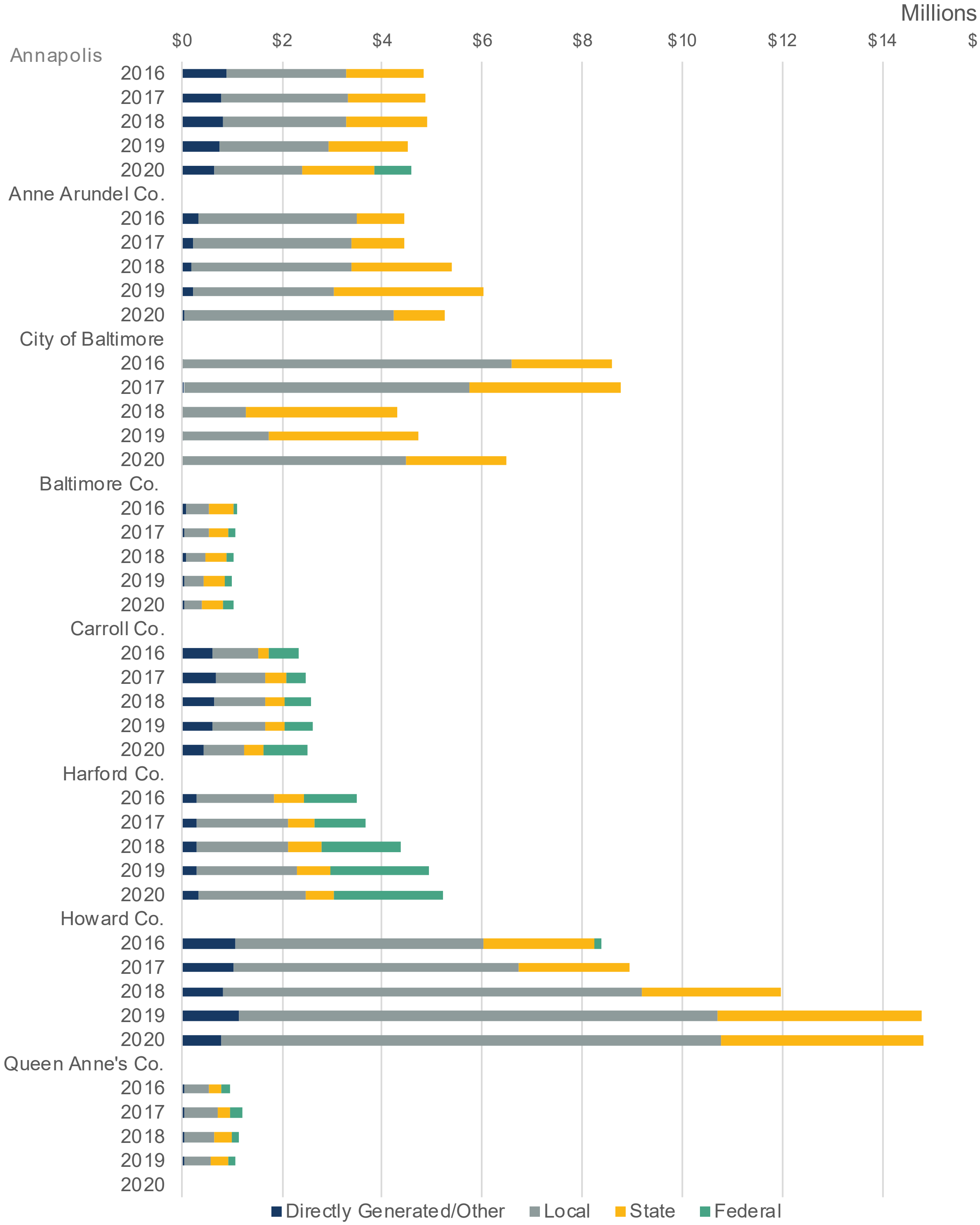
Source: National Transit Database

Figure 19 Central Maryland LOTS – Capital Expenditures, All Sources, FY 2016 – 2020



Source: National Transit Database

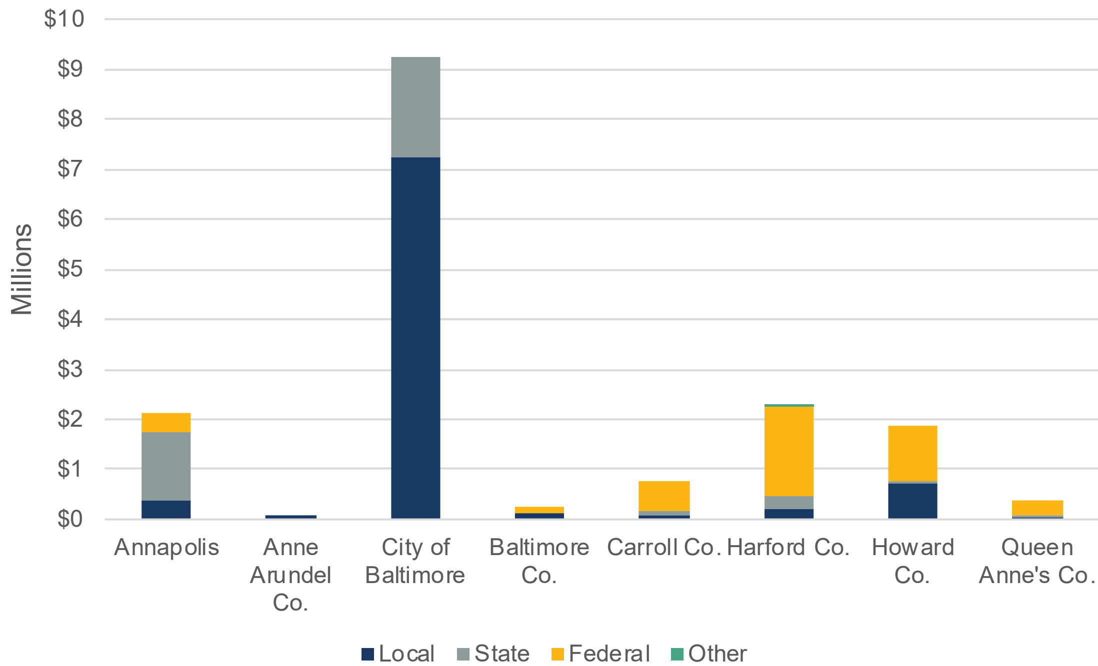
Figure 20 Sources of Operating Funds Expended by LOTS System and Fiscal Year



Note: Queen Anne's Co. 2020 data not available.

Source: NTD Data

Figure 21 Sources of Capital Funds Expended by LOTS System, FY 2016 – 2020 Composite Total



Notes: Queen Anne's Co. 2020 data not available, excluded from totals.

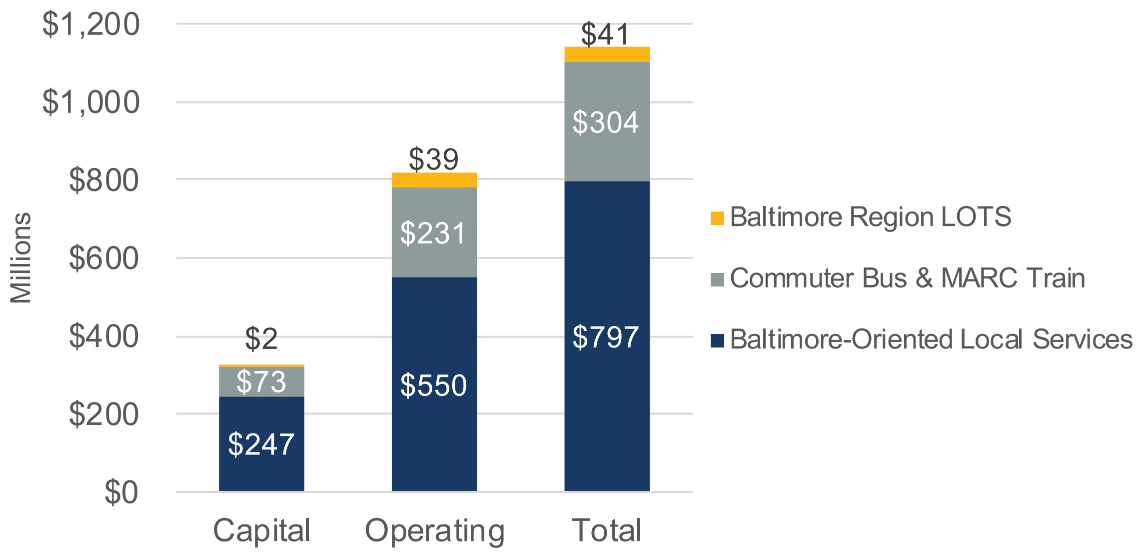
For some systems, there may be some capital type expenditures included within operating budgets through the use of lease or lease-purchase arrangements. Thus, the capital investment amounts may be understated.

Source: NTD Data

Baltimore Region Transit Investment – MDOT MTA and LOTS Combined

Figure 22, below, provides a composite picture of the breakdown of transit system operating costs and capital investment in the Baltimore region for the snapshot year of FY 2019. As shown, the MDOT-MTA operated Baltimore-Oriented Local Services account for approximately 70% of the region's total investment (before allocation of Commuter Bus and MARC Train services between the region and the rest of the state). Operating costs represent approximately 72% of regional expenditures for this year.

Figure 22 Baltimore Regional Total Transit Investment, FY 2019



Notes: Baltimore-oriented Local Services category includes unallocated Agency-wide items; includes all Commuter Bus and MARC Train service costs (later charts allocate these costs between Baltimore region and outside jurisdictions based on share of revenue miles of service.

Source: Developed from MDOT MTA data (for agency expenditures) and NTD data (for LOTS expenditures).

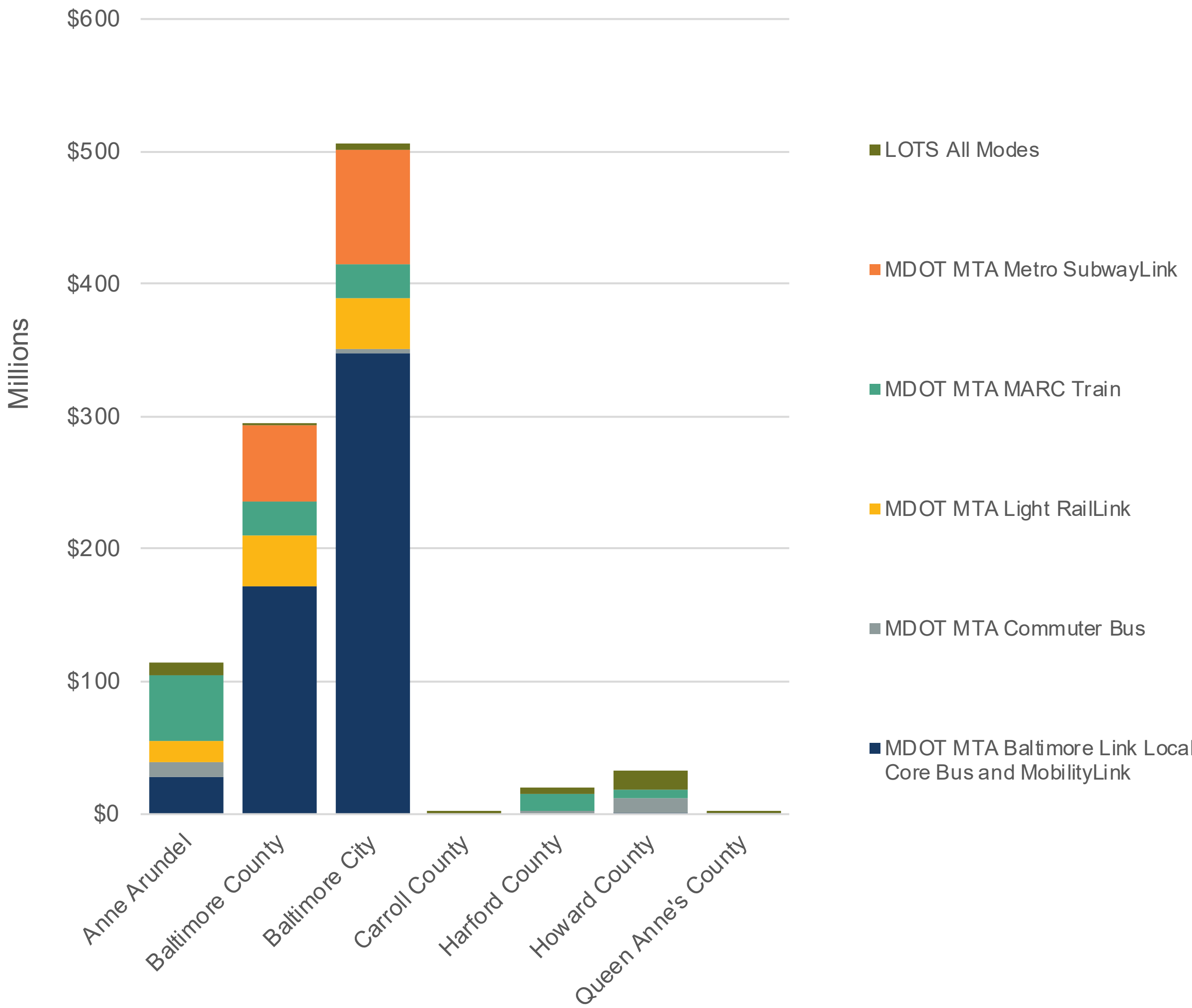
Baltimore Region Transit Investment – by Jurisdiction

A key component of this study effort is to understand total transit investment not only for the Baltimore region but also for individual jurisdictions. The study team estimated investment by jurisdiction by allocating transit program capital spending and service costs across each city and county. Costs include MDOT MTA expenditures for Baltimore-oriented local service, Commuter Bus and MARC Train service costs, and individual LOTS agency expenditures. The analysis is intended to be illustrative of total investment by jurisdiction at a high level, using revenue miles by jurisdiction as a proxy to allocate costs.

For this analysis, Commuter Bus and MARC Train costs are allocated among jurisdictions based on revenue miles of service. This means that total costs associated with statewide Commuter Bus and MARC Train services are allocated to benefiting jurisdictions using revenue miles as a proxy. This results in about 40% of Commuter Bus and 53% of MARC Train costs assigned to the Baltimore region and the remainder excluded from the Baltimore region investment.

The analysis suggests the greatest investment occurs in the City of Baltimore, primarily associated with the BaltimoreLink core services (see Figure 23). While Baltimore County appears as the second greatest level of investment, it accounts for roughly 40% of the total investment made in the City of Baltimore. Part of the reason for these differences is that outlying communities are largely served by less capital-intensive bus and demand response services. Many of the Baltimore-oriented services also benefit residents of outlying jurisdictions who access the network through park and ride lots. This means that even though the service miles and financial investments are counted as within the City of Baltimore, benefits are shared regionally.

Figure 23 Illustrative Transit Investment (Capital and Operating) by Mode and Jurisdiction, FY 2019

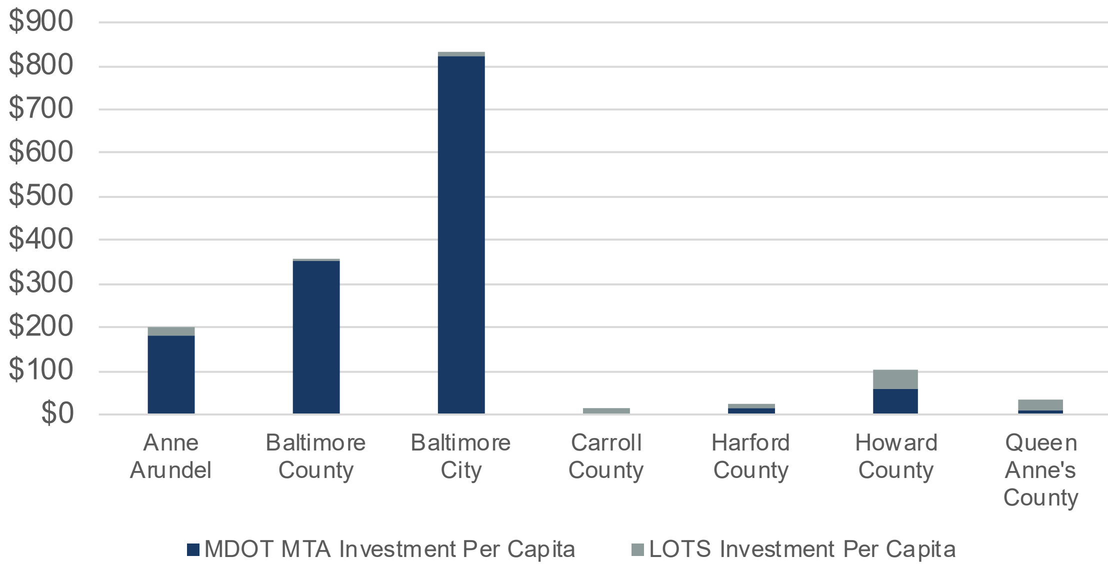


Notes:

1. MDOT MTA Baltimore region capital and operating costs for single illustrative year allocated to each jurisdiction based on revenue miles of MDOT MTA-provided service in each jurisdiction. Revenue mile data by mode provided by MDOT MTA, with minor adjustment to combine City of Annapolis and Anne Arundel County services.
2. City of Annapolis and Anne Arundel County combined to utilize available revenue mile data.

Source: LOTS and MDOT MTA investment derived from NTD data; for this analysis, Another perspective on the same information is to consider transit investment by jurisdiction on a per capita basis (see Figure 24). This data shows the same overarching investment dynamic, although differences among jurisdictions is somewhat offset by the impact of population. Further, these services benefit residents throughout the region who, for instance, drive to park-and-ride lots and utilize City of Baltimore service.

Figure 24 Illustrative Transit Investment (Capital and Operating), Dollars Per Capita, FY 2019



Source/notes: Both LOTS and MDOT MTA investment from NTD data; revenue mile data by mode provided by MDOT MTA; population data from US Census (for City of Baltimore, City population used).

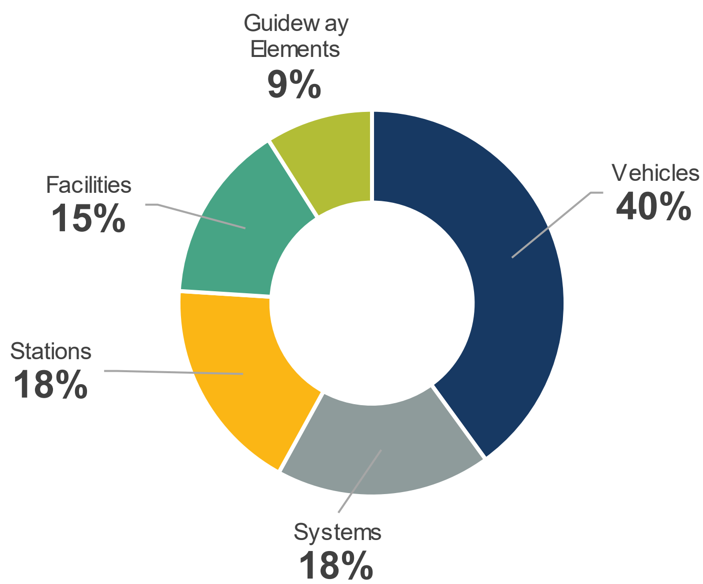
Investment Needs

MDOT MTA

The 25-Year State of Good Repair (SGR) capital investment needs for MDOT MTA in Central Maryland as defined by the Central Maryland Regional Transit Plan are estimated to be roughly $13 billion (see Figure 25 for forecast needs by cost category and Figure 26 by mode). While these needs vary by year, there is a substantial unfunded backlog, creating a spike in near-term needs relative to annual needs over the planning horizon. This does not include ongoing operations costs (and modest associated cost inflation) or any system enhancements.

Figure 25 MDOT MTA Central Maryland 25-Year State of Good Repair Needs by Cost Category

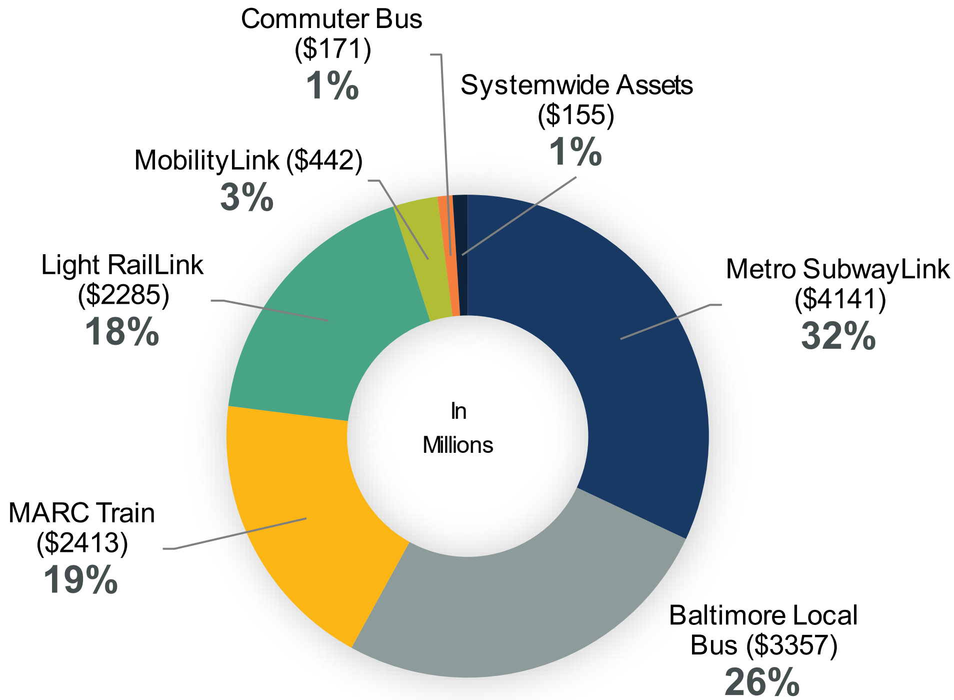
($13 billion total)



Source: Data provided by MDOT MTA developed for the Central Maryland Regional Transit Plan

Figure 26 MDOT MTA Central Maryland 25-Year State of Good Repair Needs by Mode

($13 billion total)



Source: Data provided by MDOT MTA developed for the Central Maryland Regional Transit Plan

For shorter term context, between 2019 and 2028, the period of the most recent Capital Needs Inventory[15], MDOT MTA's total statewide capital needs are projected to be over $5.7 billion. SGR comprises about 81% of total needs, with enhancements to meet system performance goals and service demand accounting for approximately 19%.

Costs included in the CNI include funding required to maintain assets in a state of good repair; meet existing or new regulatory requirements; invest in transit infrastructure, assets, or service enhancement; and modernize or adapt to new technologies or mobility options. Routine maintenance activities are considered operating expenses and not included in the CNI. Moreover, funding commitments related to the Purple Line, LOTS, and freight rail are excluded (there is a separate TAM Plan and funding prioritization tool for LOTS, discussed below).

An estimated $4.6 billion in SGR needs are identified, including $1.5 billion in deferred capital maintenance (shown in Year 1 of the CNI). Including this backlog, the annual reinvestment needed to maintain and/or bring its assets into a state of good repair averages $462 million per year. This compares to forecast annual average SGR funding of only $359 million over the 10-year period, based on the FY 2019-24 CTP, resulting in a gap of just over $1 billion at the time of the last CNI. With 10-year total needs reaching $5.7 billion and total funding forecast to be $3.7

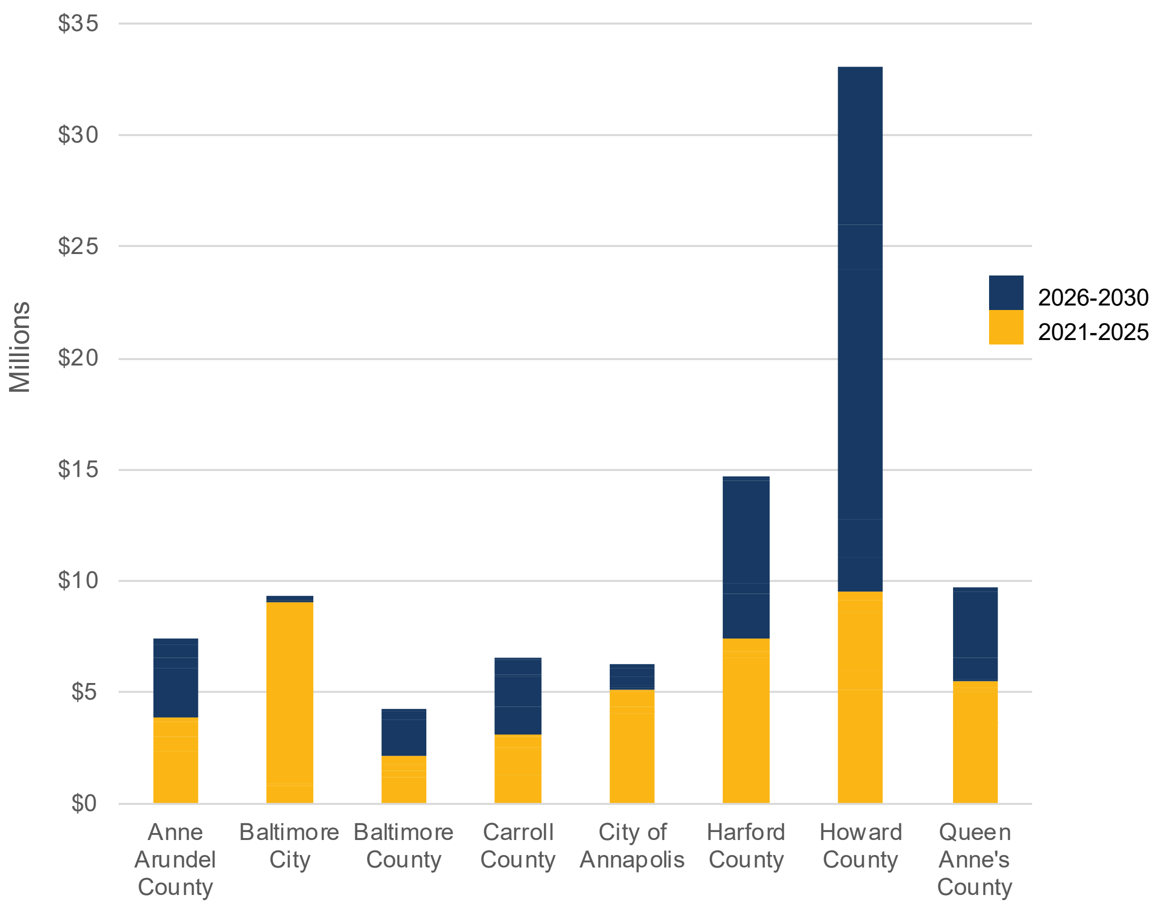
[15] MDOT MTA CY2019-2028 10-Year Capital Needs Inventory and Prioritization, MDOT MTA, July 2019

billion, an estimated total funding gap (SGR and Enhancements) of just over $2 billion was identified. This gap has changed with recent changes to federal and state transportation funding and is assessed on an ongoing basis..

Central Maryland LOTS

The 25-year (2021 – 2045) unconstrained SGR needs for Central Maryland LOTS is estimated to be approximately $309 million. Looking nearer term, the 10-year (2021 – 2030) unconstrained SGR needs is estimated to be approximately $91 million (see Figure 27 for SGR needs by individual LOTS system).[16] As with the MDOT MTA program, this does not include service enhancements or ongoing operations which must also be funded, with modest projected inflation to maintain service.

Figure 27 Central Maryland LOTS State of Good Repair Investment Needs, 2021 – 2030



Source: Data provided by MDOT MTA

[16] Data provided by MDOT MTA

The statewide backlog for all Tier II LOTS was $61 million as of the end of FY 2019. In order to eliminate this backlog and maintain it at zero, the total unconstrained needed investment is estimated to be $550 million over 20 years, an average about $27 million per year. Based on historical funding levels, the average annual capital funding for all LOTS is projected to be $23.7 million, which is less than the need to eliminate the backlog. Modest funding increases, however, could eliminate the backlog and maintain it at zero.[17] Investment decisions are made on an annual basis using MDOT MTA's prioritization tool and based on updates to federal and state funding availability as well as the ability of local jurisdictions to provide necessary matching funds.

NEAR- AND LONGER-TERM FUNDING CHALLENGES

Future Needs and Funding in Context of Current Legislative Commitments

As discussed in the prior section, transit programs in Central Maryland require around $13 billion in capital investment to maintain existing assets through 2045.[18] MDOT MTA has deployed many techniques to attempt to narrow this gap, including leveraging all available federal funding and discretionary grant opportunities, new partnerships, and delivery methods. Meanwhile, as shown in recent CTPs, the vast majority of MDOT MTA funding goes to SGR needs.

While alternative financing and partnerships could help to fund these programs, partnerships tend to be project-specific and do not address more system-wide funding needs. Further, because transit operating and capital costs generally grow faster than inflation, the ability of currently designated funding to keep pace with those needs remains an unanswered regional and statewide challenge.

In 2018, Maryland's Generally Assembly directed that a permanent dedicated capital fund of no less than $167 million annually be established for WMATA. These funds were allocated from the General Fund, not the TTF and was agreed to as part of the WMATA compact and includes consistent contributions from the WMATA partners (Maryland, Virginia, and the District of Columbia). At the same time, an additional $60 million per year of capital and operating funding for MDOT MTA was established, but only for three years. This, in combination with the increase in state revenue for transportation resulting from passage of the Transportation Infrastructure Investment Act of 2013, indexing the gasoline tax and transit fares, and increasing the state sales tax on gasoline, has provided some funding relief, but the needs remain daunting.

[17] Locally Operated Transit System (LOTS) Tier II Group Transit Asset Management Plan (TAMP), 2020.

[18] Data developed by MDOT MTA for Central Maryland Regional Transit Plan

Near-Term Impacts of COVID-19 Pandemic on Statewide Transportation Funding

According to the Draft FY 2021 – FY 2026 CTP, the COVID-19 emergency resulted in major declines in Marylanders' use of transportation services. For example, between mid-April 2019 and mid-April 2020 traffic volumes were down 51%, toll transactions were down 58%, air passenger traffic at BWI was 97%, and transit ridership was down 67%. While MDOT has seen gradual recoveries in each of these areas, transportation use across all modes has not returned to pre-pandemic levels. While temporarily cushioned by the availability of federal funding (e.g., via the CARES Act), the resulting impact on TTF state revenues is significant: revenues declined approximately $350 million for FY 2020 (compared to the estimated revenue in the prior Final CTP for this same year). Current estimates for FY 2021 are $575 million lower than the Final FY 2020 – FY 2025 CTP estimates. These lowered revenues are partially offset by federal assistance received as well as reductions to operating and capital programs throughout the program.

While revenues are beginning to improve, the Final FY 2021- FY 2026 CTP reflects across-the-board declines in revenues. Motor fuel tax collections are projected to decline by $600 million for the six-year CTP period, with corresponding reductions in other revenues, including vehicle title taxes and corporate income tax revenues. Operating revenues are estimated to be down $500 million. The Department does not anticipate revenues to return to pre-COVID levels until FY 2023 or beyond.[19]

Reductions in anticipated revenue also necessitates reductions in the State's transportation bonding program, backed by these revenues. It is projected that there will be a $400 million reduction in bond proceeds over the prior Six-Year CTP due to the revenue declines from COVID-19.[20]

Longer-Term Impacts

The longer-term impacts of the COVID-19 pandemic on both the demand for transit services and on transportation program revenues are largely unknown at this point this report was prepared (March 2021) in time. It is widely anticipated that there will be structural changes in commuting patterns and alternatives such as telework as well other travel patterns, but the extent and durability of these changes is unknown.

The extent to which transportation program revenues are derived, at least in large part, by fuel taxes and other transportation-related taxes and user fees means that these revenue sources will likely also experience longer term impacts that are as of now uncertain.

[19] AASHTO Journal, 2-28-2021. Maryland DOT Draft Budget Charts Impact of COVID-19.

[20] Final Fiscal Year 2021- 2026 Maryland Consolidated Transportation Program.

IMPLICATIONS FOR DEVELOPING TRANSIT GOVERNANCE AND FUNDING ALTERNATIVES

All information presented in this technical memorandum is relevant to the development and consideration of alternatives for transit governance and funding in the Baltimore region, focused on these key themes:

- Enhanced Planning Coordination (including Improved Services and Regional Connections)
- Improved Services Locally and Across the Region
- Increased Transit Investment
- Ensure Equity in Funding and Service Decisions

Figure 28 Goals for Future Regional Governance and Funding Structure

HOW DOES THE CURRENT FUNDING MODEL MEET THESE GOALS?

The Baltimore Region's current transit funding structure includes MDOT MTA allocation of federal and state funds, and local funds to support non-MDOT MTA operated services. MDOT MTA's budget includes funding for its local and regional transit service; regional commuter bus and rail service (MARC); and funding to support the LOTS. Funding streams reflect a somewhat siloed approach to service in the region.

While MDOT MTA services are planned and funded as a network, coordination between MDOT MTA and the local jurisdiction and with LOTS agencies is limited. While service areas may overlap, coordination is informal and decisions on how to spend funds are independent between the local jurisdictions and the state. The limited planning between operations within the region results in little coordination on services or investment decisions. Further, while the CMRTP sets the stage for prioritization of funding for future service improvements, coordination between and across jurisdictions is unclear.

Existing funding levels prohibit substantial improvements to service in the region. Transit programs in Central Maryland require just over $13 billion in capital investment to maintain existing assets through 2045. This does not include ongoing operations costs or any system enhancement. Most of the existing state and local funding is committed to operating and maintaining the current transit system, and still falling short, with costs increasing annually. In 2020, Regional Transit Plan for Central Maryland laid out 25-year plan for improving public transportation in Central Maryland. The RTP calls for new initiatives, expanded services, and capital projects that would require either new funding sources or the reallocation of existing funds.

Improving service will require new and expanded funding but there is no clear path or formula to determine the appropriate levels of local and state funding to improve service. Nor is there a strategy for how best to raise revenues to support transit investments. Given the large backlog of unmet need, it is unrealistic to expect additional state funds solely can improve transit services in the region, without significant increases in transit funding sources.

Regional services are funded through the MDOT MTA budget. Increasingly, passengers of both MDOT MTA operated services and LOTS services are looking for more ways to travel seamlessly between systems. MDOT MTA is limited in its ability to expand services and there are no financial incentives for LOTS agencies or local jurisdictions to contribute to services they don't operate or coordinate for regional service delivery; indeed, the perception of local funds used for service outside of the local jurisdiction creates a disincentive for regional service.

Limited increases in the TTF and ongoing commitments and obligations create little flexibility to fund new or different programs. As a result, decisions about transit investment are limited. As a business unit of MDOT, MTA ultimately decides how its resources are utilized, particularly due to the lack of funding partnerships with local communities and the inability to attract local funding or other support to the transit system. LOTS decision making is more local because of local investment in those services. Further, the legislatively prescribed annual CTP tour and priority letter process tend to focus on highway spending, with transit needs comprising a smaller element of the process.

While the relative level of investment in public transportation is high, the needs for capital investment in the region as well as ongoing operating support is strong. Indeed, needs outstrip available funding by a significant margin. Available funding leaves many state transit needs unmet. LOTS have also struggled to increase local funding contributions.

The Capital Needs Inventory and 25-Year Needs Assessment and other assessments present a significant need to increase investment. This need must be considered in developing organizational and funding alternatives for the future. A similar situation exists regarding operating funding, with LOTS needs and plans calling for additional investment—however the LOTS do not have a direct voice in determining the overall level of state funding or its allocation.

The extent to which investment is equitable across the region is not readily discernible from the available data and complex considerations. There are major differences in local needs, with the City of Baltimore and inner suburbs having a much higher demand and usage of transit service as compared with outlying areas. Historic funding shortfalls combined with flat (and even declining) state/federal funding combine to create a situation where expansion of services is difficult or impossible without cutting funding in other areas. This is an important goal for consideration—and is linked to questions of overall investment as well as funding composition.