

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

Senate Bill 591 (The President, *et al.*) (By Request - Administration)
Budget and Taxation

Transportation - Highway User Revenues - Phased Restoration

This Administration bill alters the distribution of funds in the Gasoline and Motor Vehicle Revenue Account (GMVRA) over eight years beginning in fiscal 2017 to provide 70% to the Maryland Department of Transportation (MDOT) and 30% to local jurisdictions distributed as follows: Baltimore City (12.1%), counties (15.4%), and municipalities (2.5%).

The bill takes effect July 1, 2015.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues available to MDOT decrease by an estimated \$51.5 million in FY 2017, \$96.7 million in FY 2018, \$143.5 million in FY 2019, and \$191.2 million in FY 2020. Combined with a reduction in bond issuances and corresponding debt service savings, TTF revenues available to MDOT decrease by \$834 million over the five-year period.

Local Effect: The bill alters the distribution of GMVRA revenues, thereby increasing local highway user revenues by an estimated \$51.5 million in FY 2017, \$96.7 million in FY 2018, \$143.5 million in FY 2019, and \$191.2 million in FY 2020. By FY 2024, local highway user revenues increase by \$390.9 million.

Small Business Effect: The Administration has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment.

Analysis

Bill Summary/Current Law: TTF is a nonlapsing special fund that provides funding for transportation. It consists of tax and fee revenues, operating revenues, bond proceeds, and

fund transfers. MDOT issues bonds backed by TTF revenues and invests the TTF fund balance to generate investment income. The Maryland Transit Administration, Motor Vehicle Administration, Maryland Port Administration, and Maryland Aviation Administration generate operating revenues that cover a portion of their operating expenditures.

The tax and fee revenues allocated to TTF include motor fuel taxes, titling taxes, vehicle registration fees, a portion of the rental car sales and corporate income taxes, and other miscellaneous motor vehicle fees.

After meeting debt service requirements, MDOT may use funds in TTF for any lawful purpose related to the exercise of its rights, powers, duties, and obligations. *Under current law*, TTF’s GMVRA revenue (commonly known as highway user revenue) must be distributed to MDOT and local jurisdictions as follows:

- 90.4% to MDOT;
- 7.7% to Baltimore City;
- 1.5% to counties; and
- 0.4% to municipalities.

Exhibit 1 summarizes the bill’s proposed distribution of highway user revenues in fiscal 2016 through 2025.

Exhibit 1
Proposed Highway User Revenue Distribution
Fiscal 2016-2025
(\$ in Millions)

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
MDOT	90.4%	87.5%	85%	82.5%	80.0%
Baltimore City	7.7%	8.0%	8.3%	8.7%	9.2%
Counties	1.5%	3.0%	5.1%	7.1%	9.0%
Municipalities	0.4%	1.5%	1.6%	1.7%	1.8%
	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
MDOT	77.5%	75%	72.5%	70%	70%
Baltimore City	9.7%	10.2%	11.1%	12.1%	12.1%
Counties	10.9%	12.7%	14.1%	15.4%	15.4%
Municipalities	1.9%	2.1%	2.3%	2.5%	2.5%

Source: Department of Legislative Services

Background: For more information regarding transportation aid to local governments and highway user revenues, please see the **Appendix – Highway User Revenues**.

Supplemental Budget No.1 includes an additional \$25.0 million for transportation grants to Baltimore City, counties, and municipalities for fiscal 2016 as follows: \$2.0 million for Baltimore City; \$4.0 million for counties; and \$19.0 million for municipalities. The grants are to be allocated on the same basis as highway user revenues.

State Fiscal Effect: The bill requires GMVRA revenues to be distributed as follows: 70% to MDOT and 30% to local jurisdictions (phased in over eight fiscal years beginning in fiscal 2017). Under current law, MDOT retains 90.4% of GMVRA revenues and local jurisdictions receive the remaining 9.6%. Thus, altering the distribution formula decreases TTF revenues available to MDOT by an estimated \$51.5 million in fiscal 2017, \$96.7 million in fiscal 2018, \$143.5 million in fiscal 2019, and \$191.2 million in fiscal 2020, totaling \$483.0 million over the five-year period of fiscal 2016 through 2020.

Additionally, the TTF revenue loss limits MDOT's ability to issue Consolidated Transportation Bonds in support of its capital program in that five-year period. MDOT advises that, under the bill, highway user revenues decrease by \$485 million over the five-year period, and that MDOT must reduce future bond issuances by \$700 million to meet required bond coverage ratios. Therefore, MDOT advises that it must reduce its capital budget by \$1.1 billion over the next five fiscal years. This estimate is based on MDOT's current projected revenues and does not take into account any debt service savings.

The Department of Legislative Services advises, using its own revenue projections, that highway user revenues available to MDOT decrease by \$483 million over the five-year period, which requires MDOT to reduce its bond issuances by \$417 million. When corresponding debt service savings of \$66 million are taken into account, the net decrease in MDOT's capital budget over the five-year period is \$834 million.

Local Fiscal Effect: Altering the GMVRA distribution formula increases local jurisdictions' highway user revenues by an estimated \$51.5 million in fiscal 2017, \$96.7 million in fiscal 2018, \$143.5 million in fiscal 2019, and \$191.2 million in fiscal 2020. By fiscal 2024, when the bill's changes to the distribution of highway user revenues are fully implemented, local revenues increase by an estimated \$390.9 million. The distribution of the increase among Baltimore City, the counties, and municipalities is shown in **Exhibit 2**. The estimates for fiscal 2021 through 2024 assume a 1% annual growth rate in highway user revenues.

Exhibit 2
Projected Increase in Local Distribution of Highway User Revenues
Fiscal 2016-2024
(\$ in Millions)

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Baltimore City	\$0	\$5.3	\$10.75	\$18.1	\$27.6
Counties	0	26.7	64.5	101.7	137.9
Municipalities	0	19.5	21.5	23.6	25.7
Total	\$0	\$51.5	\$96.7	\$143.5	\$191.2
	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	
Baltimore City	\$37.2	\$46.9	\$64.5	\$84.3	
Counties	174.6	210.2	239.0	266.4	
Municipalities	27.9	31.9	36.0	40.2	
Total	\$239.6	\$289.1	\$339.5	\$390.9	

Note: Totals may not sum due to rounding.
Source: Department of Legislative Services

Exhibit 3 shows the increase in highway user revenues and the total amount of highway user revenues distributed to localities and municipalities from fiscal 2016 through 2020 under the bill. (The total highway user revenues in this exhibit does not reflect the additional \$25.0 million in local transportation aid for fiscal 2016 that is included in Supplemental Budget No.1.)

Exhibit 3
Local Government Increase and Total – Highway User Revenues
Fiscal 2016-2020
(\$ in Millions)

	FY 2016		FY 2017		FY 2018		FY 2019		FY 2020	
	<u>Increase</u>	<u>Total</u>	<u>Increase</u>	<u>Total</u>	<u>Increase</u>	<u>Total</u>	<u>Increase</u>	<u>Total</u>	<u>Increase</u>	<u>Total</u>
Allegany	\$0	\$0.8	\$1.4	\$2.3	\$2.2	\$3.0	\$2.9	\$3.8	3.7	4.5
Anne Arundel	0	3.1	3.7	6.9	7.8	11.0	11.9	15.1	15.8	19.1
Baltimore City	0	135.8	5.3	142.1	10.7	148.7	18.2	158.0	27.6	169.1
Baltimore	0	4.0	4.0	8.0	9.7	13.8	15.3	19.4	20.8	24.9
Calvert	0	0.7	0.9	1.6	1.8	2.5	2.6	3.4	3.5	4.2
Caroline	0	0.5	0.7	1.3	1.3	1.9	1.9	2.4	2.5	3.0
Carroll	0	1.5	2.2	3.7	3.9	5.4	5.5	7.1	7.1	8.7
Cecil	0	0.8	1.2	2.0	2.1	3.0	3.1	3.9	4.0	4.9
Charles	0	1.0	1.2	2.3	2.6	3.6	3.9	5.0	5.2	6.3
Dorchester	0	0.6	0.8	1.4	1.5	2.1	2.1	2.7	2.8	3.3
Frederick	0	2.1	3.5	5.6	5.6	7.7	7.6	9.8	9.6	11.8
Garrett	0	0.6	0.8	1.5	1.6	2.2	2.4	3.0	3.1	3.7
Harford	0	1.7	2.3	4.0	4.3	6.0	6.3	8.0	8.2	10.0
Howard	0	1.5	1.5	3.1	3.7	5.3	5.9	7.5	8.0	9.6
Kent	0	0.3	0.4	0.7	0.8	1.1	1.1	1.4	1.4	1.7
Montgomery	0	4.7	6.8	11.5	12.2	17.0	17.6	22.4	22.8	27.7
Prince George's	0	4.3	6.8	11.1	11.3	15.6	15.7	20.0	19.9	24.4
Queen Anne's	0	0.6	0.7	1.2	1.4	2.0	2.1	2.7	2.8	3.4
St. Mary's	0	0.8	0.8	1.6	1.9	2.7	3.0	3.8	4.0	4.8
Somerset	0	0.3	0.4	0.8	0.8	1.2	1.2	1.6	1.6	2.0
Talbot	0	0.5	0.9	1.4	1.4	1.9	1.9	2.4	2.4	2.9
Washington	0	1.3	2.1	3.4	3.5	4.8	4.8	6.1	6.1	7.5
Wicomico	0	1.0	1.7	2.8	2.7	3.8	3.7	4.8	4.7	5.8
Worcester	0	0.7	1.1	1.9	1.9	2.6	2.7	3.4	3.4	4.2
Total	\$0	\$169.3	\$51.5	\$222.1	\$96.7	\$268.7	\$143.5	\$317.9	\$191.2	\$367.7

Notes: Includes revenues provided to both counties and municipalities within the counties.

Estimate assumes that highway road miles and vehicle registrations in fiscal 2016 remain constant through fiscal 2020.

Total does not reflect the \$25.0 million in grants for local transportation aid that is proposed for fiscal 2016 in Supplemental Budget No.1.

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: HB 484 (The Speaker, *et al.*) (By Request - Administration) - Environment and Transportation.

Information Source(s): Maryland Department of Transportation, Maryland Association of Counties, Maryland Municipal League, Comptroller's Office, Department of Legislative Services

Fiscal Note History: First Reader - March 4, 2015
min/lgc

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Appendix – Highway User Revenues

Transportation Aid to Local Governments

In fiscal 2015, local governments received \$169.7 million in State aid through highway user revenues and \$16.0 million through municipal transportation grants for the construction and maintenance of local roads. Local governments also received \$7.2 million for special transit grants. **Exhibit 1** illustrates how State aid to local governments for transportation purposes increased by 31.5% between fiscal 2011 and 2015. **Exhibit 2** shows the amount of State aid for local transportation programs in each county, including municipalities and Baltimore City, in fiscal 2015.

Exhibit 1 Transportation Aid Programs – Funding Trend (\$ in Millions)

<u>Aid Program</u>	<u>FY 2011</u>	<u>FY 2015</u>	<u>Difference</u>	<u>Percent Difference</u>
Highway User Revenues	\$139.3	\$169.7	\$30.3	21.8%
Municipal Transportation Grants	0.0	16.0	16.0	N/A
Elderly/Disabled Grants	4.4	4.3	-0.1	-2.5%
Paratransit Grants	3.0	2.9	-0.1	-2.2%
Total	\$146.8	\$192.9	\$46.2	31.5 %

Source: Department of Legislative Services

Exhibit 2
Transportation Aid Programs
Fiscal 2015

County	Highway User Revenues	Municipal Grants	Elderly/ Disabled	Paratransit	Total Aid	Per Capita Aid	Per Capita Ranking
Allegany	\$820,822	\$809,832	\$141,544	\$68,400	\$1,840,598	\$25	9
Anne Arundel	3,148,028	698,158	245,996	416,000	4,508,182	8	21
Baltimore City	136,102,428	0	379,335	0	136,481,763	219	1
Baltimore	4,004,521	0	395,836	0	4,400,357	5	24
Calvert	701,291	198,831	127,003	76,099	1,103,224	12	16
Caroline	511,026	286,110	120,217	40,000	957,353	29	6
Carroll	1,496,445	925,146	151,029	0	2,572,620	15	14
Cecil	833,388	463,297	134,073	0	1,430,758	14	15
Charles	1,034,239	264,130	137,609	175,848	1,611,826	11	18
Dorchester	574,998	329,211	122,724	50,000	1,076,933	33	3
Frederick	2,087,612	1,764,578	159,159	460,000	4,471,349	19	11
Garrett	629,723	262,429	119,664	0	1,011,816	34	2
Harford	1,690,629	775,904	170,371	40,592	2,677,496	11	17
Howard	1,531,557	0	162,520	430,000	2,124,077	7	23
Kent	295,694	170,016	120,217	0	585,927	29	5
Montgomery	4,712,706	2,546,645	379,108	0	7,638,459	8	22
Prince George's	4,257,842	3,276,302	332,819	446,663	8,313,626	9	20
Queen Anne's	560,814	109,824	122,064	0	792,702	16	13
St. Mary's	785,018	70,845	131,054	135,000	1,121,917	10	19
Somerset	327,969	122,127	117,447	96,667	664,210	25	8
Talbot	511,139	437,810	120,217	0	1,069,166	28	7
Washington	1,314,937	1,051,976	146,917	188,100	2,701,930	18	12
Wicomico	1,021,159	892,293	134,507	96,667	2,144,626	21	10
Worcester	732,161	544,537	134,508	206,666	1,617,872	31	4
Total	\$169,686,146	\$16,000,001	\$4,305,938	\$2,926,702	\$192,918,787	\$33	

Note: Highway User Revenues column includes Municipal Aid
Source: Department of Legislative Services

Highway User Revenues – Generally

Since the early 1900s, the State has shared motor vehicle-related revenues with the counties and Baltimore City. Initially these revenues consisted of vehicle registration fees. In 1927, when the gasoline tax increased from \$0.02 to \$0.04 cents per gallon, the State began sharing these taxes with local governments. In 1968, the General Assembly approved legislation that established a formula for apportioning the county and municipal shares of highway user revenues. The legislation also initiated the sharing of motor vehicle titling taxes with the subdivisions. Legislation enacted in 1970 created the Maryland Department of Transportation (MDOT) and a consolidated Transportation Trust Fund (TTF). As provided by that legislation, the State shares with the counties, Baltimore City, and municipalities those revenues credited to the Gasoline and Motor Vehicle Revenue Account in TTF, more commonly referred to as “highway user revenues.” Currently, the revenues dedicated to the account include all or some portion of the motor vehicle fuel tax, vehicle titling tax, vehicle registration fees, short-term vehicle rental tax, and State corporate income tax.

Highway User Revenues – Distribution

Historically, highway user revenues have been distributed to TTF for MDOT’s capital program, debt service, and operating costs and to the counties, Baltimore City, and municipalities to assist in the development and maintenance of local transportation projects. In fiscal 2009, prior to recent budget reconciliation legislation reducing the local share of highway user revenues to help balance the budget, the \$1.6 billion in highway user revenues were distributed as follows:

- \$1.1 billion (70%) to MDOT;
- \$187.6 million (12.06%) to Baltimore City;
- \$239.4 million (15.38%) to counties; and
- \$39.8 million (2.56%) to municipalities.

In response to the ongoing budget crisis, the Budget Reconciliation and Financing Act of 2010 (Chapter 484) significantly reduced the share of highway user revenues distributed to the counties and municipalities, while increasing the portion going to the general fund. In accordance with Chapter 484, in fiscal 2011, the \$1.6 billion in highway user revenues were distributed as follows:

- \$1.1 billion (68.5%) to MDOT;
- \$377.1 million (23.0%) to the general fund;
- \$129.5 million (7.9%) to Baltimore City;
- \$8.2 million (0.5%) to counties; and
- \$1.6 million (0.1%) to municipalities.

The following year, the Budget Reconciliation and Financing Act of 2011 (Chapter 397) divorced the relationship between highway user revenues and the general fund, reducing the distribution of highway user revenues to the general fund in fiscal 2012 and ending the distribution to the general fund in fiscal 2013. **Exhibit 3** illustrates this transition and funding from fiscal 2012 through 2015.

Baltimore City has generally received a larger share of highway user revenues than other local jurisdictions because the State does not conduct highway maintenance or construction in Baltimore City (except for portions of I-95) as it does in the counties. The city's share of total highway user revenues is currently 7.7% each year, as shown in Exhibit 3.

Exhibit 3
Highway User Revenues – Distribution
Fiscal 2012-2015
(\$ in Millions)

	Fiscal 2012		Fiscal 2013		Fiscal 2014		Fiscal 2015	
	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>
MDOT	79.8%	\$1,318.6	90.0%	\$1,445.4	90.4%	\$1,543.40	90.4%	\$1,597.90
General Fund	11.3%	186.7						
Baltimore City	7.5%	123.9	8.1%	130.1	7.7%	131.5	7.7%	136.1
Counties	0.8%	13.2	1.5%	24.1	1.5%	25.6	1.5%	26.5
Municipalities	0.6%	9.9	0.4%	6.4	0.4%	6.8	0.4%	7.1
Total	100%	\$1,652.3	100%	\$1,606.0	100%	\$1,707.3	100%	\$1,767.6

MDOT: Maryland Department of Transportation
Source: Department of Legislative Services

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Transportation – Highway User Revenues – Phased Restoration

BILL NUMBER: SB591/HB484

PREPARED BY: Governor’s Legislative Office

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS