Department of Legislative Services

Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 440 (Senator Garagiola, *et al.*)
Budget and Taxation

Highway User Revenue Distribution

This bill alters the distribution of funds in the Gasoline and Motor Vehicle Revenue Account (GMVRA) to gradually provide 70% to the Maryland Department of Transportation (MDOT) and 30% to local jurisdictions distributed as follows: Baltimore City (12.1%), counties (15.3%), and municipalities (2.6%). The altered distribution is phased in during the fiscal 2014 through 2017 period. The bill does not alter the distribution of funds in GMVRA in fiscal 2013.

The bill takes effect June 1, 2012.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues available to MDOT decrease by an estimated $95.8 million in FY 2014, $191.0 million in FY 2015, $289.8 million in FY 2016, and $388.0 million in FY 2017. A reduction of this magnitude would require MDOT to reduce its 2012-2017 capital budget by approximately $2.4 billion. This analysis assumes that State finances are not affected in FY 2012.

Local Effect: The bill alters the distribution of GMVRA revenues, thereby increasing local highway user revenues by $95.8 million in FY 2014, $191.0 million in FY 2015, $289.8 million in FY 2016, and $388.0 million in FY 2017.

Small Business Effect: None.

Analysis

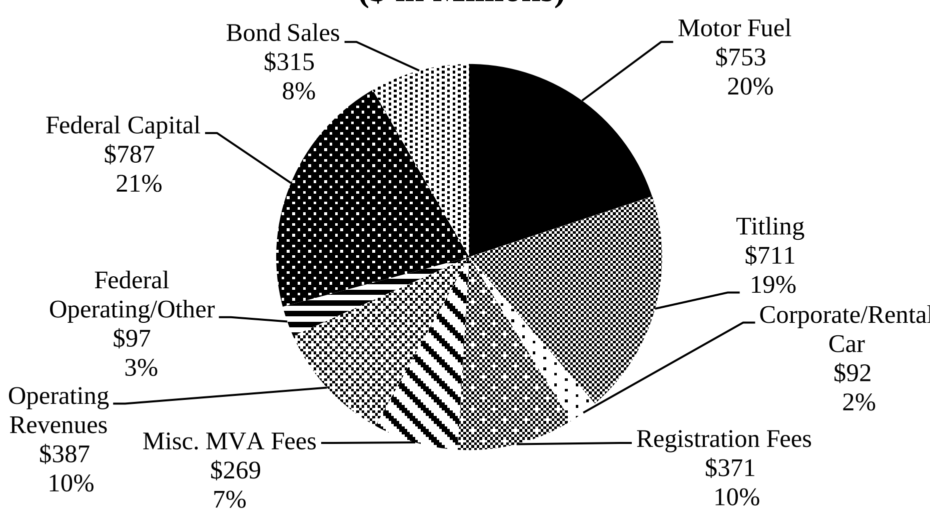
Current Law: After meeting debt service requirements, MDOT may use funds in TTF for any lawful purpose related to the exercise of its rights, powers, duties, and obligations. TTF's GMVRA revenue (commonly known as highway user revenue) must be distributed to the general fund, MDOT, and local jurisdictions as follows:

- 11.3% in fiscal 2012 to the general fund;
- 79.8% in fiscal 2012, 90% in fiscal 2013, and 90.4% in fiscal 2014 and future years to MDOT; and
- the balance to counties, municipalities, and Baltimore City.

Background: TTF is a nonlapsing special fund that provides funding for transportation. It consists of tax and fee revenues, operating revenues, bond proceeds, and fund transfers. MDOT issues bonds backed by TTF revenues and invests the TTF fund balance to generate investment income. The Maryland Transit Administration, Motor Vehicle Administration (MVA), Maryland Port Administration, and Maryland Aviation Administration generate operating revenues that cover a portion of their operating expenditures.

The tax and fee revenues allocated to TTF include motor fuel taxes, titling taxes, vehicle registration fees, a portion of the rental car sales and corporate income taxes, and other miscellaneous motor vehicle fees. **Exhibit 1** shows that TTF's largest revenue sources in fiscal 2013 are the motor fuel and titling taxes and federal aid for the capital program, which represent $2.3 billion (60%) of all fund sources. MDOT is projecting that $315 million in bonds will be sold to supplement the transportation capital program in fiscal 2013.

Exhibit 1
Transportation Trust Fund – State-sourced Revenues and Federal Funds
Fiscal 2013
($ in Millions)



Total: $3,782 Million

Source: Governor's Budget Books, Fiscal 2013, Volume I, pages 580-584

Highway User Revenues

A portion of TTF revenues is credited to GMVRA and is distributed to local jurisdictions, the general fund, and MDOT. The funds retained by TTF support MDOT's capital program, debt service, and operating costs. Local governments use highway user revenues to help develop and maintain local transportation projects. **Exhibit 2** summarizes the distribution of highway user revenues in fiscal 2012 through 2015.

Exhibit 2
Highway User Revenue Distribution Under Current Law
Fiscal 2012-2015
($ in Millions)

	Fiscal 2012		**Fiscal 2013**		**Fiscal 2014**		**Fiscal 2015**	
	Percent	**Dollars**	**Percent**	**Dollars**	**Percent**	**Dollars**	**Percent**	**Dollars**
MDOT	79.8%	$1,317	90.0%	$1,467	90.4%	$1,604	90.4%	$1,661
General Fund	11.3%	186	0.0%	0	0.0%	0	0.0%	0
Baltimore City	7.5%	124	8.1%	132	7.7%	137	7.7%	141
Counties	0.8%	13	1.5%	24	1.5%	26	1.5%	28
Municipalities	0.6%	10	0.4%	7	0.4%	7	0.4%	7
Total	**100.0%**	**$1,650**	**100.0%**	**$1,630**	**100.0%**	**$1,774**	**100.0%**	**$1,837**

Source: Department of Legislative Services

In recent years, a significant portion of the local share of highway user revenues has been diverted to the State's general fund to help balance the State's budget. Previously, the statutory distribution formula allocated 70.0% of highway user revenues to MDOT and 30.0% to local jurisdictions. However, the Budget Reconciliation and Financing Act (BRFA) of 2009 (Chapter 487) reduced the local share of highway user revenues for fiscal 2010 and 2011 and transferred a portion of the revenues to the general fund. That legislation also adjusted the State-local distribution of highway user revenues, beginning in fiscal 2012, to 71.5% to TTF and 28.5% to local jurisdictions. The distribution of highway user revenues was adjusted further in fiscal 2010 and 2011. Most recently, in accordance with the BRFA of 2011 (Chapter 397), the $1.65 billion in estimated fiscal 2012 highway user revenues was distributed as follows: $1.3 billion (79.8%) to MDOT; $186.5 million (11.3%) to the general fund; $123.8 million (7.5%) to Baltimore City; $13.2 million (0.8%) to counties; and $9.9 million (0.6%) to municipalities.

Exhibit 3 details recent and planned transfers of highway user revenues to the general fund under current law.

Exhibit 3
Highway User Revenues Distributed to the General Fund Under Current Law
Fiscal 2003-2013
($ in Millions)

Fiscal Year	Amount
2003	$18
2004	102
2005	102
2006	23
2007	0
2008	0
2009	0
2010	304
2011	377
2012	186
2013 (est.)	0

Source: Department of Legislative Services

Blue Ribbon Commission on Maryland Transportation Funding

Chapters 525 and 526 of 2010 established the Blue Ribbon Commission on Maryland Transportation Funding. The commission was tasked with reviewing, evaluating, and making recommendations on a variety of issues, including (1) the current State funding sources and structure of TTF; (2) short- and long-term transit and highway construction and maintenance funding needs; (3) options for public-private partnerships to meet transportation funding needs; (4) the structure of regional transportation authorities and their ability to meet transportation needs; and (5) options for sustainable, long-term revenue sources for transportation. During the September 2010 to October 2011 period, the 28-member commission held 14 meetings and received feedback from numerous experts and affected parties.

The commission's November 1, 2011 final report recommends, among other things, protecting and increasing transportation funding and facilitating funding partnerships. **Exhibit 4** summarizes key recommendations included in the final report. The bill implements one of the commission's recommendations.

Exhibit 4
Summary of the Final Recommendations of the
Blue Ribbon Commission on Maryland Transportation Funding

Protect and Increase Transportation Funding

- Amend the Maryland Constitution to prohibit transfers from TTF to nontransportation purposes, except in fiscal emergencies.
- Raise $870 million in new annual revenues for transportation by, for example, increasing (1) the motor fuel tax over three years by five cents per gallon per year and then indexing it to inflation; (2) vehicle registration fees by 50%; and (3) other transportation revenues.
- Restore the allocation of annual highway user revenue aid to local governments.
- Increase transportation bonding capacity commensurate with revenue adjustments.
- Remove the cost-recovery cap for Motor Vehicle Administration fees.
- Consider establishing tolls on new or expanded transportation facilities in conjunction with variable pricing techniques.

Support Transit

- Reach the transit cost-recovery ratio goal of 35%.
- Regularly adjust transit fares and eliminate nonpaying ridership.

Support State Growth Policies

- Collaborate with local governments to ensure that local plans reflect State growth policies.

Capture Value Created by Transportation Investments

- Integrate value capture analysis into transportation decisionmaking.
- Seek authority to apply tax increment financing support to highway project development.

Facilitate Transportation Financing Partnerships

- Establish centralized enabling legislation for public-private partnerships (P3) outlining efficient and timely legislative review.
- Revise the current transportation P3 process.
- Assess the feasibility of loaning State funds to local governments and private sponsors to facilitate transportation investments.

Source: Blue Ribbon Commission on Maryland Transportation Funding Final Report, November 2011

State Fiscal Effect: By fiscal 2017, the bill requires GMVRA revenues to be distributed 70% to MDOT and 30% to local jurisdictions. Under current law, MDOT retains 90% of GMVRA revenues in fiscal 2013 and 90.4% in fiscal 2014 and future years, with the remainder allocated to local jurisdictions. However, under the bill, MDOT retains only 85% in fiscal 2014, 80% in fiscal 2015, 75% in fiscal 2016, and 70% in fiscal 2017 and future years. Thus, the bill decreases TTF revenues available to MDOT by 20.4 percentage points by fiscal 2017. As a result of the bill, the allocation of GMVRA revenue to MDOT decreases by $95.8 million in fiscal 2014, $191.0 million in fiscal 2015, $289.8 million in fiscal 2016, and $388.0 million in fiscal 2017, totaling $964.7 million over the four-year period.

To the extent the loss of GMVRA revenue prevents MDOT from meeting debt service obligations, significant budget reductions, primarily to MDOT's capital program, are required. MDOT advises that it may be required to reduce its 2012-2017 capital budget by approximately 25%, or $2.4 billion, to meet required bond coverage ratios. Without a new source of revenue, a reduction of this magnitude would effectively end all State-funded expansion projects, significantly reduce system preservation projects, and limit major equipment purchases.

Local Fiscal Effect: Current law requires 10% of GMVRA revenues to be allocated to local jurisdictions as highway user revenues in fiscal 2013 and 9.6% in fiscal 2014 and future years. However, under the bill, local jurisdictions retain 15% in fiscal 2014, 20% in fiscal 2015, 25% in fiscal 2016, and 30% in fiscal 2017 and future years. Thus, the bill increases local jurisdictions' highway user revenues by 20.4 percentage points by fiscal 2017. As a result of the bill, the local allocation of GMVRA revenue increases by $95.8 million in fiscal 2014, $191.0 million in fiscal 2015, $289.8 million in fiscal 2016, and $388.0 million in fiscal 2017. The distribution of the increase among Baltimore City, the counties, and municipalities is shown in **Exhibit 5**.

Exhibit 5
Local Distribution of Increase in Highway User Revenues Under the Bill
Fiscal 2014-2017
($ in Thousands)

	FY 2014	FY 2015	FY 2016	FY 2017
Baltimore City	$14,192	$27,555	$52,696	$83,688
Counties	70,960	146,960	205,138	262,476
Municipalities	10,644	16,533	31,994	41,844
Total	**$95,796**	**$191,048**	**$289,828**	**$388,008**

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management, Maryland Department of Transportation, Department of Legislative Services

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