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FROM	NAME & TITLE	Robert Cennane, Budget Director	CITY of BALTIMORE MEMO	
	AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 432, City Hall (410) 396-4774		
	SUBJECT	City Council Bill 19-0353—Charter Amendment-Conduit System Sale, Transfer or Franchise Prohibited		

DATE:

TO

The Honorable President and
Members of the City Council
City Hall, Room 400

September 9, 2020

Position: Oppose

The Department of Finance is herein reporting on City Council Bill 19-0353, Charter Amendment-Conduit System Sale, Transfer or Franchise Prohibited, the purpose of which is to prohibit the sale, transfer or franchising of the City's underground conduit system for cables, wires, and similar facilities. This legislation extends exception to franchise agreements, which the City may enter into for a limited time, subject to negotiations and conditions stipulated within the Charter. If passed by City Council, this legislation will be submitted to Baltimore City voters for adoption or rejection.

Background

The City runs electrical, telephone, and fiber optic cables through its conduit system. The total length of the system runs 16 million linear feet. Private parties and businesses can enter into short-term rental or long-term franchise agreements with the City to access this infrastructure on a per linear foot basis. The Baltimore Gas and Electric Company (BGE) continues to be the largest renter of conduit space, accounting for 12.5 million linear feet, or over 80 percent of capacity.

In Fiscal 2016, the City revised its rate from \$0.987 to \$3.33 per linear foot on the premise that more revenue was needed to adequately address maintenance and capital investment. Revenue to the Conduit Fund during Fiscal 2016 more than tripled as a result. However, BGE sued the City on the rate change and both parties ultimately agreed to settle at a lower rate. The agreement stipulated a three-year rate of \$2 per linear foot with caps on fees applied to BGE of \$10 million and \$25 million for Fiscal 2017 and Fiscal 2018, respectively. The agreement sunset in Fiscal 2019 and the linear foot rate increased to \$2.20 in Fiscal 2020.

Fiscal Impact

Projected revenue during Fiscal 2021 from renting and franchising parts of the City's conduit system is \$36.5 million, with \$27.5 million coming from the City's lease agreement with BGE. Of this total, \$11.97 million is appropriated for operating expenditures. This supports 119 funded positions, consultants for supervising and managing capital projects, and expenses associated with day-to-day operations. The remaining balance is directed to conduit related capital projects. The Fund supports the Fiscal 2021 capital budget with a contribution of \$23 million.

The table below shows the amounts and sources of revenue generated from conduit leases for the period from Fiscal 2017 through Fiscal 2021.

Conduit Enterprise Fund Revenue (Fiscal 2016 – Fiscal 2020)

	Fiscal 2016 (Actuals)	Fiscal 2017 (Actuals)	Fiscal 2018 (Budgeted)	Fiscal 2019 (Projected)	Fiscal 2020 (Budgeted)
BGE	\$ 33,938,832	\$ 10,000,000	\$ 25,000,000	\$ 27,812,898.63	\$ 30,718,393.26
Others	\$ 4,689,248	\$ 4,300,521	\$ 3,548,187	\$ 4,155,950	\$ 4,590,105
Total	\$ 38,628,080	\$ 14,300,521	\$ 28,548,187	\$ 31,968,849	\$ 35,308,498

This legislation does not change the existing franchise agreement. Finance does not anticipate that this legislation will have an impact on the Conduit Enterprise Fund's budget.

Conclusion

City Council Bill 19-0353 does not have an immediate fiscal impact on the City. The Department of Transportation would continue to manage existing franchise and lease agreements, including an agreement with BGE, the largest user. Currently, all revenue from fines are directed back into investments for the conduit system. However, prohibiting the future sale of conduit system infrastructure would forfeit the City's ability to arrange a favorable agreement to monetize this asset. The Department of Finance can foresee a future arrangement that would provide an infusion of cash for other City needs, while shifting the burden of maintenance away from the Department of Transportation to a private operator.

For the reasons stated above, the Department of Finance opposes City Council Bill 19-0353.

cc: Henry Raymond
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