

Department of Legislative Services
 Maryland General Assembly
 2023 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 422 (Delegate M. Morgan, *et al.*)
 Ways and Means

Motor Fuel Tax Rates - Consumer Price Index Adjustment - Repeal

This bill repeals, beginning in fiscal 2024, future increases in specified motor fuel tax rates based on annual growth in the Consumer Price Index (CPI). **The bill takes effect June 1, 2023.**

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues decrease by an estimated \$62.4 million in FY 2024. Future years reflect projected fuel consumption and inflation. Expenditures are not directly affected.

(\$ in millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
SF Revenue	(\$62.4)	(\$93.8)	(\$116.0)	(\$138.0)	(\$160.2)
Expenditure	0	0	0	0	0
Net Effect	(\$62.4)	(\$93.8)	(\$116.0)	(\$138.0)	(\$160.2)

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: Pursuant to the Transportation Infrastructure Investment Act of 2013 (Chapter 429), motor fuel tax rates for all motor fuels except aviation and turbine fuel are indexed to the annual change in the CPI. By June 1 annually, the Comptroller must determine and announce the growth in the CPI for all urban consumers and the motor fuel tax rates effective for the fiscal year beginning the following July 1.

The rate increase is equal to the percentage growth in the CPI multiplied by the motor fuel tax rates in effect for the previous fiscal year, rounded to the nearest one-tenth of 1 cent. The percentage growth in the CPI is determined by averaging the CPI for the 12 months preceding April 30, to the average index for the prior 12 months. If there is a decline or no growth in the CPI, the motor fuel tax rates remain unchanged. Any increase in the motor fuel tax rates may not exceed 8% of the tax rates in effect for 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 of an increase in the motor fuel tax rate. Such persons must compile and file an inventory held at the close of business on the immediately preceding date and remit within 30 days any additional tax due.

The revenue generated as a result of the CPI component of the motor fuel tax rates is distributed to the TTF and retained by the Maryland Department of Transportation (MDOT). As of July 1, 2022, the cumulative CPI component accounts for 5.4 cents of the motor fuel tax rates for (1) gasoline and clean burning fuel and (2) special fuel and diesel, for which the total per gallon motor fuel tax rate is equal to 42.70 cents and 43.45 cents, respectively.

In addition to indexing specified motor fuel tax rates to inflation, Chapter 429 imposed a 5% sales and use tax equivalent rate on all motor fuels except aviation and turbine fuel; the rate was phased in over fiscal 2014 to 2017.

State Fiscal Effect: As discussed above, the bill prohibits future inflation adjustments to specified motor fuel tax rates. Thus, TTF revenues decrease beginning in fiscal 2024 due to foregone motor fuel tax revenues. **Exhibit 1** shows the estimated effect on TTF revenues in fiscal 2024 through 2028. As shown in the exhibit, TTF revenues decrease by an estimated \$62.4 million in fiscal 2024. Future years reflect projected inflation and motor fuel use.

Exhibit 1
Projected Effect on TTF Revenues
Fiscal 2024-2028
(\$ in Millions)

<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
(\$62.4)	(\$93.8)	(\$116.0)	(\$138.0)	(\$160.2)

Source: Department of Legislative Services

The bill is not expected to affect MDOT's ability to meet minimum debt service coverage requirements.

Additional Information

Prior Introductions: Similar legislation has been introduced within the last three years. See SB 337 and HB 144 of 2022.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Department of Budget and Management; Maryland Department of Transportation; Moody's Analytics; Department of Legislative Services

Fiscal Note History: First Reader - February 10, 2023
km/hlb

Analysis by: Elizabeth J. Allison

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