MARYLAND DEPARTMENT OF TRANSPORTATION

Larry Hogan
Governor
Boyd K. Rutherford
Lt. Governor
Gregory Slater
Secretary

February 18, 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 869 – Sales and Use and Vehicle Excise Taxes - Peer-to-Peer Car Sharing and Short-Term Vehicle Rentals - Alterations and Distribution

Dear Chairman Guzzone and Committee Members:

The Maryland Department of Transportation (MDOT) takes no position on House Bill 869 but offers the following information for the Committee's consideration.

House Bill 869 would eliminate the June 30, 2021 sunset on the 8% sales and use tax rate imposed on peer-to-peer car sharing, thus establishing a permanent tax. It would also decrease the sales and use tax rate for the short-term rental of a passenger car or vehicle registered as Class D, E, F, G, or M from 11.5% to 8%. The bill also removes the exemption for rental vehicles from the vehicle excise (titling) tax, meaning rental vehicles would now be subject to the State's 6% excise tax paid at the time of titling. Under House Bill 869, the revenue from the excise tax on rental vehicles would flow to the Transportation Trust Fund in fiscal year 2022 and, if Senate Bill 1 or House Bill 1 is signed into law, diverts revenues in fiscal year 2023 and beyond to the Historically Black Colleges and Universities Reserve Fund.

Although these combined actions provide a one-time revenue increase to the Transportation Trust Fund (TTF) in fiscal year 2022, in fiscal year 2023 and every year thereafter, there is a revenue loss of approximately $10 million per year. In addition, the bill redirects a portion of the vehicle excise (titling) tax, historically considered a transportation revenue, to a non-transportation purpose. Although this does not violate the letter of the Constitutional amendment overwhelmingly approved by voters in 2014 to create a transportation lockbox, it violates the intent of using transportation revenues only for transportation purposes.

Revenues from the vehicle excise (titling) tax and a portion of the State sales and use tax on rental vehicles 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 Official Statement every time it issues bonds. The changes associated with House Bill 869 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 credit ratings of AAA 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 869.

It should also be noted a portion of both the sales and use tax on rental vehicles and the vehicle excise (titling) tax are part of calculation used to determine the amount of local highway user revenue (HUR) capital grants. The provisions of House Bill 869 reduce the revenues that flow into the Gasoline and Motor Vehicle Revenue Account, thus reducing funding available to local jurisdictions through HUR capital grants.

The MDOT Motor Vehicle Administration (MDOT MVA) administers the issuance of vehicle titles in Maryland. There were 36,546 vehicles registered under a rental vehicle registration code in calendar year 2020 and 196,522 from 2017-2020. Under House Bill 869, instead of directing all vehicle excise (titling) tax revenues to the TTF, MDOT MVA would have to distribute a portion of the revenues to the Historically Black Colleges and Universities Reserve Fund established under Section 15–127 of the Education Article.

The Maryland Department of Transportation respectfully requests that the Committee consider this information when deliberating House Bill 869.

Respectfully submitted,

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