

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1388 (Delegate Parrott, *et al.*)
Environment and Transportation

Transportation - Motor Fuel Tax and Highway User Revenue - Increased Local Share

This bill alters the distribution of funds from the Gasoline and Motor Vehicle Revenue Account (GMVRA) to provide 70% to the Maryland Department of Transportation (MDOT) and 30% to local jurisdictions distributed as follows: Baltimore City (12.1%), counties (15.3%), and municipalities (2.6%). In addition, the bill modifies the distribution of motor fuel tax revenue by requiring that 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 sale and use tax equivalent rate applied to motor fuel be distributed to GMVRA rather than the Transportation Trust Fund (TTF).

The bill also proposes to amend the Maryland Constitution to require that the revenue sources credited to GMVRA and the distribution of GMVRA revenues must remain as provided under current law in effect on July 1, 2016.

The bill's provisions that alter the distribution of funds from GMVRA and the distribution of specified motor fuel tax revenues take effect July 1, 2016.

Fiscal Summary

State Effect: TTF revenues available to MDOT decrease by an estimated \$526.6 million in FY 2017, \$537.2 million in FY 2018, \$551.4 million in FY 2019, \$559.0 million in FY 2020, and \$570.4 million in FY 2021. Combined with a reduction in bond issuances and corresponding debt service savings, TTF revenues available to MDOT decrease by \$4.3 billion over the five-year period.

Local Effect: The bill alters the distribution and source of GMVRA revenues, thereby increasing local highway user revenues by estimated \$526.6 million in FY 2017,

\$537.2 million in FY 2018, \$551.4 million in FY 2019, \$559.0 million in FY 2020, and \$570.4 million in FY 2021.

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; (3) 3% beginning in fiscal 2016; (4) 4% beginning January 1, 2016; and (5) 5% beginning in fiscal 2017.

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.

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

- 70% to MDOT;
- 12.1% to Baltimore City;
- 15.3% to counties; and
- 2.6% to municipalities.

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

Exhibit 1
Sales and Use and CPI Indexing Tax Revenue Estimates
Fiscal 2017-2021
(\$ in Millions)

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
Sales and Use Tax Equivalent	\$362.9	\$397.2	\$435.2	\$444.0	\$462.7
CPI Indexing	42.5	65.5	88.7	108.9	129.3
Total	\$405.4	\$462.8	\$524.0	\$552.9	\$592.0

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**.

The Governor’s proposed fiscal 2017 budget contains \$27.7 million in capital transportation grants for counties, a \$5.5 million capital transportation grant for Baltimore City, and \$20.3 million in capital transportation grants for municipalities. Budget bill language specifies that the grants be distributed to the counties and municipalities using the highway user formula. Future year capital transportation grants to counties and municipalities have also been proposed, and MDOT’s revenue forecast plans to set aside funds in order to issue the grants; however, those grants are not yet reflected in MDOT’s *Consolidated Transportation Program*.

State Fiscal Effect:

Transportation Aid Redistribution

The bill requires (1) GMVRA revenues to be distributed 70% to MDOT and 30% to local jurisdictions and (2) motor fuel tax rate indexing and sales and use tax equivalent rate revenues to be transferred to GMVRA. Under current law, MDOT retains 90.4% of GMVRA revenues and all of the revenue generated by the indexing of the motor fuel tax rate and the sales and use tax equivalent rate. Thus, altering the distribution formula decreases TTF revenues available to MDOT by an estimated \$526.6 million in fiscal 2017, \$537.2 million in fiscal 2018, \$551.4 million in fiscal 2019, \$559.0 million in fiscal 2020, and \$570.4 million in fiscal 2021, totaling \$2.7 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, the \$2.7 billion reduction in highway user revenues is partially offset because it has reserved about \$756 million in revenues over the next five fiscal years for the restoration of local highway user revenues pending gubernatorial or legislative action. Therefore, MDOT advises that, after taking into account a reduction in bond issuances to meet its bond coverage ratios, that it must reduce its capital budget by \$3.0 billion. 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 estimates that highway user revenues available to MDOT decrease by \$2.7 billion over the five-year period, which requires MDOT to reduce its bond issuances by approximately \$1.8 billion. When corresponding debt service savings of \$226.0 million are taken into account, the net decrease in MDOT's capital budget over the five-year period is \$4.3 billion. This estimate reflects MDOT's reserved \$756.0 million for the restoration of highway user revenues through the capital program because the Governor's current proposal plans to distribute those revenues through MDOT's capital budget as capital transportation grants.

Constitutional Amendment

Assuming approval of the proposed constitutional amendment in the November 2016 general election, this bill prevents any change, absent another constitutional amendment, in the provisions in effect on July 1, 2016, that specify (1) which revenues are credited to GMVRA and (2) how GMVRA revenues are distributed to MDOT and local governments. While the proposed amendment does not have a direct fiscal impact, it prohibits the State from adding or removing any revenue source to GMVRA or modifying the distribution of the funds from GMVRA. This may limit the State's ability to reprioritize funding for State or local transportation projects in future years.

State costs of printing ballots may increase to the extent inclusion of the proposed constitutional amendment on the ballot at the next general election would result in a need for a larger ballot card size or an additional ballot card for a given ballot (the content of ballots varies across the State, depending on the offices, candidates, and questions being voted on). However, it is assumed that the potential for such increased costs will have been anticipated in the State Board of Elections' budget. Pursuant to Chapter 564 of 2001, the State Board of Elections shares the costs of printing paper ballots with the local boards of elections.

Local Fiscal Effect: Altering the GMVRA distribution formula and requiring the distribution of specified motor fuel tax revenues to GMVRA increases local jurisdictions' highway user revenues by an estimated \$526.6 million in fiscal 2017, \$537.2 million in fiscal 2018, \$551.4 million in fiscal 2019, \$559.0 million in fiscal 2020, and \$570.4 million

in fiscal 2021. The distribution of the increase among Baltimore City, the counties, and municipalities is shown in **Exhibit 2**.

Exhibit 2
Projected Increase in Local Distribution of Highway User Revenues
Fiscal 2017-2021
(\$ in Millions)

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
Baltimore City	\$141.6	\$145.2	\$149.6	\$152.0	\$155.4
Counties	331.3	337.5	345.8	350.3	357.1
Municipalities	53.6	54.6	56.0	56.7	57.9
Total	\$526.6	\$537.2	\$551.4	\$559.0	\$570.4

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 2017 through 2021 under the bill. (The total highway user revenues in this exhibit does not reflect the \$27.7 million in capital transportation grants for counties and \$20.3 million in capital transportation grants for municipalities).

Local boards of elections' printing and mailing costs may increase to include information on the proposed constitutional amendment with specimen ballots mailed to voters prior to the next general election and to include the proposed amendment on ballots. It is assumed, however, that the potential for such increased costs will have been anticipated in local boards of elections' budgets.

Exhibit 3
Local Government Increase and Total – Highway User Revenues
Fiscal 2017-2021
(\$ in Millions)

	FY 2017		FY 2018		FY 2019		FY 2020		FY 2021	
	<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	8.4	9.2	8.5	9.4	8.8	9.6	8.9	9.7	9.0	9.9
Anne Arundel	37.7	41.0	38.4	41.8	39.4	42.8	39.9	43.3	40.7	44.2
Baltimore City	141.6	283.9	145.2	289.0	149.6	296.0	152.0	299.8	155.4	305.6
Baltimore	49.9	54.1	50.9	55.1	52.1	56.4	52.8	57.2	53.8	58.3
Calvert	8.3	9.0	8.5	9.2	8.7	9.4	8.8	9.5	9.0	9.7
Caroline	5.8	6.3	5.9	6.4	6.0	6.6	6.1	6.7	6.2	6.8
Carroll	16.7	18.3	17.0	18.6	17.4	19.0	17.6	19.3	18.0	19.7
Cecil	9.4	10.2	9.5	10.4	9.8	10.7	9.9	10.8	10.1	11.0
Charles	12.4	13.5	12.6	13.7	13.0	14.1	13.1	14.3	13.4	14.5
Dorchester	6.4	7.1	6.6	7.2	6.7	7.4	6.8	7.4	7.0	7.6
Frederick	22.3	24.4	22.7	24.9	23.2	25.5	23.5	25.8	24.0	26.3
Garrett	7.3	7.9	7.4	8.1	7.6	8.3	7.7	8.4	7.8	8.5
Harford	19.3	21.1	19.7	21.5	20.2	22.0	20.5	22.3	20.9	22.7
Howard	19.2	20.8	19.5	21.2	20.0	21.7	20.3	22.0	20.7	22.4
Kent	3.3	3.6	3.4	3.7	3.4	3.8	3.5	3.8	3.6	3.9
Montgomery	53.4	58.3	54.4	59.4	55.7	60.8	56.5	61.6	57.6	62.8
Prince George's	46.6	51.1	47.4	52.0	48.6	53.2	49.2	53.9	50.2	55.0
Queen Anne's	6.8	7.4	6.9	7.5	7.1	7.7	7.2	7.8	7.3	7.9
St. Mary's	9.7	10.0	9.8	10.2	10.1	10.4	10.2	10.6	10.4	10.8
Somerset	3.8	4.6	3.8	4.7	3.9	4.8	4.0	4.8	4.1	4.9
Talbot	5.4	6.0	5.5	6.1	5.7	6.2	5.8	6.3	5.9	6.4
Washington	14.1	15.4	14.3	15.7	14.7	16.1	14.9	16.3	15.2	16.6
Wicomico	10.9	12.0	11.1	12.2	11.4	12.5	11.5	12.6	11.7	12.9
Worcester	7.9	8.7	8.1	8.9	8.3	9.1	8.4	9.2	8.6	9.4
Total	526.6	704.0	537.2	716.7	551.4	734.0	559.0	743.4	570.4	757.9

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

Estimate assumes that highway road miles and vehicle registrations in fiscal 2017 remain constant through fiscal 2021.

Total does not reflect the grants for local transportation aid for fiscal 2017.

Source: Department of Legislative Services

Additional Information

Prior Introductions: HB 837 of 2015 received an unfavorable report from the House Environment and Transportation Committee. HB 1331 of 2014, a bill with similar provisions, received a hearing in the House Appropriations Committee, but no further action was taken. Its cross file, SB 765, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: None.

Information Source(s): Maryland Department of Transportation, Comptroller's Office, Department of Budget and Management, Maryland Association of Counties, Department of Legislative Services

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Appendix – Highway User Revenues

Transportation Aid to Local Governments

In fiscal 2016, local governments received \$169.3 million in State aid through highway user revenues and \$25.0 million for special transportation grants. **Exhibit 1** illustrates how State aid to local governments for transportation purposes increased by 37.4% between fiscal 2011 and 2016. **Exhibit 2** shows the amount of State aid for local transportation programs in each county, including municipalities and Baltimore City, in fiscal 2016.

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

<u>Aid Program</u>	<u>FY 2011</u>	<u>FY 2016</u>	<u>Difference</u>	<u>Percent Difference</u>
Highway User Revenues	\$139.3	\$169.3	\$30.0	21.5%
Municipal Transportation Grants	0.0	19.0	19.0	N/A
Baltimore City/County Grants	0.0	6.0	6.0	N/A
Elderly/Disabled Grants	4.4	4.3	-0.1	-2.5%
Paratransit Grants	3.0	2.9	-0.1	-2.2%
Total	\$146.7	\$201.5	\$54.8	37.4%

Source: Department of Legislative Services

**Exhibit 2
Transportation Aid Programs
Fiscal 2016**

County	Highway User Revenues	Municipal Grants	County Grants	Elderly/ Disabled	Paratransit	Total Aid	Per Capita Aid	Per Capita Ranking
Allegany	\$812,559	\$950,654	\$69,495	\$141,544	\$68,400	\$2,042,652	\$28	9
Anne Arundel	3,131,634	825,359	427,189	245,996	416,000	5,046,178	9	21
Baltimore City	135,796,122	-	2,000,000	379,335	-	138,175,457	222	1
Baltimore	3,987,244	-	602,901	395,836	-	4,985,981	6	24
Calvert	700,139	242,248	92,266	127,003	76,099	1,237,755	14	16
Caroline	513,057	345,611	58,175	120,217	40,000	1,077,060	33	5
Carroll	1,493,979	1,105,260	163,851	151,029	-	2,914,119	17	14
Cecil	827,923	547,439	94,454	134,073	-	1,603,889	16	15
Charles	1,031,492	311,859	138,461	137,609	175,848	1,795,269	12	18
Dorchester	571,424	387,365	64,657	122,724	50,000	1,196,170	37	3
Frederick	2,082,611	2,091,854	197,468	159,159	460,000	4,991,092	20	11
Garrett	626,343	309,195	77,349	119,664	-	1,132,551	38	2
Harford	1,684,276	919,720	203,041	170,371	40,592	3,018,000	12	17
Howard	1,532,001	-	231,649	162,520	430,000	2,356,170	8	23
Kent	294,477	202,611	33,152	120,217	-	650,457	33	6
Montgomery	4,718,842	3,058,587	541,812	379,108	-	8,698,349	8	22
Prince George's	4,258,588	3,882,677	425,954	332,819	446,663	9,346,701	10	20
Queen Anne's	559,873	131,339	77,283	122,064	-	890,559	18	13
St. Mary's	783,038	84,537	113,655	131,054	135,000	1,247,284	11	19
Somerset	325,927	143,910	41,203	117,447	96,667	725,154	28	8
Talbot	514,899	537,601	47,675	120,217	-	1,220,392	32	7
Washington	1,308,145	1,241,790	128,086	146,917	188,100	3,013,038	20	12
Wicomico	1,023,055	1,063,182	95,006	134,507	96,667	2,412,417	24	10
Worcester	726,608	617,202	75,218	134,508	206,666	1,760,202	34	4
Total	\$169,304,256	\$19,000,000	\$6,000,000	\$4,305,938	\$2,926,702	\$201,536,896	\$34	

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

Municipal Transportation Grants and Special Grants for the Counties and Baltimore City

Since fiscal 2014, municipalities have received additional transportation aid in the form of municipal transportation grants; municipalities received \$15.4 million in such grants in fiscal 2014, \$16 million in fiscal 2015, and \$19 million in fiscal 2016. In fiscal 2016, the counties and Baltimore City were awarded additional transportation aid through special grants; Baltimore City received \$2 million, and the counties received \$4 million. Although the municipal transportation grants and the special grants are supplemental to the amounts received from highway user revenues, the grants have been distributed using the highway user revenue formula. In addition, the counties and Baltimore City received \$10 million for pothole repairs in fiscal 2014 distributed on the basis of county road miles.