

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 1003 (Delegate Kramer)
Environment and Transportation

Motor Fuel Tax - Distribution of Revenue

This bill modifies the distribution of motor fuel tax revenues by requiring that (1) the revenue attributable to increases in the motor fuel tax rate due to increases in the Consumer Price Index (CPI) and the revenue attributable to the sales and use tax equivalent rate applied to motor fuel be distributed directly to local governments, instead of to the Transportation Trust Fund (TTF), and (2) the remainder of the motor fuel tax revenue be distributed to TTF, instead of to the Gasoline and Motor Vehicle Revenue Account (GMVRA) within TTF.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: TTF revenues available to the Maryland Department of Transportation (MDOT) decrease by an estimated \$397.2 million in FY 2017, \$467.0 million in FY 2018, \$528.5 million in FY 2019, and \$576.6 million in FY 2020. Combined with a reduction in bond issuances and corresponding debt service savings, TTF revenues available to MDOT decrease by \$3.7 billion over the five-year period.

Local Effect: The bill redistributes specified motor fuel taxes, thereby increasing local transportation aid by an estimated \$397.2 million in FY 2017, \$467.0 million in FY 2018, \$528.5 million in FY 2019, and \$576.6 million in FY 2020.

Small Business Effect: None.

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 (MTA), Motor Vehicle Administration, Maryland Port Administration, and Maryland Aviation Administration generate operating revenues that cover a portion of their operating expenditures. 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.

Chapter 422 of 2013 required a statewide vote at the November 2014 general election, proposing a constitutional amendment to (1) require TTF funds to be used only to pay the principal of and interest on transportation bonds and for any lawful purpose related to construction and maintenance of an adequate highway system or any other transportation-related purpose and (2) prevent TTF funds from being transferred to the general fund or a special fund. An exception to the prohibition on TTF transfers is authorized only if the Governor, by executive order, declares that a fiscal emergency exists and the General Assembly, by a three-fifths vote of both houses, approves legislation concurring with the use or transfer of the funds. The allocation of highway user funds to local governments and the allocation of TTF funds to the Maryland Transportation Authority are not affected. The proposed constitutional amendment passed and became Article III § 53 of the Maryland Constitution.

To address concerns that the State lacked adequate funding to build new transportation infrastructure, Chapter 429 of 2013 increased transportation funding by, among other things, increasing motor fuel taxes and requiring MTA to increase base fare prices beginning in fiscal 2015. Beginning July 1, 2013, motor fuel tax rates are indexed for all fuels, except for aviation or turbine fuel, to the annual change in the CPI. Motor fuel tax rates increase annually if the Comptroller's Office determines that the CPI has increased over a specified 12-month period.

Chapter 429 also imposed a sales and use tax equivalent rate on motor fuel based on the retail price of regular unleaded gasoline, excluding federal and State taxes, as determined by the Comptroller's Office. The tax is determined by multiplying the applicable percentage rate times the annual average retail price, less federal and State taxes, rounded to the nearest tenth of a cent. The Comptroller's Office is required to calculate the average retail price of regular gasoline (excluding federal and State taxes) over a specified 12-month period and determine the tax to be imposed. The rate is equal to (1) 1% beginning July 1, 2013; (2) 2% beginning January 1, 2015; and (3) 3% beginning in fiscal 2016. Unless federal legislation is enacted by December 1, 2015, authorizing the State to require the collection of the sales and use tax on sales made by out-of-state sellers

to Maryland consumers, the rate increases from 3% to 4% beginning January 1, 2016, and increases to 5% beginning in fiscal 2017. If federal legislation on sales tax collection is enacted and takes effect before December 1, 2015, the sales and use tax equivalent rate remains at 3% and the Comptroller is then required to distribute 4% of State sales and use tax revenues to TTF.

Under current law, the revenue generated as a result of the motor fuel rate indexing and sales and use equivalent tax is distributed to TTF and retained by MDOT. However, *under the bill*, these revenues are distributed directly to Baltimore City, counties, and municipalities as follows:

- 40% to Baltimore City;
- 51% to counties; and
- 9% to municipalities.

Furthermore, *under the bill*, all other motor fuel tax revenues are distributed directly to TTF, instead of to GMVRA.

Exhibit 1 shows the estimated increases in motor fuel tax revenues as enacted by Chapter 429, all of which are redistributed to local governments by the bill beginning in fiscal 2017.

Exhibit 1
Sales and Use and CPI Indexing Tax Revenue Estimates
Fiscal 2016-2020
(\$ in Millions)

| | <u>FY 2016</u> | <u>FY 2017</u> | <u>FY 2018</u> | <u>FY 2019</u> | <u>FY 2020</u> |
|------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Sales and Use Tax Equivalent | \$265.5 | \$248.9 | \$281.7 | \$309.4 | \$329.0 |
| Contingent Rate* | 44.3 | 166.0 | 187.8 | 206.2 | 219.3 |
| CPI Indexing | 39.7 | 51.9 | 67.3 | 82.9 | 98.5 |
| Total | \$349.5 | \$466.8 | \$536.8 | \$598.5 | \$646.8 |

* Unless federal remote sales tax legislation is enacted by December 1, 2015, the sales and use tax equivalent rate increases from 3% to 4% beginning January 1, 2016, and increases to 5% beginning in fiscal 2017.

Note: Totals may not sum due to rounding.

Source: Department of Legislative Services

Background: For more information regarding transportation aid to local governments and the GMVRA, 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 (1) motor fuel indexing and sales and use tax equivalent rate revenues to be distributed directly to local governments, instead of to TTF and (2) the remainder of the motor fuel tax revenue to go to TTF, instead of to GMVRA. Thus, this redistribution decreases TTF revenues available to MDOT by an estimated \$397.2 million in fiscal 2017, \$467.0 million in fiscal 2018, \$528.5 million in fiscal 2019, and \$576.6 million in fiscal 2020, totaling \$2.0 billion over the five-year period.

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, available revenues decrease by \$1.3 billion over the five-year period, and that MDOT must reduce future bond issuances by \$1.1 billion to meet required bond coverage ratios. Therefore, MDOT advises that it must reduce its capital budget by \$2.3 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 or the potential revenues contingent on federal remote sales tax legislation.

The Department of Legislative Services (DLS) estimates that revenues available to MDOT decrease by \$2.0 billion over the five-year period, which requires MDOT to reduce its bond issuances by \$2.1 billion. When corresponding debt service savings of \$326.5 million are taken into account, the net decrease in MDOT's capital budget over the five-year period is \$3.7 billion. This estimate is based on DLS's current motor fuel tax projections and the proposed distributions required by the bill. It also assumes that the federal government does not enact specified online sales tax legislation, which would require additional increases in the sales and use tax equivalent rate.

Local Fiscal Effect: Redistributing motor fuel tax revenues increases transportation aid to local jurisdictions by an estimated \$397.2 million in fiscal 2017, \$467.0 million in fiscal 2018, \$528.5 million in fiscal 2019, and \$576.6 million in fiscal 2020. The bill's net increase in local transportation funding among Baltimore City, the counties, and municipalities is shown in **Exhibit 2**.

Exhibit 2
Projected Net Increase in Transportation Aid to Local Governments
Fiscal 2017-2020
(\$ in Millions)

| | <u>FY 2017</u> | <u>FY 2018</u> | <u>FY 2019</u> | <u>FY 2020</u> |
|----------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Baltimore City | \$130.9 | \$158.8 | \$183.3 | \$202.4 |
| Counties | 227.2 | 262.9 | 294.3 | 318.9 |
| Municipalities | 39.1 | 45.4 | 50.9 | 55.3 |
| Total | \$397.2 | \$467.0 | \$528.5 | \$576.6 |

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

Exhibit 3 shows the net increase in local transportation aid resulting from the bill and the total amount of local transportation aid and highway user revenues stemming from the bill's changes. (The total local transportation aid (including 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. It also does not include other forms of transportation aid provided to local governments, which are discussed in the Appendix.)

Exhibit 3
Local Government Net Increase and Total – Transportation Aid and 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 | \$5.9 | \$6.7 | \$6.8 | \$7.7 | \$7.7 | \$8.5 | \$8.3 | \$9.2 |
| Anne Arundel | 0 | 3.1 | 26.0 | 29.1 | 30.0 | 33.2 | 33.6 | 36.9 | 36.5 | 39.7 |
| Baltimore City | 0 | 135.8 | 130.9 | 267.7 | 158.8 | 296.7 | 183.3 | 323.1 | 202.4 | 344.0 |
| Baltimore | 0 | 4.0 | 34.2 | 38.3 | 39.6 | 43.7 | 44.4 | 48.5 | 48.1 | 52.2 |
| Calvert | 0 | 0.7 | 5.7 | 6.4 | 6.6 | 7.4 | 7.4 | 8.2 | 8.1 | 8.8 |
| Caroline | 0 | 0.5 | 4.0 | 4.5 | 4.6 | 5.2 | 5.2 | 5.7 | 5.6 | 6.2 |
| Carroll | 0 | 1.5 | 11.6 | 13.1 | 13.4 | 14.9 | 15.0 | 16.6 | 16.3 | 17.8 |
| Cecil | 0 | 0.8 | 6.5 | 7.3 | 7.5 | 8.4 | 8.4 | 9.3 | 9.1 | 10.0 |
| Charles | 0 | 1.0 | 8.5 | 9.5 | 9.8 | 10.9 | 11.0 | 12.1 | 11.9 | 13.0 |
| Dorchester | 0 | 0.6 | 4.5 | 5.0 | 5.2 | 5.8 | 5.8 | 6.4 | 6.3 | 6.9 |
| Frederick | 0 | 2.1 | 15.5 | 17.6 | 18.0 | 20.1 | 20.1 | 22.3 | 21.8 | 24.0 |
| Garrett | 0 | 0.6 | 5.0 | 5.7 | 5.8 | 6.5 | 6.5 | 7.2 | 7.1 | 7.7 |
| Harford | 0 | 1.7 | 13.4 | 15.1 | 15.5 | 17.3 | 17.4 | 19.1 | 18.9 | 20.6 |
| Howard | 0 | 1.5 | 13.2 | 14.7 | 15.2 | 16.8 | 17.0 | 18.6 | 18.5 | 20.1 |
| Kent | 0 | 0.3 | 2.3 | 2.6 | 2.7 | 3.0 | 3.0 | 3.3 | 3.2 | 3.5 |
| Montgomery | 0 | 4.7 | 37.1 | 41.8 | 42.9 | 47.7 | 48.1 | 52.9 | 52.1 | 57.0 |
| Prince George's | 0 | 4.3 | 32.2 | 36.5 | 37.3 | 41.6 | 41.7 | 46.1 | 45.3 | 49.7 |
| Queen Anne's | 0 | 0.6 | 4.7 | 5.2 | 5.4 | 6.0 | 6.0 | 6.6 | 6.5 | 7.1 |
| St. Mary's | 0 | 0.8 | 6.6 | 7.4 | 7.7 | 8.5 | 8.6 | 9.4 | 9.3 | 10.1 |
| Somerset | 0 | 0.3 | 2.6 | 3.0 | 3.1 | 3.4 | 3.4 | 3.8 | 3.7 | 4.0 |
| Talbot | 0 | 0.5 | 3.8 | 4.3 | 4.4 | 4.9 | 4.9 | 5.5 | 5.4 | 5.9 |
| Washington | 0 | 1.3 | 9.8 | 11.1 | 11.4 | 12.7 | 12.8 | 14.1 | 13.8 | 15.2 |
| Wicomico | 0 | 1.0 | 7.6 | 8.6 | 8.8 | 9.8 | 9.8 | 10.9 | 10.7 | 11.7 |
| Worcester | 0 | 0.7 | 5.5 | 6.3 | 6.4 | 7.2 | 7.2 | 7.9 | 7.8 | 8.5 |
| Total | \$0 | \$169.3 | \$397.2 | \$567.8 | \$467.0 | \$639.0 | \$528.5 | \$702.9 | \$576.6 | \$753.1 |

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 for fiscal 2016 in Supplemental Budget No.1. It also does not include other forms of transportation aid provided to local governments.

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: None.

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

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

Analysis by: Richard L. Duncan

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

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 | |
|----------------|--------------------|------------------|--------------------|------------------|--------------------|------------------|--------------------|------------------|
| | Percent | Dollars | Percent | Dollars | Percent | Dollars | Percent | Dollars |
| 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
