

Department of Legislative Services
2013 Session

FISCAL AND POLICY NOTE

Senate Bill 652 (Senators Edwards and Brinkley)
Budget and Taxation

Motor Fuel - Mass Transit Tax - Transit Funding

This bill imposes an additional tax on motor fuel sold by a distributor to retail service stations located in any county in which the Maryland Transit Administration (MTA) or the Washington Metropolitan Area Transit Authority (WMATA) provides any service. The tax rate is equal to 2.1% of the sales price charged by a distributor. The bill establishes a Mass Transit Account in the Transportation Trust Fund (TTF). The Comptroller is required to distribute the revenues generated from the tax into the Mass Transit Account to pay for the cost of light rail and Metro subway transit facilities and transit service in those jurisdictions. The Comptroller’s Office is required to adopt regulations to implement the bill.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: TTF revenues increase by \$191.9 million in FY 2014. Future year revenue estimates reflect the application of the tax as specified by the bill and current fuel consumption and price forecasts. Potential increase in special fund expenditures beginning in FY 2014 at the Comptroller’s Office due to implementation costs.

| (\$ in millions) | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|------------------|---------|---------|---------|---------|---------|
| SF Revenue | \$191.9 | \$203.4 | \$211.7 | \$224.6 | \$227.3 |
| SF Expenditure | - | - | - | - | - |
| Net Effect | \$191.9 | \$203.4 | \$211.7 | \$224.6 | \$227.3 |

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Bill Summary: The bill imposes an additional tax on motor fuel sold by a distributor to retail service stations located in any county in which MTA or WMATA provides any service. The bill specifies that for each fiscal year, of the funds in TTF that are not credited to the Mass Transit Account, the Maryland Department of Transportation (MDOT) may not budget an amount to pay transit costs in excess of the amount budgeted for that purpose in fiscal 2012 unless the excess amount is paid from the Mass Transit Account.

Current Law: The State motor fuel tax rate per gallon or gasoline-equivalent gallon is 23.5 cents for gasoline, 24.25 cents for special fuel (diesel), 7 cents for aviation gasoline and turbine fuel, and 23.5 cents for clean burning fuel. Motor fuel tax revenues are projected to total \$745.5 million in fiscal 2014.

Background: Some states, including Maryland, impose only a motor fuel excise tax, while other states impose both an excise tax and a sales tax or equivalent tax. The total state motor fuel tax rates for gasoline in neighboring jurisdictions are shown in **Exhibit 1**. These rates are in addition to a federal motor fuel tax of 18.4 cents per gallon of gasoline and 24.4 cents per gallon of diesel fuel. Maryland's motor fuel tax rates are lower than the average rate imposed in other states – Maryland's gasoline tax rate is currently the twenty-eighth highest rate (diesel twenty-seventh highest). Maryland's motor fuel tax rate is not adjusted periodically for inflation.

Exhibit 1 Total State Motor Fuel Tax Rates in Neighboring Jurisdictions (Cents per Gallon)

| | <u>Sales Tax</u> | <u>Variable Rate</u> | <u>Gasoline</u> | <u>Diesel</u> |
|----------------------|------------------|----------------------|-----------------|---------------|
| Delaware | | - | 23.0¢ | 22.0¢ |
| District of Columbia | | - | 23.5 | 23.5 |
| North Carolina | | Yes | 37.8 | 37.8 |
| Pennsylvania | | Yes | 32.3 | 39.2 |
| Virginia | Yes* | - | 19.9 | 20.2 |
| West Virginia | | Yes | 34.7 | 34.7 |
| Maryland | | - | 23.5¢ | 24.25¢ |
| National Average | | - | 30.4¢ | 30.0¢ |

Note: The tax rates for other states may include additional state taxes and fees.

*Virginia imposes a 2.1% sales tax in Northern Virginia for transportation that is collected at the distributor level.

Source: American Petroleum Institute

Exhibit 2 shows the amount of local sales tax revenues generated in Northern Virginia counties in fiscal 2007 through 2011. The tax proposed by the bill is similar to the local sales tax imposed in these jurisdictions.

Exhibit 2
Northern Virginia Local Sales Tax Revenues
Fiscal 2007-2011

| <u>Locality</u> | <u>FY 2007</u> | <u>FY 2008</u> | <u>FY 2009</u> | <u>FY 2010</u> | <u>FY 2011</u> |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Arlington County | \$3,771,350 | \$3,738,090 | \$3,310,688 | \$3,116,089 | \$3,919,086 |
| Fairfax County | 22,277,757 | 24,853,138 | 21,161,193 | 20,238,696 | 22,908,710 |
| Loudoun County | 8,303,207 | 9,266,846 | 8,185,363 | 7,910,011 | 9,464,579 |
| Alexandria City | 2,498,120 | 2,793,990 | 2,361,611 | 2,638,904 | 3,260,035 |
| Fairfax City | 1,430,842 | 1,307,130 | 1,108,263 | 1,656,957 | 2,467,878 |
| Falls Church City | 403,624 | 433,480 | 330,402 | 558,849 | 1,002,005 |
| Northern Virginia | | | | | |
| Transportation Commission | \$38,684,902 | \$42,392,674 | \$36,457,519 | \$36,119,507 | \$43,022,294 |
| Prince William County | \$11,926,870 | \$13,293,562 | \$11,784,558 | \$11,543,386 | \$13,749,156 |
| Stafford County | 3,957,734 | 4,502,861 | 3,768,233 | 3,926,166 | 5,011,443 |
| Fredericksburg City | 1,586,685 | 1,610,258 | 1,379,537 | 1,322,784 | 1,873,488 |
| Manassas City | 1,646,455 | 1,712,072 | 1,413,530 | 1,727,327 | 2,024,665 |
| Manassas Park City | 860,730 | 949,672 | 948,388 | 703,088 | 689,392 |
| Spotsylvania County | N/A | N/A | N/A | 928,906 | 3,152,621 |
| Potomac and Rappahannock | | | | | |
| Transportation Commission | \$19,978,476 | \$22,068,425 | \$19,294,247 | \$20,151,658 | \$26,500,765 |
| Total | \$58,663,377 | \$64,461,099 | \$55,751,766 | \$56,271,165 | \$69,523,059 |

Source: Virginia Department of Revenue

State Fiscal Effect: The bill imposes an additional tax on motor fuel sold by a distributor to retail service stations located in any county in which MTA or WMATA provides any service. According to MDOT, the impacted counties are Baltimore City and Anne Arundel, Baltimore, Calvert, Cecil, Charles, Frederick, Harford, Howard, Montgomery, Prince George's, Queen Anne's, St. Mary's, and Washington counties. As a result, TTF revenues increase by \$191.9 million in fiscal 2014. This estimate is based on the amount of local sales tax revenue generated in Northern Virginia jurisdictions in fiscal 2011, adjusted for differences in population and gasoline prices.

In addition, the bill caps funding for transit expenditures at fiscal 2012 funding levels. Any increase in transit funding in these jurisdictions must come from the sales tax revenue credited to the Mass Transit Account.

The Comptroller's Office will incur expenditures to administer the tax rate changes, including procurement of a new motor fuel tax system. As a result, special fund expenditures may increase by a significant amount in fiscal 2014.

Small Business Effect: Small businesses for which motor fuel constitutes a significant portion of their costs (transportation firms, delivery companies, taxicabs, etc.) will have increased tax burdens as a result of the bill. The incidence of the tax will be shared by customers (which include other businesses) through higher product prices, which will also impact the owners of the small businesses. In addition, any small business that is a service station located in a county in which the proposed tax would apply could be harmed by a decrease in sales. Small businesses may potentially benefit to the extent that additional funding improves the State's transportation infrastructure.

Additional Information

Prior Introductions: SB 766 of 2012, a similar bill, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: None.

Information Source(s): American Petroleum Institute, Comptroller's Office, Economy.com, Maryland Department of Transportation, Virginia Department of Revenue, Department of Legislative Services

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mc/jrb

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