

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Bill 54 (Delegate Vitale)
Ways and Means

Motor Fuel Tax - Downward Adjustment - Decrease in Consumer Price Index

This bill alters the indexing of motor fuel tax rates by specifying that the tax rates will change (increase or decrease) based on the annual change in the Consumer Price Index (CPI) as calculated by the Comptroller's Office. Under current law, motor fuel tax rates will increase if the CPI increases, and remain unchanged if the CPI decreases.

The bill takes effect June 1, 2014.

Fiscal Summary

State Effect: Based on the current economic forecast, the bill is not expected to impact motor fuel tax rates in FY 2015 through 2019. However, Transportation Trust Fund (TTF) revenues will decrease, potentially by a significant amount, in any year in which the CPI, as calculated by the Comptroller's Office, decreases. No effect on expenditures.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Beginning July 1, 2013, motor fuel tax rates are indexed for all fuels, except for aviation or turbine fuel, to the annual change in the CPI. Motor fuel tax rates will increase annually if the Comptroller's Office determines that the CPI has increased over a specified 12-month period. The increase is equal to the percentage growth in the CPI multiplied by the motor fuel tax rates, rounded to the nearest one-tenth of one cent.

Motor fuel tax rates will remain unchanged if there is no increase (or a decrease) in the CPI.

In addition, the tax rates may not increase by more than 8% of the tax rates imposed in the previous year. A floor tax is imposed on any person possessing tax-paid motor fuel for sale at the start of business on the date that the excise tax rate is increased. Individuals are required to compile and file an inventory held at the close of business on the date preceding an increase and remit within 30 days any additional tax that is due.

The revenue generated as a result of the motor fuel rate indexing is distributed to the Transportation Trust Fund.

Background:

Transportation Funding

The Transportation Infrastructure Investment Act of 2013 (Chapter 429) was enacted to substantially increase the amount of transportation revenues by increasing motor fuel taxes and requiring the Maryland Transit Administration (MTA) to increase base fare prices beginning in fiscal 2015.

Chapter 429 alters motor fuel taxes specifically by:

- indexing motor fuel tax rates, except for aviation and turbine fuel, to inflation beginning in fiscal 2014;
- imposing a 1% sales and use tax equivalent rate on all motor fuel, except for aviation and turbine fuel, beginning in fiscal 2014, increasing to 2% beginning on January 1, 2015, and to 3% beginning in fiscal 2016;
- unless federal remote sales tax legislation is enacted by December 1, 2015, the sales and use tax equivalent rate increases from 3% to 4% beginning January 1, 2016, and then increases to 5% beginning in fiscal 2017; and
- if federal remote sales tax legislation is enacted and takes effect by December 1, 2015, the sales and use tax equivalent rate remains at 3% and the Comptroller is then required to distribute 4% of total State sales and use tax revenues to TTF.

Chapter 429 also increases the vehicle registration fee surcharge, requires the Governor to include in the operating or capital budget specified appropriations to the State Highway Administration, and places procedural restrictions on transfers from the TTF and use of TTF monies.

Exhibit 1 shows the estimated increases in transportation revenues as enacted by Chapter 429.

Exhibit 1
Transportation Revenues Resulting from Chapter 429 of 2013
(\$ in Millions)

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
<u>Rate Increase*</u>					
Gasoline	3.5¢	6.8¢	10.6¢	11.6¢	12.5¢
Special Fuel	3.5¢	6.8¢	10.6¢	11.7¢	12.6¢
<u>Revenues</u>					
Sales and Use Tax Equivalent Rate	\$97	\$146	\$303	\$323	\$336
Remote Sales Tax Legislation*	0	0	52	191	199
CPI Indexing	13	22	39	56	76
Farebox Recovery	<u>0</u>	<u>10</u>	<u>22</u>	<u>23</u>	<u>32</u>
Total Increase – MDOT	\$110	\$178	\$416	\$593	\$643
WIP – G.O. Bonds	\$0	\$45	\$65	\$85	\$100
Total Transportation Funding	\$110	\$223	\$481	\$678	\$743

* Assumes federal remote sales tax legislation is enacted as specified by the bill. Unless this legislation is enacted by December 1, 2015, the sales and use tax equivalent rate increases from 3% to 4% beginning January 1, 2016, and increases to 5% beginning in fiscal 2017.

Source: Maryland Department of Transportation

Chapter 429 also prohibits transfers from the TTF unless legislation is approved by a three-fifths vote of the appropriate standing committees of the General Assembly and is enacted into law, or the Governor declares a state of emergency and declares that revenues are needed for defense or relief purposes. Any transfer must be repaid within five years.

In addition, Chapter 422 of 2013 proposes to amend the Maryland Constitution to (1) require TTF funds to be used only to pay the principal of and interest on transportation bonds and for any lawful purpose related to construction and maintenance of an adequate highway system or any other transportation-related purpose and (2) prevent TTF funds from being transferred to the general fund or a special fund. An exception to the prohibition on TTF transfers is authorized only if the Governor, by executive order, declares that a fiscal emergency exists and the General Assembly, by a three-fifths vote of both houses, approves legislation concurring with the use or transfer

of the funds. The allocation of highway user funds to local governments and the allocation of TTF funds to the Maryland Transportation Authority (MDTA) are not affected. The proposed constitutional amendment must be submitted for a statewide vote at the November 2014 general election.

Consumer Price Index

The CPI is a measure of the average monthly change in the price for goods and services paid by consumers between any two time periods and is the most commonly utilized measure to calculate inflation and deflation. The CPI has decreased three times since 1948, and only once in the last 58 years when the CPI decreased by less than one-half of one percent in calendar 2009.

State Revenues: The bill alters the calculation of the indexing of specified motor fuel tax rates beginning in fiscal 2015 by specifying that the rates will change (increase or decrease) based on the annual change in CPI. Under current law, motor fuel tax rates remain unchanged if CPI decreases. Under the current economic forecast, the CPI is expected to increase by about 2% annually through fiscal 2019, and not decrease in any year. Therefore the bill is not expected to impact motor fuel tax rates in fiscal 2015 through 2019. However, the bill will decrease motor fuel tax rates in any year in which the CPI, as calculated by the Comptroller's Office, decreases. As noted above, the CPI has decreased three times since 1948. If the CPI decreases by a similar magnitude as in previous years, motor fuel tax rates would decrease by about one-tenth of a cent and revenues would decrease by a total of \$3.3 million annually.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): U.S. Bureau of Labor Statistics, Comptroller's Office, U.S. Federal Reserve, Maryland Department of Transportation, Department of Legislative Services

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ncs/jrb

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