Department of Legislative Services

Maryland General Assembly
2007 Special Session

FISCAL AND POLICY NOTE
Revised

House Bill 5 (The Speaker)(By Request – Administration)
Ways and Means and Appropriations Budget and Taxation

Transportation and State Investment Act

This Administration bill provides additional annual revenues ($463.5 million in fiscal 2008, escalating to $1.0 billion by fiscal 2012) for the general fund, Transportation Trust Fund (TTF), and other State programs by:

- increasing the vehicle excise tax rate from 5% to 6% of the vehicle's purchase price or fair market value, allowing for a reduction in the amount subject to the tax by 100% of the value of a trade-in beginning January 1, 2008;
- increasing the one-time certificate of title fee for titling a vehicle in Maryland from $23 to $50 beginning January 1, 2008;
- reducing the amount of vehicle excise tax revenues credited to the Gasoline and Motor Vehicle Revenue Account (GMVRA) from 80% to 67% beginning in fiscal 2009;
- altering statutory distributions of the motor fuel tax, security interest filing fees, and vanity tag fees to benefit the TTF beginning in fiscal 2009;
- increasing the maximum allowable aggregate amount of outstanding consolidated transportation bonds (CTBs) from $2.0 to $2.6 billion;
- replacing certain eliminated distributions with mandated general fund appropriations beginning in fiscal 2009;
- increasing the State sales and use tax rate from 5% to 6% beginning January 3, 2008;

- establishing one annual tax-free holiday for specified energy efficient appliances and another for clothing and footwear costing $100 or less beginning in fiscal 2011;

- allowing vendors to absorb all or part of the sales tax and to pay that tax on behalf of the buyer;

- redistributing 6.5% of total sales tax revenues (equating to approximately 40% of the increased revenues from the higher sales tax rate) to the TTF beginning in fiscal 2009;

- providing funding to replace State Police helicopters with a portion ($110 million) of the revenues from the increased sales and use tax rate in fiscal 2008 only – with intent to purchase three helicopters each year in fiscal 2009 through 2012, subject to appropriation;

- establishing a Chesapeake Bay 2010 Trust Fund effective July 1, 2008, contingent on failure of other legislation creating a similar fund;

- capitalizing the Chesapeake Bay 2010 Trust Fund with a portion of existing revenues from the motor fuel tax and existing revenues from the sales and use tax on short-term vehicle rentals that would otherwise go to the general fund;

- increasing the State tobacco tax from $1 to $2 per pack of cigarettes beginning January 1, 2008;

- imposing a 20% State admissions and amusement tax on net receipts from the operation of electronic bingo and tip jars beginning January 3, 2008; and

- requiring the Maryland Department of Transportation (MDOT) to report on proposed projects in its Consolidated Transportation Program for 2008 through 2013.

Fiscal Summary

State Effect: Total revenues would increase by $463.5 million in FY 2008 and $948.8 million in FY 2009. **Exhibit 1** shows the net effect on State revenues and expenditures by fund type through FY 2012.

Local Effect: Local government highway user revenues would increase by $7.6 million in FY 2008 and decrease annually thereafter ($15.7 million in FY 2009). **Exhibit 5** shows the annualized distribution in FY 2009.

Small Business Effect: A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration's assessment becomes available.

Additional Information

Prior Introductions: None.

Cross File: SB 5 (The President)(By Request – Administration) – Budget and Taxation.

Information Source(s): Comptroller's Office, State Department of Assessments and Taxation, Department of Legislative Services

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Exhibit 1
Net Impact on State Revenues and Expenditures
($ in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues					
General Fund	$305.8	$511.9	$526.6	$531.9	$547.0
Special Funds	157.8	436.8	458.7	479.3	500.4
Transportation Trust Fund	*47.8*	*390.5*	*410.7*	*429.7*	*449.0*
Chesapeake Bay 2010	*0.0*	*50.3*	*52.0*	*53.7*	*55.5*
Helicopter Replacement	*110.0*	*0.0*	*0.0*	*0.0*	*0.0*
*Other Special Funds**	*0.0*	*-4.0*	*-4.0*	*-4.1*	*-4.1*
Total	**$463.5**	**$948.8**	**$985.3**	**$1,011.2**	**$1,047.4**
Expenditures					
General Fund	$0.1	$4.0	$3.8	$3.7	$3.7
Special Funds	0.0	26.0	26.0	25.9	25.9
Transportation Trust Fund	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Chesapeake Bay 2010	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Helicopter Replacement	*0.0*	*30.0*	*30.0*	*30.0*	*30.0*
*Other Special Funds**	*0.0*	*-4.0*	*-4.0*	*-4.1*	*-4.1*
Total	**$0.1**	**$30.0**	**$29.8**	**$29.6**	**$29.6**
Net Effect	**$463.5**	**$918.8**	**$955.5**	**$981.6**	**$1,017.8**

*Waterway Improvement Fund, Fisheries Research and Development Fund, and specified scholarship programs.

Note: Numbers may not sum to total due to rounding.

Exhibit 2
Impact on State Revenues by Tax Change
($ in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Sales Tax					
Rate Increase to 6%	$315.2	$687.2	$724.9	$761.9	$800.6
Tax-free Holidays	0.0	0.0	0.0	-9.6	-10.1
Subtotal	**$315.2**	**$687.2**	**$724.9**	**$752.3**	**$790.5**
Tobacco Tax	**$98.1**	**$162.2**	**$156.9**	**$151.6**	**$146.5**
Vehicle Titling					
VET Rate Increase to 6%	$74.4	$144.5	$152.8	$160.9	$167.5
Certificate of Title Fee Increase	16.2	33.1	33.6	34.0	34.5
Trade-in Deduction at 100%	-42.8	-83.2	-88.0	-92.6	-96.4
Subtotal	**$47.8**	**$94.4**	**$98.4**	**$102.3**	**$105.5**
Electronic Bingo and Tip Jars	**$2.5**	**$5.0**	**$5.0**	**$5.0**	**$5.0**
Fund Redistributions					
General Fund	$0.0	-$61.0	-$63.3	-$65.5	-$67.7
Transportation Trust Fund	0.0	14.6	15.3	15.9	16.3
Chesapeake Bay 2010 Trust Fund	0.0	50.3	52.0	53.7	55.5
Other Special Funds*	0.0	-4.0	-4.0	-4.1	-4.1
Subtotal	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Total	**$463.5**	**$948.8**	**$985.2**	**$1,011.2**	**$1,047.4**

**Waterway Improvement Fund, Fisheries Research and Development Fund, and specified scholarship programs.

VET = Vehicle excise tax.

Note: Numbers may not sum to total due to rounding.

Exhibit 3
Impact on General Fund Revenues by Tax Change
($ in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Sales Tax					
Rate Increase to 6%	$205.2	$405.7	$428.0	$449.8	$472.6
Tax-free Holidays	0.0	0.0	0.0	-9.0	-9.4
Subtotal	**$205.2**	**$405.7**	**$428.0**	**$440.8**	**$463.2**
Tobacco Tax	**$98.1**	**$162.2**	**$156.9**	**$151.6**	**$146.5**
Vehicle Titling					
VET Rate Increase to 6%	$0.0	$0.0	$0.0	$0.0	$0.0
Certificate of Title Fee Increase	0.0	0.0	0.0	0.0	0.0
Trade-in Deduction at 100%	0.0	0.0	0.0	0.0	0.0
Subtotal	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Electronic Bingo and Tip Jars	**$2.5**	**$5.0**	**$5.0**	**$5.0**	**$5.0**
Fund Redistributions	**$0.0**	**-$61.0**	**-$63.3**	**-$65.5**	**-$67.7**
Total	**$305.8**	**$511.9**	**$526.6**	**$531.9**	**$547.0**

VET = Vehicle excise tax.

Note: Numbers may not sum to total due to rounding.

Exhibit 4
Impact on Special Fund Revenues by Tax Change
($ in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Sales Tax (TTF only)					
Rate Increase to 6%	$0.0	$281.5	$297.0	$312.1	$327.9
Tax-free Holidays	0.0	0.0	0.0	-0.6	-0.7
Subtotal	**$0.0**	**$281.5**	**$297.0**	**$311.5**	**$327.2**
Tobacco Tax	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Vehicle Titling					
VET Rate Increase to 6%	$74.4	$144.5	$152.8	$160.9	$167.5
Certificate of Title Fee Increase	16.2	33.1	33.6	34.0	34.5
Trade-in Deduction at 100%	-42.8	-83.2	-88.0	-92.6	-96.4
Subtotal	**$47.8**	**$94.4**	**$98.4**	**$102.3**	**$105.5**
Electronic Bingo and Tip Jars	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Fund Redistributions/Other					
Transportation Trust Fund	$0.0	$14.6	$15.3	$15.9	$16.3
Chesapeake Bay 2010 Trust Fund	0.0	50.3	52.0	53.7	55.5
Helicopter Replacement	110.0	0.0	0.0	0.0	0.0
Other Special Funds*	0.0	-4.0	-4.0	-4.1	-4.1
Subtotal	**$110.0**	**$60.9**	**$63.3**	**$65.5**	**$67.7**
Total	**$157.8**	**$436.8**	**$458.7**	**$479.3**	**$500.4**
Total Impact on the:					
Transportation Trust Fund	$47.8	$390.5	$410.7	$429.7	$449.0
Chesapeake Bay 2010 Trust Fund	0.0	50.3	52.0	53.7	55.5
Helicopter Replacement	110.0	0.0	0.0	0.0	0.0
Other Special Funds*	0.0	-4.0	-4.0	-4.1	-4.1
Total	**$157.8**	**$436.8**	**$458.7**	**$479.3**	**$500.4**

**Waterway Improvement Fund, Fisheries Research and Development Fund, and specified scholarship programs.

Key: TTF = Transportation Trust Fund; VET = vehicle excise tax.

Note: Numbers may not sum to total due to rounding.

Exhibit 5
Net Impact on Local Highway User Revenues – Fiscal 2009

County	Highway User Revenues
Allegany	-$192,900
Anne Arundel	-830,100
Baltimore City	-7,131,700
Baltimore	-1,128,600
Calvert	-170,200
Caroline	-133,400
Carroll	-377,400
Cecil	-208,600
Charles	-267,700
Dorchester	-147,900
Frederick	-495,500
Garrett	-167,000
Harford	-437,000
Howard	-417,300
Kent	-74,900
Montgomery	-1,177,400
Prince George's	-1,026,800
Queen Anne's	-154,000
St. Mary's	-205,400
Somerset	-88,800
Talbot	-121,900
Washington	-319,000
Wicomico	-243,600
Worcester	-182,900
Total	**-$15,700,000**

Part A-1. Sales Tax – Rate Increase

Fiscal Summary: Revenues would increase by $315.2 million in fiscal 2008, representing increased revenue collections for a six-month period. Future year revenues would increase by $687.2 million in fiscal 2009 and by $800.6 million in fiscal 2012. **Exhibit A 1.1** shows the fiscal impact over a five-year period. In fiscal 2008, $110.0 million would be distributed to the State Police Helicopter Replacement Fund, with the balance to the general fund. Beginning in fiscal 2009, the additional revenues would be distributed to both the general fund and the Transportation Trust Fund (TTF).

Exhibit A 1.1
Effect on State Revenues – Sales Tax Rate Increase
($ in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenues	$205.2	$405.7	$428.0	$449.8	$472.6
TTF Revenues	0.0	281.5	297.0	312.1	327.9
SF Revenues	110.0	0.0	0.0	0.0	0.0
Total Revenues	**$315.2**	**$687.2**	**$724.9**	**$761.9**	**$800.6**

Note: Numbers may not sum to total due to rounding.

Bill Summary: The bill increases the State sales and use tax rate from 5% to 6%. The Comptroller is required to adopt regulations exempting from the sales tax rate increase any otherwise taxable sales of tangible property to contractors or builders on contracts that were entered into prior to the effective date of the bill. The exemption may be provided by refund, credit, or if practical, a deduction at the time of sale. The bill also makes a corresponding increase from 10% to 11% in the combined tax rate that a local government may not exceed for gross receipts that are subject to local admissions and amusement taxes and the sales and use tax.

The bill also redistributes 6.5% of sales tax revenues (excluding short-term vehicle rental revenues) from the general fund to the TTF beginning in fiscal 2009 (about 40% of the revenues from the increased rate). Finally, the bill provides funding to replace police helicopters with a portion ($110 million) of the revenues from the increased sales and use tax rate in fiscal 2008 only.

Most provisions take effect January 3, 2008. The redistribution to the TTF takes effect July 1, 2008.

Current Law: The Maryland sales and use tax rate is 5%. All State sales and use tax revenues are deposited in the general fund except the amount necessary to pay refunds withheld by the Comptroller and to cover administrative expenses. In addition, 45% of the sales and use tax collected on short-term vehicle rentals is dedicated to the TTF. This amount will total $28.8 million in fiscal 2008.

Background: The sales and use tax rate was last increased in 1977. **Exhibit A 1.2** shows the sales and use tax rates in surrounding states.

Exhibit A 1.2
Sales and Use Tax Rates in Maryland and Surrounding States

Delaware	0%
District of Columbia	5.75%
Maryland	5%
Pennsylvania	6% plus 1% in certain local jurisdictions 0% sales tax on clothing
Virginia	5%, includes 1% for local jurisdictions
West Virginia	6%

Sales Tax Incidence

Tax incidence studies are often used to estimate the amount of tax paid by individuals or households. During the 2007 interim, the Department of Legislative Services examined the amount of sales tax paid by Maryland households at various income levels, based on the Bureau of Labor Statistics 2005 *Consumer Expenditure Survey*, the U.S. Census Bureau's *2005 American Community Survey*, and the Comptroller's *Income Tax Summary Report* for tax year 2005. **Exhibit A 1.3** shows the distribution of households among income classes, average income (Maryland adjusted gross income), sales tax paid by household, sales tax as a percentage of income, and sales tax as a percentage of total sales tax at both the current 5% rate and the proposed 6% rate. **Exhibit A 1.4** shows the increase in sales tax paid by household resulting from the proposed 6% rate.

Several studies indicate, including a recently conducted study for Maryland, that as much as 40% of all sales taxes are paid by businesses. A central tenet of public finance is that only people, not goods or organizations, can bear the burden of a tax. To the extent that businesses pay additional sales taxes, the owners, customers, and employees of the business will ultimately bear the burden of the tax. Considerable debate exists over how much of the burden is borne by each of these groups; however, Maryland households would ultimately bear part of the tax burden through lower wages and increased prices.

Exhibit A 1.3
Maryland Sales Tax Incidence at 5% Rate and 6% Rate

Income Brackets		Household Distribution	Average Income	Sales Tax as Percent of Total Sales Tax	Sales Taxes Paid by Household 5% Rate	6% Rate	Difference	Sales Taxes as Percent of Income 5% Rate	6% Rate
Less than	$5,000	1.9%	$2,612	0.7%	$277	$333	$55	10.6%	12.7%
$5,000-	$9,999	3.9%	8,053	1.1%	214	257	43	2.7%	3.2%
$10,000-	$14,999	4.4%	12,510	1.5%	257	309	51	2.1%	2.5%
$15,000-	$19,999	3.7%	17,494	1.4%	292	351	58	1.7%	2.0%
$20,000-	$29,999	8.4%	24,878	3.9%	349	419	70	1.4%	1.7%
$30,000-	$39,999	9.4%	34,833	5.7%	460	552	92	1.3%	1.6%
$40,000-	$49,999	8.8%	44,779	5.9%	509	611	102	1.1%	1.4%
$50,000-	$69,999	15.4%	59,328	12.8%	634	760	127	1.1%	1.3%
$70,000-	$79,999	7.0%	74,848	7.1%	774	929	155	1.0%	1.2%
$80,000-	$99,999	10.7%	90,926	12.1%	863	1,036	173	0.9%	1.1%
$100,000-	$149,999	15.9%	120,592	23.9%	1,144	1,373	229	0.9%	1.1%
Over	$150,000	10.5%	365,829	24.0%	1,752	2,103	350	0.5%	0.6%

Exhibit A 1.4
Sales Tax Increase by Household Income Class at 6% Rate

Less than $5,000	$55
$5,000 – $9,999	43
$10,000 – $14,999	51
$15,000 – $19,999	58
$20,000 – $29,999	70
$30,000 – $39,999	92
$40,000 – $49,999	102
$50,000 – $69,999	127
$70,000 – $79,999	155
$80,000 – $99,999	173
$100,000 – $149,999	229
Over $150,000	350

State Revenues: State sales and use tax general fund revenues are estimated to total approximately $3.5 billion in fiscal 2008 (after the deductions discussed above). Sales and use tax revenues are forecasted to grow through fiscal 2012 at an annual rate of about 5.0%.

Increasing the sales tax to 6% would generate $315.2 million in additional revenues in fiscal 2008, which reflects the bill's January 3, 2008 effective date and slightly less than one-half year sales tax collections (based on historical sales tax collection data). As **Exhibit A 1.5** indicates, revenues would increase by approximately $687.2 million in fiscal 2009 and by $800.6 million in fiscal 2012. This estimate reflects currently projected sales tax growth as well as an estimated 0.95% decline in taxable sales resulting from the sales tax rate increase. The exhibit also includes the distributions to the TTF and the Helicopter Replacement Fund, as required by the bill.

Exhibit A 1.5
Increase in Sales and Use Tax Revenues Due to Rate Increase
($ in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Current Law					
General Fund Sales Tax Revenues	$3,516.7	$3,680.0	$3,881.8	$4,079.2	$4,285.9
Implied Taxable Sales at 5% Rate	*69,630.0*	*72,869.1*	*76,875.8*	*80,792.0*	*84,894.2*
With Higher Rate Under the Bill					
Implied Taxable Sales After 0.95% Decline at 6% Rate	*68,968.5*	*72,176.9*	*76,145.5*	*80,024.5*	*84,087.7*
Sales Tax Revenues at 6% Rate	4,173.3	4,367.2	4,606.7	4,841.1	5,086.5
Increased Sales Tax Revenues*	**$315.2**	**$687.2**	**$724.9**	**$761.9**	**$800.6**
New Distribution Under the Bill					
General Fund Revenues	205.2	405.7	428.0	449.8	472.6
Transportation Trust Fund Revenues	0.0	281.5	297.0	312.1	327.9
Helicopter Replacement Fund	110.0	0.0	0.0	0.0	0.0

*Fiscal 2008 estimate is based on January 3, 2008 effective date and less than one-half year collections.

Note: Numbers may not sum to total due to rounding.

The 0.95% decline in taxable sales reflects sales that would no longer be subject to Maryland sales tax for three reasons: • the sale does not take place at all because the increased cost dissuades the purchaser; • the sale is diverted to a neighboring state where the sales tax rate is lower; or • the sale is diverted to a remote seller, such as an Internet or mail order retailer. To the extent that the impact on sales volume varies from this projection, sales tax revenues would rise or decline correspondingly.

Part A-2. Sales Tax – Tax-free Holidays

Fiscal Summary: Revenues would decrease by $9.6 million in fiscal 2011 and $10.1 million in fiscal 2012, as shown in **Exhibit A 2.1**. Under the bill, 6.5% of the revenue decrease would come from the Transportation Trust Fund (TTF) due to the new distribution provision.

Exhibit A 2.1
Effect on State Revenues – Sales Tax-free Holidays
($ in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenues	$0.0	$0.0	$0.0	-$9.0	-$9.4
TTF Revenues	0.0	0.0	0.0	-0.6	-0.7
Total Revenues	**$0.0**	**$0.0**	**$0.0**	**-$9.6**	**-$10.1**

Note: Numbers may not sum to total due to rounding.

Bill Summary: Beginning February 2011, the bill exempts from the State sales and use tax the purchase of specified Energy Star products or solar hot water heaters made on the Saturday immediately preceding the third Monday in February through the third Monday in February. In addition, beginning August 2010, the bill exempts from the State sales and use tax the purchase of any item of clothing or footwear, excluding accessories, if the taxable price of the item of clothing or footwear is $100 or less during the seven-day period beginning the second Sunday in August through the following Saturday.

These provisions take effect July 1, 2008.

Current Law: Similar tax-free holidays do not exist under Maryland tax law.

Background: The following is a brief history of similar tax-free holidays in Maryland and other jurisdictions.

Previous Maryland Legislation: Chapter 576 of 2000 exempted from the sales and use tax the sale of clothing or footwear (except accessories) for the week of August 10 through August 16, 2001, if the taxable price of the item of clothing or footwear was less than $100. Chapter 191 of 2005 exempted from the State sales and use tax the sale of clothing or footwear (except accessories) for the period of August 23 through August 27, 2006, if the taxable price of the item of clothing or footwear was $100 or less.

Among its numerous provisions, Chapter 296 of 2000, the Maryland Clean Energy Incentive Act, provided a sales tax exemption for certain products that met or exceeded Energy Star efficiency requirements, including • clothes washers purchased on or after July 1, 2000 but before July 1, 2003; • room air conditioners purchased on or after January 1, 2001 but before July 1, 2004; and • refrigerators (standard size) purchased on or after July 1, 2001 but before July 1, 2004.

The U.S. Environmental Protection Agency and the U.S. Department of Energy have developed the "Energy Star" labeling program to help consumers identify the most energy-efficient products available on the market.

Federal Legislation: The federal Energy Policy Act of 2005 includes tax credits for consumers for implementing specified home improvements including adding insulation, replacement windows, and certain high-efficiency heating and cooling equipment. The maximum amount of the tax credit for all improvements is $500 during the two-year period of the tax credit. This tax credit applies to improvements made between January 1, 2006 and December 31, 2007.

The federal Act also provides tax credits to purchasers of hybrid gasoline-electric, diesel, battery-electric, alternative fuel, and fuel cell vehicles. The tax credit amount is based on a specified formula determined by vehicle weight, technology, and fuel economy compared to base year models. The credits are available for vehicles placed in service starting January 1, 2006. The credit phases out for each manufacturer of qualified vehicles once that company has sold 60,000 eligible vehicles. When that sales figure is reached, the tax credit for each company's vehicles will be gradually reduced over the course of another year.

Federal tax credits are also available for qualified solar water heating and photovoltaic systems. The credits are available for systems placed in service in 2006 and 2007 and are for 30% of the cost of the system, up to $2,000. This credit is not included in the $500 home improvement tax credit cap. Consumers are also eligible for a tax credit of up to 30% of the cost (up to $500 per 0.5 kilowatt of capacity maximum) for the installation of a qualified fuel cell and microturbine system placed in service in 2006 and 2007; it is also not subject to the $500 home improvement cap.

Connecticut Legislation: Recent legislation in Connecticut created a temporary sales and use tax exemption for specified home appliances that meet the federal Energy Star standards. The exemption applies to the sale of qualified refrigerators and freezers, clothes washers, dishwashers, room air conditioners, dehumidifiers, room air cleaner units, water coolers, and battery chargers occurring between June 4, 2007 and September 30, 2007. The legislation also exempts the sale of compact fluorescent light bulbs occurring on or after June 1, 2007 and makes permanent an existing sales and use tax exemption for home weatherization products.

State Revenues:

Tax-free Periods – Energy Star Products

The bill applies to purchases of eligible Energy Star air conditioners, clothes washers or dryers, furnaces, heat pumps, standard size refrigerators, compact fluorescent light bulbs, dehumidifiers, programmable thermostats, and solar water heaters once a year beginning in February 2011. Sales tax revenues could decrease by $563,300 in fiscal 2011, as shown in **Exhibit A 2.2**, and $591,500 in fiscal 2012. Average price and market penetration data were provided by the Maryland Energy Administration (MEA) and the Energy Star web site.

The estimate assumes that 14 days of sales will instead occur in the shorter period for Energy Star clothes washers, refrigerators, room air conditioners and fluorescent light bulbs; and 6 days of sales for dehumidifiers, central AC units, air source heat pumps, ground source heat pumps, furnaces, solar water heaters, and thermostats.

Exhibit A 2.2
Sales Tax-free Period for Energy Efficient Products
Estimated Revenue Decrease in Fiscal 2011

Appliance	Average Energy Star Cost	Estimated Daily Amount Sold	Estimated Sales Tax Revenue Decrease
Refrigerators	$1,100.00	328	-$321,300
Clothes Washers	500.00	202	-90,000
Room AC	300.00	182	-48,500
Furnaces (gas)	4,000.00	25	-38,200
Compact Fluorescent Light Bulb	3.50	5,949	-18,500
Ground Source Heat Pump	10,000.00	3	-11,400
Solar Water Heaters	5,500.00	5	-10,500
Central AC – Split System	1,782.00	11	-7,500
Air Source Heat Pump – Split System	2,331.00	7	-6,200
Programmable Thermostats	100.00	134	-5,100
Dehumidifiers	150.00	62	-3,500
Air Source Heat Pump – Single Package	3,634.00	1	-1,400
Central AC – Single Package	2,954.00	1	-1,100
Total			**-$563,300**

AC = Air Conditioner.
Note: Although energy-efficient dryers exist, none is currently rated as an Energy Star appliance. Thus, no dryers would be eligible for the exemption at this time.
Source: Energy Star web site; Maryland Energy Administration; Department of Legislative Services

To the extent the actual prices and number of products purchased differ from those used in the estimate, the associated revenue decrease would vary accordingly. Also, to the extent that the bill generates or contributes to sales of other products that might not normally have occurred, the sales tax decrease attributable to the bill could be mitigated.

As a point of reference, a recent proposal in New York State would have provided a sales tax exemption for specified Energy Star products for two one-week periods. The fiscal estimate for the proposal assumed 20 days of sales both before and after each 7-day tax-free period would instead occur during the tax-free period for a total of 47 days worth of sales occurring during each period. In addition, the recently concluded Connecticut tax-free period for Energy Star appliances is estimated to reduce state revenues by approximately $7.0 million. The exemption for fluorescent light bulbs and weatherization products is expected to reduce state revenues by an additional $7.0 million in fiscal 2008.

Tax-free Periods – Clothing and Footwear

The Comptroller's Office estimates that the 2001 tax-free week resulted in lost sales tax revenue of $5.1 million, with another $5.5 million in lost revenue from the 2006 tax-free period. This estimate is based on a regression analysis of historical sales tax collection trends in the categories of vendors (apparel stores, department stores, etc.) that sell a large share of the exempted clothing and footwear.

Sales tax revenues could decrease by approximately $9.1 million in fiscal 2011 and $9.5 million in fiscal 2012 due to the seven-day tax-free period. This estimate is based on the impacts from previous tax-free shopping periods and an assumed 3% annual increase in taxable sales from fiscal 2006 to 2010 and a 5% increase from fiscal 2010 to 2011. Thereafter, the estimate assumes that the associated revenues would decrease by 5% during the first two years of the tax-free period for clothing sales and then decrease by 3% annually beginning in fiscal 2013. **Exhibit A 2.3** shows the estimated revenue effect in future years for both Energy Star products and clothing and footwear.

Exhibit A 2.3
Impact of Sales Tax-free Holidays
($ in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Energy Star Products	$0.0	$0.0	$0.0	-$0.6	-$0.6
Clothing and Footwear	0.0	0.0	0.0	-9.1	-9.5
Total	**$0.0**	**$0.0**	**$0.0**	**-$9.6**	**-$10.1**

Note: Numbers may not sum to total due to rounding.

Part A-3. Sales Tax – Payment of Tax by Seller

Fiscal Summary: State revenues would not be affected. The provision could result in the shifting of State sales tax payments from the buyer to the seller; however, the total amount of State sales tax collections would remain the same.

Bill Summary: The bill authorizes vendors to assume or absorb all or any part of the sales and use tax imposed on a retail sale or use and to pay that tax on behalf of the buyer. It repeals the prohibition against a vendor advertising, stating, or otherwise holding out that the vendor will assume or absorb, will not add to the taxable price, or will refund any part of the sales and use tax imposed on a retail sale or use.

The provision takes effect January 3, 2008.

Current Law: Vendors are prohibited from directly or indirectly advertising, stating, or otherwise holding out that any part of the sales and use tax • will be assumed or absorbed by the vendor; • will not be added to the taxable price of tangible personal property or a taxable service; or • will be refunded if added to the taxable price of tangible personal property or a taxable service.

Background: The tax is collected from purchasers at the time of sale or, in the case of out-of-state sales, when the use, storage, or consumption becomes subject to the tax. Vendors who have collected the tax, and purchasers who have not paid the tax to vendors, are required to remit the tax to the Comptroller by the twentieth day of the month following the month in which the sale or use occurred. The Comptroller is authorized to provide for less frequent filing schedules where circumstances warrant. In order to cover the expense of collection, persons filing timely returns are allowed to take a vendor credit against the gross tax remitted in an amount equal to 1.2% of the first $6,000 collected and 0.9% of the excess.

Part B. Tobacco Tax

Fiscal Summary: General fund revenues would increase by $98.1 million in fiscal 2008 and by $146.5 million in fiscal 2012. **Exhibit B 1.1** shows the fiscal impact over a five-year period.

Exhibit B 1.1
Effect on State Revenues – Tobacco Tax
($ in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenues	$98.1	$162.2	$156.9	$151.6	$146.5
SF Revenues	0.0	0.0	0.0	0.0	0.0
Total Revenues	**$98.1**	**$162.2**	**$156.9**	**$151.6**	**$146.5**

Bill Summary: The bill increases the tobacco tax from $1.00 to $2.00 per pack. It includes a floor tax.

These provisions take effect January 1, 2008.

Current Law: Cigarettes are taxed at a rate of $1.00 per pack.

Background: **Exhibit B 1.2** shows the cigarette tax in all 50 states and the District of Columbia. The U.S. median cigarette tax is $1.00 per pack. Maryland currently has the twenty-fourth highest cigarette tax rate. Pursuant to this legislation, 8 states would have the same or higher rate than Maryland, compared with 23 now.

Estimating the price elasticity of demand is a common method to determine the impact increasing tobacco taxes will have on consumption and State revenues. A price elasticity of -0.5 implies that cigarette demand will fall by one-half of the total increase in the price of cigarettes. Most research has indicated that the cigarette price elasticity is between -0.3 and -0.5. Tax-paid cigarette sales, however, will likely decrease by more than this amount as individuals may continue to smoke but purchase cigarettes in other states or through the Internet or other nontaxable means. Legislative Services examined 17 states that had recently increased tobacco taxes. The estimated median price elasticity of tax paid cigarette sales in these states was -0.801. States that had high cigarette taxes typically exhibited higher price elasticities. New Jersey raised its tax rate to $2.40, a 17% increase, but total revenues increased by only 2.6% in the next fiscal year. Several states recently increased cigarette taxes to $2.00. In Rhode Island, this increase translated to a 13.5% price increase while tax-paid cigarette sales declined by 18.7%. Michigan's cigarette prices increased by 17.4% and sales decreased by 15.2%. Lastly, in Oregon prices increased by 11.8% while total sales decreased by 8.5%.

Exhibit B 1.2
State Excise Tax Rates on Cigarettes

State	Tax	Rank	State	Tax	Rank
Alabama	$0.425	42nd	Montana	$1.700	11th
Alaska	$2.000	4th	Nebraska	$0.640	35th
Arizona	$2.000	4th	Nevada	$0.800	31st
Arkansas	$0.590	38th	New Hampshire	$1.080	22nd
California	$0.870	29th	**New Jersey**	**$2.580**	**1st**
Colorado	$0.840	30th	New Mexico	$0.910	28th
Connecticut	$2.000	4th	New York	$1.500	14th
District of Columbia	**$1.000**	**24th**	North Carolina	$0.350	45th
Delaware	**$1.150**	**21st**	North Dakota	$0.440	41st
Florida	$0.339	46th	Ohio	$1.250	19th
Georgia	$0.370	43rd	Oklahoma	$1.030	23rd
Hawaii	$1.800	9th	Oregon	$1.180	20th
Idaho	$0.570	39th	**Pennsylvania**	**$1.350**	**18th**
Illinois	$0.980	27th	Rhode Island	$2.460	2nd
Indiana	$0.995	26th	South Carolina	$0.070	51st
Iowa	$1.360	17th	South Dakota	$1.530	12th
Kansas	$0.790	32nd	Tennessee	$0.620	36th
Kentucky	$0.300	47th	Texas	$1.410	16th
Louisiana	$0.360	44th	Utah	$0.695	34th
Maine	$2.000	4th	Vermont	$1.790	10th
Maryland	**$1.000**	**24th**	**Virginia**	**$0.300**	**48th**
Massachusetts	$1.510	13th	Washington	$2.025	3rd
Michigan	$2.000	4th	**West Virginia**	**$0.550**	**40th**
Minnesota	$1.490	15th	Wisconsin	$0.770	33rd
Mississippi	$0.180	49th	Wyoming	$0.600	37th
Missouri	$0.170	50th			
U.S. Median	$1.00				

Based on an econometric analysis of the price of cigarettes in Maryland and surrounding states and consumption of tax-paid cigarettes in Maryland, increasing the tobacco tax to $2.00 would decrease sales by approximately 18%, which translates to a tax-paid cigarette price elasticity of a little less than -0.7.

State Revenues: As shown in **Exhibit B 1.3**, general fund revenues increase by a net of $98.1 million in fiscal 2008, which accounts for the January 1, 2008 effective date. Future years assume that net general fund revenues will increase by $162.2 million in fiscal 2009 and then decline by about 3% annually.

Exhibit B 1.3
Tobacco Tax Increase Revenue Increase
($ in Thousands)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Current Law:					
Tobacco Tax	$267,378	$265,658	$263,949	$262,251	$260,565
Proposal:					
Tobacco Tax	$350,205	$429,960	$423,511	$417,158	$410,901
Floor Tax	16,281				
Total Revenues	366,485	429,960	423,511	417,158	410,901
Net Tobacco Tax Increase	99,107	164,302	159,561	154,906	150,336
Sales Tax Change*	(1,020)	(2,105)	(2,676)	(3,265)	(3,871)
Net General Fund Effect*	**$98,087**	**$162,197**	**$156,886**	**$151,642**	**$146,465**

*For purposes of this analysis, the sales tax change has been credited entirely to the general fund rather than shared 6.5% with the Transportation Trust Fund.

This estimate is based on Legislative Services' current tobacco revenue forecast, the estimated current price of cigarettes in Maryland and surrounding states, and estimated tax-paid cigarette price elasticity of demand.

Part C. Vehicle Titling – Vehicle Excise Tax (Titling Tax) and Certificate of Title Fee

Fiscal Summary: Transportation Trust Fund (TTF) revenues would increase by $47.8 million in fiscal 2008 and $105.5 million by fiscal 2012. **Exhibit C 1.1** shows the fiscal impact over a five-year period.

Exhibit C 1.1
Effect on State Revenues – Vehicle Excise Tax and Certificate of Title Fee Changes
($ in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
TTF Revenues	$47.8	$94.4	$98.4	$102.3	$105.5

Bill Summary: The bill increases the vehicle excise tax rate from 5% to 6% of the vehicle's purchase price or fair market value and allows for a reduction in the amount subject to the tax by 100% of the value of a trade-in. When a vehicle is purchased there is also a certificate of title fee. The bill increases this certificate of title fee from $23 to $50. The share of vehicle excise tax revenue distributed to the Gasoline and Motor Vehicle Revenue Account (GMVRA), which is shared with local governments, decreases from 80 percent to two-thirds, so that all new revenue generated by the vehicle excise tax rate increase would be retained at the State level.

The provisions relating to the tax rate, trade-in deduction, and certificate of title fee take effect January 1, 2008; the provision altering the distribution of vehicle excise tax revenue takes effect July 1, 2008.

Current Law/Background: The vehicle excise tax is applied to the purchase price or fair market value of all new and used motor vehicles at the time of sale. It was last increased from 4% to 5% in 1978, and the Motor Vehicle Administration (MVA) is responsible for its administration and collection. Eighty percent of the tax revenue is distributed to the GMVRA and shared with local governments.

The vehicle excise tax assessed by Maryland ranks in the middle of the surrounding states in terms of the rate assessed at the time of purchase. There are two notable differences between Maryland and some of the surrounding states. First, Virginia, North Carolina, and West Virginia each include vehicles in the calculation for the annual assessment of property tax, meaning that individuals pay a tax on vehicles annually rather than on a one-time basis as in Maryland. Second, in most of the examined jurisdictions (except Virginia, the District of Columbia, and Maryland), individuals are able to reduce the taxable price of a vehicle by the amount of a trade-in vehicle. **Exhibit C 1.2** provides additional detail on the vehicle excise tax rates imposed by neighboring states.

The current certificate of title fee is set by regulation at $23 for both new and used vehicles.

Exhibit C 1.2
Taxes on Vehicle Purchases in Neighboring States

State	Tax	Rate	Trade-in Deduction?
Maryland	Titling Tax	5% of vehicle purchase price	No
Delaware	Vehicle Document Fee	3.25% of vehicle purchase price	Yes
Pennsylvania	Sales Tax	6% of purchase price (7% in Allegheny County and Philadelphia)	Yes
New Jersey	Sales Tax	7% of purchase price	Yes
North Carolina	Highway Use Tax	3% of purchase price paid annually, plus local property tax rate assessed by county annually	Yes
West Virginia	Titling Tax	5% of fair market value of vehicle plus a 2% personal property tax	Yes
Virginia	Sales Tax	3% sales and use tax based on the vehicle's gross sales price or $35, whichever is greater, plus annual personal property tax	No
District of Columbia	Titling Tax	6% to 8% depending on the weight of the vehicle	No

Source: Department of Legislative Services

State Revenues: TTF revenues from vehicle titling would increase by $47.8 million in fiscal 2008 and $105.5 million by fiscal 2012. **Exhibit C 1.3** shows the total revenues generated by the vehicle excise tax rate increase, the offset due to the trade-in value deduction, and the revenues generated by the certificate of title fee. The Maryland Department of Transportation (MDOT) would retain $40.2 million at the State level in fiscal 2008, escalating to $124.8 million by fiscal 2012.

Exhibit C 1.3
Increased Vehicle Excise Tax and Certificate of Title Fee Revenues
($ in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenue Generated by a 1% VET Increase	$74.4	$144.5	$152.8	$160.9	$167.5
Offset Due to Trade-in Deduction	-42.8	-83.2	-88.0	-92.6	-96.4
Certificate of Title Fee Increase	16.2	33.1	33.6	34.0	34.5
Total Increase	**$47.8**	**$94.4**	**$98.4**	**$102.3**	**$105.5**
State Share	*40.2*	*111.1*	*116.0*	*120.8*	*124.8*
Local Share (Highway User Revenues)	*7.6*	*-16.7*	*-17.7*	*-18.6*	*-19.4*

Note: Numbers may not sum to total due to rounding.
VET = Vehicle Excise Tax.

Based on historical trends, 53% of yearly vehicle purchases occur in the second half of each fiscal year. The estimate also accounts for inflation in vehicle prices and vehicle purchase growth and assumes that consumer spending habits would not change as a result of the tax increase.

The following assumptions were used in calculating the trade-in deduction:

- approximately 50% of new vehicle purchases and 20% of used car purchases involve a trade-in;
- of 399,300 new cars purchased annually, 199,600 will involve a trade-in;
- of 697,000 used cars purchased annually, 139,400 will involve a trade-in;
- the average trade-in value for a new car purchase is $6,300;
- the average trade-in value for a used car purchase is $736; and
- 100% of the value of the trade-in will be allowed for an allowance.

Local Revenues: Highway user revenues would increase by $7.6 million in fiscal 2008 from increased vehicle excise tax revenues credited to the GMVRA. However, highway user revenues would decrease beginning in fiscal 2009 due to modification of the GMVRA distribution ($16.7 million reduction in fiscal 2009).

Part D. Other Fund Redistributions

Fiscal Summary: Beginning in fiscal 2009, general fund revenues would decrease by $61.0 million while general fund expenditures would increase by $4.0 million, for a net negative impact of $64.9 million on the general fund. Transportation Trust Fund (TTF) revenues, on the other hand, would increase by $14.6 million, and revenues to the new Chesapeake Bay 2010 Trust Fund would increase by $50.3 million. **Exhibit D 1.1** shows the net impact of the reallocations on the general fund, the TTF, and the new fund.

Exhibit D 1.1
Impact of Redistributions to the General Fund, Transportation Trust Fund, and Chesapeake Bay 2010 Trust Fund
($ in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenues	$0.0	-$61.0	-$63.3	-$65.5	-$67.7
GF Expenditures	0.0	4.0	3.8	3.7	3.7
Net GF Impact	0.0	-64.9	-67.1	-69.2	-71.3
TTF Revenues	0.0	14.6	15.3	15.9	16.3
Chesapeake Bay Revenues	0.0	50.3	52.0	53.7	55.5

Note: Numbers may not sum to total due to rounding.

Bill Summary: The bill makes several changes to the statutory allocation of certain revenues to benefit the TTF and the new Chesapeake Bay 2010 Trust Fund rather than the general fund or other special funds. Certain funding allocations repealed under the bill are replaced with mandated general fund appropriations. Fund redistributions are described below according to funding source.

These provisions take effect July 1, 2008.

Motor Fuel Tax (MFT) Revenues

The bill changes how MFT revenues would be distributed. Under the bill:

- reserves would be set aside for refunds relating to the motor fuel and motor carrier taxes;
- a proportionate share of the cost to administer the Motor Fuel Tax Bureau within the Comptroller's Office would be distributed to an administrative cost account;

- the net proceeds of the aviation fuel tax (receipts less refunds) would be credited to the TTF;
- fuel tax revenues that are attributable to the portion of the rate that exceeds 18.5 cents per gallon would be distributed to the Gasoline and Motor Vehicle Revenue Account (GMVRA); and
- the remainder would be distributed as follows:
  - 2.3% to the Chesapeake Bay 2010 Trust Fund; and
  - the remainder to the GMVRA.

The bill replaces the existing distributions to the Waterway Improvement Fund and Fisheries Research and Development Fund with mandated minimum general fund appropriations beginning in fiscal 2009.

Sales and Use Tax on Short-term Vehicle Rentals

The bill redirects the 55% of revenues from the sales and use tax on short-term vehicle rentals that would otherwise be credited to the general fund to the new Chesapeake Bay 2010 Trust Fund instead.

Security Interest Filing Fee Revenues

All security interest filing fee revenues would be distributed to the Motor Vehicle Administration (MVA) Assurance Fund; however, any revenues in excess of a $25,000 balance would still be remitted to the TTF as under current law.

Special Personalized (Vanity) Tag Fee Revenues

The bill repeals the provisions allowing the MVA to retain a portion of the original fee for cost recovery and prohibiting revenues received from vanity tag fees from being credited to the GMVRA. Instead, it directs all of the revenues to the TTF. Thus, no funds would be distributed to the Graduate and Professional Scholarship Program, the Distinguished Scholar Program, or the general fund.

Mandated General Fund Appropriations

As noted earlier, the bill replaces certain funding allocations repealed by other provisions with mandated general fund appropriations as listed in **Exhibit D 1.2**, beginning in fiscal 2009.

Exhibit D 1.2
Mandated General Fund Appropriations
Beginning Fiscal 2009

Appropriation	Amount
Baltimore City	$3,075,000
Fisheries Research and Development Fund	at least $1,794,000
Waterway Improvement Fund	at least $1,794,000
Total	**at least $6,663,000**

Current Law/Background:

Motor Fuel Tax (MFT) Revenues

Motor fuel tax revenues are currently distributed as follows:

- reserves are set aside for refunds relating to the motor fuel and motor carrier taxes;
- a proportionate share of the cost to administer the Motor Fuel Tax Bureau within the Comptroller's Office is distributed to an administrative cost account;
- the net proceeds of the aviation fuel tax (receipts less refunds) are credited to the TTF;
- fuel tax revenues that are attributable to the portion of the rate that exceeds 18.5 cents per gallon are distributed to the GMVRA; and
- the remainder each month is distributed to the following:
    - 0.3% to the Waterway Improvement Fund;
    - 0.3% to the Fisheries Research and Development Fund;
    - 2.3% to the general fund for Chesapeake Bay-related programs; and
    - the balance to the GMVRA.

Sales and Use Tax on Short-term Vehicle Rentals

The Comptroller must currently distribute 45% of the net sales and use tax on short-term vehicle rentals (8% for trucks and 11.5% for passenger vehicles) to the TTF each month; the remaining 55% goes to the general fund. A portion of the TTF distribution (80%) is credited to the GMVRA.

Security Interest Filing Fee Revenues

A security interest filing fee of $20 is required for securing the title of a motor vehicle not wholly owned by the purchaser. Revenues are allocated among the general fund, the MVA, and the TTF. The general fund receives $14, of which $5 is then distributed to Baltimore City. The remaining $6 goes to the MVA Assurance Fund, which is used to compensate parties who have suffered a loss as a result of an error made by an MVA employee relating to security interest filings. Any revenues in excess of a $25,000 balance in that fund are transferred to the TTF.

Special Personalized (Vanity) Tag Fee Revenues

In addition to the annual vehicle registration fee otherwise required, an owner desiring a vanity tag must pay an additional $25 annual fee. Revenues from vanity tags are currently distributed as follows:

- $12.50 of the initial annual fee (not renewals) is retained by the Maryland Department of Transportation (MDOT) and deposited into the TTF for cost recovery of MVA operations;
- of the remainder:
    - the first $180,000 is credited to a fund administered by the Maryland Higher Education Commission for use in medical, dental, legal, nursing, and pharmaceutical scholarship programs (Graduate and Professional Scholarship Program);
    - the next $200,000 is used solely to fund scholarships within the Distinguished Scholar Program; and
    - the remainder is distributed to the general fund.

State Effect: The impact of the funding reallocations would begin on July 1, 2008 (fiscal 2009). Foregone general fund revenues would total $61.0 million, while general fund expenditures would increase $4.0 million – for a total general fund impact of $64.9 million. The TTF, on the other hand, would experience a positive net impact from these provisions. In fiscal 2009, total TTF revenues would increase by $14.6 million. Of this total, $1.1 million would be distributed to local governments as highway user revenues, and $13.5 million would be retained by MDOT at the State level. The Chesapeake Bay 2010 Trust Fund would be capitalized with more than $50 million each year. **Exhibits D 1.3**, **D 1.4**, and **D 1.5** provide additional detail on the fund redistributions and their fiscal impact.

This estimate is based on the following assumptions:

- Any increased revenue due to eliminating the transfer of security interest filing fees to the general fund would go to the TTF rather than the MVA Assurance Fund.
- Revenue from the special personalized (vanity) tag fee would be credited only to the TTF, and sufficient funds would remain available for cost recovery at the MVA.
- General funds would replace the vanity tag fee distributions to the two scholarship programs, and funding levels for those programs would remain constant in future years.
- General funds would continue to be used to support Chesapeake Bay-related programs at the same level as under current law since the provisions creating the new Chesapeake Bay 2010 Trust Fund specify that the monies allocated to the fund are intended to supplement existing funding.
- The mandated appropriations to the Fisheries Research and Development Fund and the Waterway Improvement Fund (which are all specified in the bill as minimum funding levels) would *not* be funded at the minimum required levels for all years. Instead, since the bill establishes a funding floor, it is assumed that growth would be factored into the appropriation each year so that the programs would continue to receive the same amount as they would under current law. Actual funding by the Governor could be lower, however, as long as the minimum required funding levels are maintained.

These numbers do not account for fund transfers eliminated between TTF revenue sources and other special funds. For example, transfers to the two special funds within the Department of Natural Resources would have totaled $3.6 million in fiscal 2009. This funding source was eliminated by the bill and replaced by a mandated general fund appropriation as discussed earlier.

Local Effect: Local governments would receive additional highway user revenues beginning in fiscal 2009 ($1.1 million). The repealed Baltimore City grant from security interest filing fees is replaced with a mandated general fund appropriation.

Exhibit D 1.3
Impact of Redistributions on the General Fund
($ in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Foregone General Fund Revenues Due to Elimination of Transfers from:					
MFT for Chesapeake Bay-related programs	$0.0	-$13.7	-$13.9	-$14.1	-$14.3
Security interest filing fees ($14 of every $20 fee collected)	0.0	-8.6	-9.2	-9.6	-9.9
Vanity tag fees (general fund share only)	0.0	-2.0	-2.1	-2.2	-2.3
Sales and use tax on short-term vehicle rentals (55% of total)	0.0	-36.6	-38.1	-39.6	-41.2
Total General Fund Revenue Change	**$0.0**	**-$61.0**	**-$63.3**	**-$65.5**	**-$67.7**
Mandated General Fund Appropriations for:					
DNR programs (replacing MFT funding to other special funds)[1]	$0.0	$3.6	$3.6	$3.7	$3.7
Baltimore City (replacing city's $5 share of security interest filing fee)[2]	0.0	0.0	-0.2	-0.4	-0.5
Subtotal General Fund Expenditure Change	***$0.0***	***$3.6***	***$3.4***	***$3.3***	***$3.3***
Assumed Continuation of General Fund Expenditures for:					
Chesapeake Bay-related programs (net impact – replacing MFT funding)[3]	$0.0	$0.0	$0.0	$0.0	$0.0
Assumed Replacement of Special Fund Expenditures with General Funds for:					
MHEC scholarship programs (replacing vanity tag fee funding)[4]	$0.0	$0.4	$0.4	$0.4	$0.4
Total General Fund Expenditure Change	**$0.0**	**$4.0**	**$3.8**	**$3.7**	**$3.7**
Net Impact on General Fund	**$0.0**	**-$64.9**	**-$67.1**	**-$69.2**	**-$71.3**

Notes: These provisions take effect in fiscal 2009. Numbers may not sum to total due to rounding.

Key: MFT = motor fuel tax; DNR = Department of Natural Resources; MHEC = Maryland Higher Education Commission.

[1] Includes the Waterway Improvement Fund and Fisheries and Research Development Fund. The amount of the mandated appropriation is the same as the anticipated distribution under current law for fiscal 2009. In the out-years, funding is assumed to increase as it would under current law.

[2] Reflects the difference between the mandated appropriation amount of $3,075,000 each year and the amount that would have been distributed to Baltimore City under current law – $5 out of every $14 distributed to the general fund from security interest filing fees. Security interest filing fee revenues are expected to increase in future years; however, the mandated appropriation does not account for any such increases.

[3] Although the bill does not mandate a general fund appropriation for Chesapeake Bay-related programs, it is assumed that funding would continue at the same level in future years. Thus, the impact of the bill is primarily due to foregone revenues to the general fund rather than any change in expenditures. Under current law, the MFT revenue deduction to the general fund has to be used for this purpose.

[4] Includes the Graduate and Professional Scholarship and the Distinguished Scholar Scholarship. The Distinguished Scholar Scholarship funding level is set by another statutory provision, while funding of the Graduate and Professional Scholarship program is assumed to continue at current levels.

Source: Maryland Department of Transportation; Department of Legislative Services

Exhibit D 1.4
Impact of Redistributions on the Transportation Trust Fund
($ in Millions)

Revenue Enhancements Due to:	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**
Eliminating MFT as funding source for DNR programs[1]*	$0.0	$3.6	$3.6	$3.7	$3.7
Eliminating security interest filing fee transfer to the general fund**	0.0	8.6	9.2	9.6	9.9
Eliminating vanity tag fee funding for MHEC scholarship programs**	0.0	0.4	0.4	0.4	0.4
Eliminating vanity tag fee transfer to the general fund**	0.0	2.0	2.1	2.2	2.3
Total Transportation Trust Fund Revenue Change	**$0.0**	**$14.6**	**$15.3**	**$15.9**	**$16.3**
Revenues Retained at State Level	**$0.0**	**$13.5**	**$14.2**	**$14.8**	**$15.2**
Local Share (Highway User Revenues)	**$0.0**	**$1.1**	**$1.1**	**$1.1**	**$1.1**

Notes: These provisions take effect in fiscal 2009. Numbers may not sum to total due to rounding.

Key: MFT = motor fuel tax; DNR = Department of Natural Resources; MHEC = Maryland Higher Education Commission.

*All funds credited to the Gasoline and Motor Vehicle Revenue Account and subject to local distribution.

**All funds credited to the Transportation Trust Fund only.

[1] Includes the Waterway Improvement Fund and the Fisheries Research and Development Fund.

Source: Maryland Department of Transportation; Department of Legislative Services

Exhibit D 1.5
Impact of Redistributions on the Chesapeake Bay 2010 Trust Fund
($ in Millions)

Capitalization from:	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**
MFT (2.3% of a portion of revenues)	$0.0	$13.7	$13.9	$14.1	$14.3
Sales and use tax on short-term vehicle rentals (55% of total)	0.0	36.6	38.1	39.6	41.2
Total	**$0.0**	**$50.3**	**$52.0**	**$53.7**	**$55.5**

Notes: MFT = Motor fuel tax.
These provisions take effect in fiscal 2009.
Numbers may not sum to total due to rounding.

Part E. Chesapeake Bay 2010 Trust Fund

Fiscal Summary: General fund revenues would decrease by more than $50.0 million annually, and special fund revenues would increase correspondingly to capitalize the Chesapeake Bay 2010 Trust Fund beginning in fiscal 2009. **Exhibit E 1.1** shows the fiscal impact over a five-year period.

Exhibit E 1.1
Capitalizing the Chesapeake Bay 2010 Trust Fund
($ in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Chesapeake Bay 2010 Trust Fund	$0.0	$50.3	$52.0	$53.7	$55.5
General Fund	0.0	-50.3	-52.0	-53.7	-55.5
Total Net Revenues	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**

Bill Summary: The bill creates a Chesapeake Bay 2010 Trust Fund to provide the financial assistance necessary to meet, by 2010, the goals established in the Chesapeake 2000 agreement (C2K). This special nonlapsing fund is capitalized with a portion of existing revenues from the motor fuel tax and existing revenues from the sales and use tax on short-term vehicle rentals that would otherwise go to the general fund under current law.

The fund may be used only to implement the State tributary strategy developed in accordance with C2K. The fund is intended to be supplemental to funding that otherwise would be appropriated for bay restoration.

These provisions take effect July 1, 2008.

Current Law: The Comptroller must currently distribute 45% of the net sales and use tax collected on short-term vehicle rentals (8% for trucks and 11.5% for passenger vehicles) to the TTF each month; the remaining 55% goes to the general fund.

As noted in **Part D** of this Fiscal and Policy Note, 2.3% of the net MFT revenues from the first 18.5 cents of the MFT are distributed to the general fund for Chesapeake Bay-related programs.

Background: The health of the Chesapeake Bay has declined significantly over the past several decades due to nutrient and sediment pollution. In 1999, the U.S. Environmental

Protection Agency (EPA) identified the bay as an impaired water body. In 2000, the Chesapeake Bay partners (the bay states, the District of Columbia, the Chesapeake Bay Commission, and EPA) negotiated C2K, specifying restoration goals to improve the bay and its tidal tributaries and remove them from the EPA's List of Impaired Waters by 2010. As part of C2K, specific pollution reduction goals have been allocated to the various bay states. Maryland's reduction goals are summarized in **Exhibit E 1.2**. In 2004, Maryland contributed approximately 20% of the bay's total nitrogen, phosphorus, and sediment load. The largest source of Maryland's nutrient and sediment pollution is runoff from agricultural lands, followed by urban runoff and point sources.

Exhibit E 1.2
Maryland's Pollutant Reduction Goals

Pollutant	1985 Loads	2004 Loads	2010 Goal
Nitrogen (million lbs/yr)	82.4	56.9	37.3
Phosphorus (million lbs/yr)	6.8	3.8	2.9
Sediment (million tons/yr)	1.3	1.0	0.7

Source: U.S. Environmental Protection Agency's Chesapeake Bay Program

In April 2004, DNR released Maryland's Tributary Strategy, which outlines basin-specific nutrient and sediment control actions necessary to reduce pollution from every source and achieve the nutrient reduction goals established in C2K. A statewide implementation plan for the tributary strategy was recently developed that does not identify everything needed to meet the tributary strategy goals. Instead, the plan defines goals that are realistically attainable within appropriate timeframes, with the expectation of updates being made as new funding sources and technologies emerge and understanding of the response in water quality to actions taken in the watershed improves. Several efforts aimed at reducing the amount of nutrients and sediment flowing to State waters are underway, including:

- the upgrading of significant wastewater treatment plants in the State that discharge to the Chesapeake Bay with state-of-the art enhanced nutrient removal (ENR) technology;
- State cost share assistance and other programs to encourage the implementation of agricultural best management practices on agricultural land, reducing nutrient and sediment runoff; and

- pollutant emissions limits under the Healthy Air Act, taking effect in 2009 and 2010, that are expected to reduce the amount of nitrogen entering the bay through atmospheric deposition.

Despite these and other ongoing efforts, however, the State is expected to fall significantly short of its C2K 2010 pollution reduction goals absent further action. The Chesapeake Bay Foundation, for example, estimates that existing programs and funding sources, upon full implementation, will serve to reduce the State's nitrogen pollution by approximately 10 million pounds per year, representing only half of the 20 million pounds per year of nitrogen pollution reduction estimated to be needed to meet the State's C2K 2010 goal.

State Revenues: The Chesapeake Bay 2010 Trust Fund would be capitalized with more than $50 million in special funds annually, beginning in fiscal 2009. As noted earlier, these revenues would no longer be credited to the general fund.

Part F. Admissions and Amusement Tax – Electronic Bingo and Electronic Tip Jars

Fiscal Summary: General fund revenues would increase by $2.5 million in fiscal 2008 and by $5.0 million annually beginning in fiscal 2009. **Exhibit F 1.1** shows the fiscal impact over a five-year period.

Exhibit F 1.1
Effect on State Revenues – Electronic Bingo and Electronic Tip Jars
($ in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenues	$2.5	$5.0	$5.0	$5.0	$5.0
SF Revenues	0.0	0.0	0.0	0.0	0.0
Total Revenues	**$2.5**	**$5.0**	**$5.0**	**$5.0**	**$5.0**

Bill Summary: The bill imposes a 20% State admissions and amusement tax on the net receipts generated from the operation of specified electronic bingo and electronic tip jars.

This provision takes effect January 3, 2008.

Current Law: All counties (with the exception of Caroline County), Baltimore City, and most municipalities impose an admissions and amusement tax. Each unit of local government sets its own single tax rate or range of rates. This rate is expressed as a percentage of gross receipts, up to a maximum rate of 10%.

Each unit of local government is authorized to classify different types of activities, and the rate of tax need not be the same for each type. An admissions and amusement tax may not be imposed in a municipality by a county if the municipality already imposes a similar tax or specifically exempts any gross receipts from the admissions and amusement tax. However, if a municipality does not levy a tax, the county tax, if any, applies within the municipality.

The local admissions and amusement tax is further limited by the State sales and use tax. The maximum tax rate on the gross receipts subject to admissions and amusement tax may not exceed 10%. If the 5% State sales and use tax also applies to these receipts, the local admissions and amusement tax may not exceed 5%. This limitation on the local tax arises primarily on performances accompanied by some type of food service (dinner theaters, etc.).

Background: Facilities operating electronic bingo are located primarily in Allegany, Anne Arundel, and Calvert counties. Tip jar gaming, predominantly paper based, is conducted in several western Maryland counties, including Allegany, Garrett, and Washington counties.

State Revenues: General fund revenues would increase by $2.5 million in fiscal 2008 and $5.0 million annually beginning in fiscal 2009.

Part G. Consolidated Transportation Bonds

Fiscal Summary: To the extent that the Maryland Department of Transportation (MDOT) is able to issue debt above its current limit of $2.0 billion, transportation bond revenues and related debt service expenditures could increase. Any such increase depends on the amount of debt issued and the interest rate, neither of which can be reliably estimated at this time.

Bill Summary: The bill increases the maximum aggregate outstanding amount of consolidated transportation bonds (CTBs) from $2.0 billion to $2.6 billion effective January 1, 2008.

Current Law/Background: To recognize the additional bonding capacity associated with increased revenues, the bill increases the statutory cap on CTB debt outstanding. Although the cap is increased, the debt is subject to other limitations, such as:

- General Assembly approval through the annual budget process with language capping the amount of debt outstanding.
- Two coverage tests manage debt outstanding: net revenues and pledged taxes must be at least 2.0 times the maximum annual debt service. MDOT sets an administrative minimum of 2.5 times the maximum annual debt service for each test.
- The Capital Debt Affordability Committee (CDAC) includes transportation debt and Grant Anticipation Revenue Vehicle (GARVEE) bonds (backed by anticipated federal aid) when it establishes annual limits on State tax-supported debt.
- Future MDOT debt issuances may be constrained by the State's debt limit of debt outstanding not exceeding 3.2% of personal income.

State Fiscal Effect: While the higher ceiling may allow for additional bonding capacity under MDOT debt affordability tests because of the additional revenue generated under this bill, any such additional bonding capacity could be constrained by other debt limitation measures. As stated previously, CTB debt is also constrained by the debt affordability policies adopted by CDAC. Specifically, State-supported debt outstanding cannot exceed 3.2% of personal income. Based on the October 2007 CDAC report, there will be limited remaining debt capacity in future years – remaining debt capacity is estimated to be about $160 million.

Thus, based upon the broader State debt limitation, there could be significantly less than the $0.6 billion in additional bonding authority proposed in the bill.

Part H. Miscellaneous Provisions

The bill also:

- provides funding to replace State Police helicopters with a portion ($110.0 million) of the revenues from the increased sales and use tax rate in fiscal 2008 only and specifies legislative intent that three helicopters be purchased each year from fiscal 2009 through 2012 – subject to appropriation (each helicopter is estimated to cost $10.0 million); and

- requires the Maryland Department of Transportation (MDOT) to report on proposed projects in its Consolidated Transportation Program for 2008 through 2013.

Part I. Administrative Expenditures

Implementing the various provisions of the Transportation and State Investment Act would result in additional administrative expenses at the Comptroller's Office. State expenditures would increase by $88,600 in fiscal 2008 only. **Exhibit I 1.1** shows the increase in State expenditures for the agency for a five-year period.

Exhibit I 1.1
Total Administrative Expenditures
Fiscal 2008-2012

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Expenditures	$88,600	$0	$0	$0	$0

Comptroller's Office

The Comptroller's Office would incur a variety of one-time expenditure increases to administer the bill, including increased notification costs relating to mailing and postage and minimal computer programming modifications. As a result, general fund expenditures would increase by $88,600 in fiscal 2008. The estimate is based on the need for notifying 135,300 sales tax and tobacco tax account holders of the changes under the bill at an average cost of $0.56 per account.