

Department of Legislative Services  
Maryland General Assembly  
2016 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 1455 (Delegate Lafferty, *et al.*)  
Environment and Transportation

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Transportation - Highway User Revenue - Restoration

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This bill alters the distribution of funds from the Gasoline and Motor Vehicle Revenue Account (GMVRA) for fiscal 2017 through 2020 to 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%). In fiscal 2021, the distribution reverts to provide 90.4% to MDOT and 9.6% to local jurisdictions. The bill also specifies that it is the intent of the General Assembly that MDOT may not reduce funding in fiscal 2017 for any mass transit project or system preservation project that is crucial to the health and safety of the citizens of the State.

The bill takes effect July 1, 2016.

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Fiscal Summary

**State Effect:** Transportation Trust Fund (TTF) revenues available to MDOT decrease by an estimated \$377.0 million in FY 2017, \$381.2 million in FY 2018, \$387.9 million in FY 2019, and \$391.7 million in FY 2020. Combined with a reduction in bond issuances and corresponding debt service savings, TTF revenues available to MDOT decrease by \$2.1 billion over the five-year period.

**Local Effect:** The bill alters the distribution of GMVRA revenues, thereby increasing local highway user revenues by an estimated \$377.0 million in FY 2017, \$381.2 million in FY 2018, \$387.9 million in FY 2019, and \$391.7 million in FY 2020.

**Small Business Effect:** None.

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## Analysis

**Bill Summary/Current Law:** 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, 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.

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. *Under current law*, TTF's GMVRA revenue (commonly known as highway user revenue) must be distributed to MDOT and local jurisdictions as follows:

- 90.4% to MDOT;
- 7.7% to Baltimore City;
- 1.5% to counties; and
- 0.4% to municipalities.

**Exhibit 1** summarizes the bill's proposed distribution of highway user revenues in fiscal 2017 through 2021.

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**Exhibit 1**  
**Proposed Highway User Revenue Distribution**  
**Fiscal 2017-2021**  
**(\$ in Millions)**

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
MDOT	70.0%	70.0%	70.0%	70.0%	90.4%
Baltimore City	12.1%	12.1%	12.1%	12.1%	7.7%
Counties	15.3%	15.3%	15.3%	15.3%	1.5%
Municipalities	2.6%	2.6%	2.6%	2.6%	0.4%

Source: Department of Legislative Services

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**Background:** For more information regarding transportation aid to local governments and highway user revenues, please see the **Appendix – Highway User Revenues**.

The Governor’s proposed fiscal 2017 budget contains \$27.7 million in capital transportation grants for counties, a \$5.5 million capital transportation grant for Baltimore City, and \$20.3 million in capital transportation grants for municipalities. Budget bill language specifies that the grants be distributed to the counties and municipalities using the highway user formula. Future year capital transportation grants to counties and municipalities have also been proposed, and MDOT’s revenue forecast plans to set aside funds in order to issue the grants; however, those grants are not yet reflected in MDOT’s Consolidated Transportation Program.

**State Fiscal Effect:** The bill requires GMVRA revenues to be distributed as follows from fiscal 2017 through 2020: 70% to MDOT and 30% to local jurisdictions. Under current law, MDOT retains 90.4% of GMVRA revenues and local jurisdictions receive the remaining 9.6%. Thus, altering the distribution formula decreases TTF revenues available to MDOT by an estimated \$377.0 million in fiscal 2017, \$381.2 million in fiscal 2018, \$387.9 million in fiscal 2019, and \$391.7 million in fiscal 2020, totaling \$1.5 billion over the four-year period. Revenues available to MDOT return to current law levels beginning in fiscal 2021.

Additionally, the TTF revenue loss limits MDOT’s ability to issue consolidated transportation bonds in support of its capital program. MDOT advises that, under the bill, the \$1.5 billion reduction in highway user revenues is partially offset because it has reserved \$500 million over the next four fiscal years for the restoration of highway user revenues pending gubernatorial or legislative action. Therefore, MDOT advises that, after taking into account a reduction of bond issuances to meet its bond coverage ratios, it must reduce its capital budget by \$1.6 billion. This estimate is based on MDOT’s current projected revenues and does not take into account any debt service savings.

The Department of Legislative Services advises that, using its own revenue projections, the \$1.5 billion reduction in highway user revenues requires MDOT to reduce its bond issuances by \$688.0 million. When corresponding debt service savings of \$89.0 million are taken into account, the net decrease in MDOT’s capital budget is \$2.1 billion. This estimate reflects MDOT’s reserved \$500 million for the restoration of highway user revenues through its capital program because the Governor’s current proposal plans to distribute those revenues through MDOT’s capital budget as capital transportation grants.

**Local Fiscal Effect:** Altering the GMVRA distribution formula increases local jurisdictions’ highway user revenues by an estimated \$377.0 million in fiscal 2017, \$381.2 million in fiscal 2018, \$387.9 million in fiscal 2019, and \$391.7 million in fiscal 2020. The distribution of the increase among Baltimore City, the counties, and municipalities is shown in **Exhibit 2**.

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**Exhibit 2**  
**Projected Increase in Local Distribution of Highway User Revenues**  
**Fiscal 2017-2021**  
**(\$ in Millions)**

	<u><b>FY 2017</b></u>	<u><b>FY 2018</b></u>	<u><b>FY 2019</b></u>	<u><b>FY 2020</b></u>	<u><b>FY 2021</b></u>
Baltimore City	\$81.3	\$82.2	\$83.7	\$84.5	\$0
Counties	255.0	257.9	262.4	265.0	0
Municipalities	40.7	41.1	41.8	42.2	0
<b>Total</b>	<b>\$377.0</b>	<b>\$381.2</b>	<b>\$387.9</b>	<b>\$391.7</b>	<b>\$0</b>

Note: Totals may not sum due to rounding.  
Source: Department of Legislative Services

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**Exhibit 3** shows the increase in highway user revenues and the total amount of highway user revenues distributed to localities and municipalities from fiscal 2017 through 2021 under the bill.

**Exhibit 3**  
**Local Government Increase and Total – Highway User Revenues**  
**Fiscal 2017-2021 (\$ in Millions)**

	FY 2017		FY 2018		FY 2019		FY 2020		FY 2021	
	<u>Increase</u>	<u>Total</u>	<u>Increase</u>	<u>Total</u>	<u>Increase</u>	<u>Total</u>	<u>Increase</u>	<u>Total</u>	<u>Increase</u>	<u>Total</u>
Allegany	6.4	7.3	6.5	7.4	6.6	7.5	6.7	7.6	0.0	0.9
Anne Arundel	29.0	32.3	29.3	32.7	29.8	33.2	30.1	33.6	0.0	3.5
Baltimore City	81.3	223.6	82.2	226.1	83.7	230.1	84.5	232.3	0.0	150.1
Baltimore	38.4	42.6	38.9	43.1	39.6	43.9	39.9	44.3	0.0	4.4
Calvert	6.4	7.1	6.5	7.2	6.6	7.3	6.6	7.4	0.0	0.8
Caroline	4.4	5.0	4.5	5.0	4.6	5.1	4.6	5.2	0.0	0.6
Carroll	12.8	14.4	13.0	14.5	13.2	14.8	13.3	14.9	0.0	1.7
Cecil	7.2	8.1	7.3	8.1	7.4	8.3	7.5	8.4	0.0	0.9
Charles	9.5	10.6	9.7	10.8	9.8	10.9	9.9	11.1	0.0	1.2
Dorchester	5.0	5.6	5.0	5.6	5.1	5.7	5.1	5.8	0.0	0.6
Frederick	17.1	19.2	17.3	19.5	17.6	19.8	17.7	20.0	0.0	2.3
Garrett	5.6	6.2	5.7	6.3	5.8	6.4	5.8	6.5	0.0	0.7
Harford	14.9	16.6	15.0	16.8	15.3	17.1	15.4	17.3	0.0	1.9
Howard	14.8	16.4	14.9	16.6	15.2	16.9	15.3	17.0	0.0	1.7
Kent	2.5	2.8	2.6	2.9	2.6	2.9	2.6	3.0	0.0	0.3
Montgomery	41.0	45.9	41.5	46.5	42.2	47.3	42.6	47.7	0.0	5.3
Prince George's	35.7	40.2	36.1	40.7	36.7	41.4	37.1	41.8	0.0	4.8
Queen Anne's	5.2	5.8	5.3	5.9	5.4	6.0	5.4	6.0	0.0	0.6
St. Mary's	7.4	7.8	7.5	7.9	7.7	8.0	7.7	8.1	0.0	0.4
Somerset	2.9	3.7	2.9	3.8	3.0	3.8	3.0	3.9	0.0	0.9
Talbot	4.2	4.7	4.2	4.8	4.3	4.8	4.3	4.9	0.0	0.6
Washington	10.8	12.2	10.9	12.3	11.1	12.5	11.2	12.6	0.0	1.5
Wicomico	8.3	9.4	8.4	9.5	8.6	9.7	8.7	9.8	0.0	1.1
Worcester	6.1	6.9	6.2	6.9	6.3	7.1	6.3	7.1	0.0	0.8
<b>Total</b>	<b>377.0</b>	<b>554.5</b>	<b>381.2</b>	<b>560.7</b>	<b>387.9</b>	<b>570.4</b>	<b>391.7</b>	<b>576.2</b>	<b>0.0</b>	<b>187.5</b>

Notes: Includes revenues provided to both counties and municipalities within the counties. Totals may not sum due to rounding. Estimate assumes that highway road miles and vehicle registrations in fiscal 2016 remain constant through fiscal 2021.

Source: Department of Legislative Services

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## **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Baltimore City, Maryland Association of Counties, Maryland Department of Transportation, Comptroller's Office, Department of Budget and Management, Department of Legislative Services

**Fiscal Note History:** First Reader - March 8, 2016  
md/lgc

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## Appendix – Highway User Revenues

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### *Transportation Aid to Local Governments*

In fiscal 2016, local governments received \$169.3 million in State aid through highway user revenues and \$25.0 million for special transportation grants. **Exhibit 1** illustrates how State aid to local governments for transportation purposes increased by 37.4% between fiscal 2011 and 2016. **Exhibit 2** shows the amount of State aid for local transportation programs in each county, including municipalities and Baltimore City, in fiscal 2016.

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### **Exhibit 1 Transportation Aid Programs – Funding Trend (\$ in Millions)**

<b><u>Aid Program</u></b>	<b><u>FY 2011</u></b>	<b><u>FY 2016</u></b>	<b><u>Difference</u></b>	<b><u>Percent Difference</u></b>
Highway User Revenues	\$139.3	\$169.3	\$30.0	21.5%
Municipal Transportation Grants	0.0	19.0	19.0	N/A
Baltimore City/County Grants	0.0	6.0	6.0	N/A
Elderly/Disabled Grants	4.4	4.3	-0.1	-2.5%
Paratransit Grants	3.0	2.9	-0.1	-2.2%
<b>Total</b>	<b>\$146.7</b>	<b>\$201.5</b>	<b>\$54.8</b>	<b>37.4%</b>

Source: Department of Legislative Services

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**Exhibit 2**  
**Transportation Aid Programs**  
**Fiscal 2016**

<b>County</b>	<b>Highway User Revenues</b>	<b>Municipal Grants</b>	<b>County Grants</b>	<b>Elderly/ Disabled</b>	<b>Paratransit</b>	<b>Total Aid</b>	<b>Per Capita Aid</b>	<b>Per Capita Ranking</b>
Allegany	\$812,559	\$950,654	\$69,495	\$141,544	\$68,400	\$2,042,652	\$28	9
Anne Arundel	3,131,634	825,359	427,189	245,996	416,000	5,046,178	9	21
Baltimore City	135,796,122	-	2,000,000	379,335	-	138,175,457	222	1
Baltimore	3,987,244	-	602,901	395,836	-	4,985,981	6	24
Calvert	700,139	242,248	92,266	127,003	76,099	1,237,755	14	16
Caroline	513,057	345,611	58,175	120,217	40,000	1,077,060	33	5
Carroll	1,493,979	1,105,260	163,851	151,029	-	2,914,119	17	14
Cecil	827,923	547,439	94,454	134,073	-	1,603,889	16	15
Charles	1,031,492	311,859	138,461	137,609	175,848	1,795,269	12	18
Dorchester	571,424	387,365	64,657	122,724	50,000	1,196,170	37	3
Frederick	2,082,611	2,091,854	197,468	159,159	460,000	4,991,092	20	11
Garrett	626,343	309,195	77,349	119,664	-	1,132,551	38	2
Harford	1,684,276	919,720	203,041	170,371	40,592	3,018,000	12	17
Howard	1,532,001	-	231,649	162,520	430,000	2,356,170	8	23
Kent	294,477	202,611	33,152	120,217	-	650,457	33	6
Montgomery	4,718,842	3,058,587	541,812	379,108	-	8,698,349	8	22
Prince George's	4,258,588	3,882,677	425,954	332,819	446,663	9,346,701	10	20
Queen Anne's	559,873	131,339	77,283	122,064	-	890,559	18	13
St. Mary's	783,038	84,537	113,655	131,054	135,000	1,247,284	11	19
Somerset	325,927	143,910	41,203	117,447	96,667	725,154	28	8
Talbot	514,899	537,601	47,675	120,217	-	1,220,392	32	7
Washington	1,308,145	1,241,790	128,086	146,917	188,100	3,013,038	20	12
Wicomico	1,023,055	1,063,182	95,006	134,507	96,667	2,412,417	24	10
Worcester	726,608	617,202	75,218	134,508	206,666	1,760,202	34	4
<b>Total</b>	<b>\$169,304,256</b>	<b>\$19,000,000</b>	<b>\$6,000,000</b>	<b>\$4,305,938</b>	<b>\$2,926,702</b>	<b>\$201,536,896</b>	<b>\$34</b>	

Note: Highway User Revenues column includes Municipal Aid  
Source: Department of Legislative Services



### *Highway User Revenues – Generally*

Since the early 1900s, the State has shared motor vehicle-related revenues with the counties and Baltimore City. Initially these revenues consisted of vehicle registration fees. In 1927, when the gasoline tax increased from \$0.02 to \$0.04 cents per gallon, the State began sharing these taxes with local governments. In 1968, the General Assembly approved legislation that established a formula for apportioning the county and municipal shares of highway user revenues. The legislation also initiated the sharing of motor vehicle titling taxes with the subdivisions. Legislation enacted in 1970 created the Maryland Department of Transportation (MDOT) and a consolidated Transportation Trust Fund (TTF). As provided by that legislation, the State shares with the counties, Baltimore City, and municipalities those revenues credited to the Gasoline and Motor Vehicle Revenue Account in TTF, more commonly referred to as “highway user revenues.” Currently, the revenues dedicated to the account include all or some portion of the motor vehicle fuel tax, vehicle titling tax, vehicle registration fees, short-term vehicle rental tax, and State corporate income tax.

### *Highway User Revenues – Distribution*

Historically, highway user revenues have been distributed to TTF for MDOT’s capital program, debt service, and operating costs and to the counties, Baltimore City, and municipalities to assist in the development and maintenance of local transportation projects. In fiscal 2009, prior to recent budget reconciliation legislation reducing the local share of highway user revenues to help balance the budget, the \$1.6 billion in highway user revenues were distributed as follows:

- \$1.1 billion (70%) to MDOT;
- \$187.6 million (12.06%) to Baltimore City;
- \$239.4 million (15.38%) to counties; and
- \$39.8 million (2.56%) to municipalities.

In response to the ongoing budget crisis, the Budget Reconciliation and Financing Act of 2010 (Chapter 484) significantly reduced the share of highway user revenues distributed to the counties and municipalities, while increasing the portion going to the general fund. In accordance with Chapter 484, in fiscal 2011, the \$1.6 billion in highway user revenues were distributed as follows:

- \$1.1 billion (68.5%) to MDOT;
- \$377.1 million (23.0%) to the general fund;
- \$129.5 million (7.9%) to Baltimore City;
- \$8.2 million (0.5%) to counties; and
- \$1.6 million (0.1%) to municipalities.

The following year, the Budget Reconciliation and Financing Act of 2011 (Chapter 397) divorced the relationship between highway user revenues and the general fund, reducing the distribution of highway user revenues to the general fund in fiscal 2012 and ending the distribution to the general fund in fiscal 2013. **Exhibit 3** illustrates this transition and funding from fiscal 2012 through 2015.

Baltimore City has generally received a larger share of highway user revenues than other local jurisdictions because the State does not conduct highway maintenance or construction in Baltimore City (except for portions of I-95) as it does in the counties. The city's share of total highway user revenues is currently 7.7% each year, as shown in Exhibit 3.

**Exhibit 3**  
**Highway User Revenues – Distribution**  
**Fiscal 2012-2015**  
**(\$ in Millions)**

	<b>Fiscal 2012</b>		<b>Fiscal 2013</b>		<b>Fiscal 2014</b>		<b>Fiscal 2015</b>	
	<b><u>Percent</u></b>	<b><u>Dollars</u></b>	<b><u>Percent</u></b>	<b><u>Dollars</u></b>	<b><u>Percent</u></b>	<b><u>Dollars</u></b>	<b><u>Percent</u></b>	<b><u>Dollars</u></b>
MDOT	79.8%	\$1,318.6	90.0%	\$1,445.4	90.4%	\$1,543.40	90.4%	\$1,597.90
General Fund	11.3%	186.7						
Baltimore City	7.5%	123.9	8.1%	130.1	7.7%	131.5	7.7%	136.1
Counties	0.8%	13.2	1.5%	24.1	1.5%	25.6	1.5%	26.5
Municipalities	0.6%	9.9	0.4%	6.4	0.4%	6.8	0.4%	7.1
<b>Total</b>	<b>100%</b>	<b>\$1,652.3</b>	<b>100%</b>	<b>\$1,606.0</b>	<b>100%</b>	<b>\$1,707.3</b>	<b>100%</b>	<b>\$1,767.6</b>

MDOT: Maryland Department of Transportation  
Source: Department of Legislative Services

*Municipal Transportation Grants and Special Grants for the Counties and Baltimore City*

Since fiscal 2014, municipalities have received additional transportation aid in the form of municipal transportation grants; municipalities received \$15.4 million in such grants in fiscal 2014, \$16 million in fiscal 2015, and \$19 million in fiscal 2016. In fiscal 2016, the counties and Baltimore City were awarded additional transportation aid through special grants; Baltimore City received \$2 million, and the counties received \$4 million. Although the municipal transportation grants and the special grants are supplemental to the amounts received from highway user revenues, the grants have been distributed using the highway user revenue formula. In addition, the counties and Baltimore City received \$10 million for pothole repairs in fiscal 2014 distributed on the basis of county road miles.