

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1191
 Ways and Means

(Delegate Novotny, *et al.*)

Cost of Living Assistance Act of 2022

This emergency bill temporarily repeals in fiscal 2023 and 2024 the annual indexing to inflation of specified motor fuel tax rates. Under current law, motor fuel taxes are increased annually based on inflation, as measured by the Consumer Price Index (CPI).

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues decrease by \$37.5 million in FY 2023 due to the temporary repeal of the indexing of motor fuel tax rates. Future year estimates reflect projected fuel consumption and inflation. Expenditures are not directly affected; however, the Maryland Department of Transportation (MDOT) will be required to reduce its capital program.

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
SF Revenue	(\$37.5)	(\$56.6)	(\$57.3)	(\$59.2)	(\$63.0)
Expenditure	0	0	0	0	0
Net Effect	(\$37.5)	(\$56.6)	(\$57.3)	(\$59.2)	(\$63.0)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: 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 will increase annually if the Comptroller's Office determines that the CPI has increased over a specified 12-month period. The increase is equal to the percentage growth in the CPI multiplied by the motor fuel tax rates, rounded to the nearest one-tenth of 1 cent. Motor fuel tax rates will remain unchanged if there is no increase (or decrease) in the CPI.

In addition, the tax rates may not increase by more than 8% of the tax rates imposed in the previous year. A floor tax is imposed on any person possessing tax-paid motor fuel for sale at the start of business on the date that the tax rate is increased. Individuals are required to compile and file an inventory held at the close of business on the date preceding an increase and remit within 30 days any additional tax that is due.

The revenue generated as a result of the motor fuel tax rate indexing is distributed to the TTF and is retained by MDOT. As of July 1, 2021, the per gallon motor fuel tax rate is equal to 36.1 cents (gasoline and clean-burning fuel), 36.85 cents (special fuel/diesel), and 7.0 cents (aviation and turbine fuel).

Legislation Establishing Consumer Price Index Adjustment

The Transportation Infrastructure Investment Act of 2013 (Chapter 429) was enacted to substantially increase the amount of revenues available for transportation projects, primarily by increasing motor fuel taxes. Chapter 429 alters motor fuel taxes specifically by:

- indexing motor fuel tax rates, except for aviation and turbine fuel, to inflation beginning in fiscal 2014; and
- imposing a 1% sales and use tax equivalent rate on all motor fuel, except for aviation and turbine fuel, beginning in fiscal 2014 and increasing in several steps to 5% beginning in fiscal 2017.

State Fiscal Effect: The bill temporarily repeals in fiscal 2023 and 2024 the indexing of specified motor fuel tax rates. **Exhibit 1** shows the estimated reduction in motor fuel tax revenues as a result of the bill.

Exhibit 1
Projected Impact on TTF Revenues
Fiscal 2023-2027
(\$ in Millions)

<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
(\$37.5)	(\$56.6)	(\$57.3)	(\$59.2)	(\$63.0)

TTF: Transportation Trust Fund

Source: Department of Legislative Services

TTF revenues are used to fund the State capital program. Based on its estimated revenue decrease resulting from the bill, MDOT will be required to reduce its capital program in fiscal 2023 through 2027 to maintain its debt service coverage ratio.

Additional Information

Prior Introductions: None.

Cross File: SB 737 (Senator Simonaire, *et al.*) - Budget and Taxation.

Information Source(s): Department of Legislative Services

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