
March 2, 2021

The Honorable Anne R. Kaiser
Chair, House Ways and Means Committee
Room 131, House Office Building
Annapolis MD 21401

***RE: Letter of Information – House Bill 1246 – Vehicle Excise Tax – Leased Vehicles –
Alteration***

Dear Chairman Kaiser and Committee Members:

The Maryland Department of Transportation (MDOT) takes no position on House Bill 1246 but offers the following information for the Committee's consideration.

House Bill 1246 would alter the calculation of the vehicle excise (titling) tax imposed on leased vehicles from the total purchase price of the vehicle to the total value of lease payments. Based on an analysis of the past three fiscal years, MDOT estimates this bill will result in an annual revenue reduction to the Transportation Trust Fund of \$50.5 million. This will reduce the funds available to pay debt service, thereby impacting the affordability of MDOT's debt. MDOT would not be able to issue the level of bonds needed to finance its current capital program. To maintain the current level of debt service coverage, the capital program would have to be reduced by approximately \$440 million over the next five fiscal years. Additionally, a reduction in the State funded capital program could result in a loss of federal funds if MDOT is unable to provide the matching funds required to be eligible for federal aid.

Revenues from the vehicle excise (titling) tax are pledged to the repayment of MDOT's Consolidated Transportation Bonds. This pledge is enumerated in Section 3-215 of the Transportation Article of the Annotated Code and in MDOT's bond documents every time it issues bonds. The changes associated with House Bill 1246 impair the position of bondholders. The revenue losses reduce MDOT's debt service coverage ratios, which reduces MDOT's ability to issue bonds to support the capital program. MDOT prides itself on its AAA credit rating from Standard & Poor's, Aa1 from Moody's and AA+ from Fitch. MDOT is concerned about a potential negative credit action from the credit rating agencies if the legislature were to pass House Bill 1246.

A portion of the vehicle excise (titling) tax is part of the calculation used to determine the amount of local highway user revenue (HUR) capital grants. The provisions of House Bill 1246 reduce the revenues that flow into the Gasoline and Motor Vehicle Revenue Account, thus reducing funding available to local jurisdictions through HUR capital grants. MDOT estimates a reduction of HUR capital grants of approximately \$20 million over the next five fiscal years, or an average of \$4 million per year.

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The MDOT Motor Vehicle Administration (MDOT MVA) administers the issuance of vehicle titles in Maryland. Over the past three fiscal years, the average number of new leased vehicles per year is just under 47,000, which generated almost \$78 million on average annually with an average tax rate of 5.71%. House Bill 1246 would require approximately \$42,000 in programming changes to existing IT systems, as well as extensive training and new procedures and verification processes for MDOT MVA customer agents, car dealerships, and tag and title vendors.

The Maryland Department of Transportation respectfully requests that the Committee consider this information when deliberating House Bill 1246.

Respectfully submitted,

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