

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 585

(Senator King, *et al.*)

Budget and Taxation

Environment and Transportation

Transportation - Highway User Revenues - Distribution to Municipalities

This bill requires the total distribution of State transportation aid to municipalities through the Gasoline and Motor Vehicle Revenue Account (GMVRA), including any capital transportation grants, to be at least \$25 million in fiscal 2018.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues available to the Maryland Department of Transportation (MDOT) decrease by as much as an estimated \$17.5 million in FY 2018.

Local Effect: Local highway user revenue distributions to municipalities increase by as much as an estimated \$17.5 million in FY 2018.

Small Business Effect: None.

Analysis

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.

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

The fiscal 2017 budget contains \$2.0 million in capital transportation grants for Baltimore City, \$4.0 million in capital transportation grants for counties, and \$19.0 million in capital transportation grants for municipalities. 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 (CTP).

State Fiscal Effect: The bill requires the total distribution of GMVRA transportation aid to municipalities, including any capital transportation grants, to be at least \$25 million in fiscal 2018.

As shown in **Exhibit 1**, requiring additional GMVRA transportation aid to be distributed to municipalities decreases TTF revenues available to MDOT by an estimated \$17.5 million in fiscal 2018. Even with this revenue loss, MDOT is above its minimum debt service coverage ratio and, therefore, assumed levels of debt issuance are unaffected.

Exhibit 1
Projected Increase in Distributions for Municipal Transportation Aid
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>
Highway User Revenue Aid	\$7.4	\$7.5	\$7.6	\$7.7	\$7.8
Capital Grant Aid	19.0	0	0	0	0
Additional Distributions Required Under the Bill	0	17.5	0	0	0
Total Aid	\$26.4	\$25.0	\$7.6	\$7.7	\$7.8

Source: Department of Legislative Services

The exhibit shows the capital transportation grants included for municipalities in the fiscal 2017 budget. Although capital transportation grants to counties and municipalities have also been proposed for fiscal 2018 and future years, and MDOT’s revenue forecast plans to set aside funds in order to issue the grants, those grants are not yet reflected in MDOT’s CTP and therefore not taken into consideration by this analysis. To the extent that capital grants are provided in fiscal 2018, the additional GMVRA distributions to municipalities required as a result of the bill decrease or may be eliminated. *For illustrative purposes only*, using the phased increase proposed by the Governor in House Bill 484/Senate Bill 591 of 2015 (both of which failed), the estimated transportation grant for municipalities in fiscal 2018 would increase by \$22.4 million. When added to the estimated share of GMVRA highway user revenues for municipalities in that year under current law (\$7.5 million), no additional distributions would be required under the bill.

Local Fiscal Effect: Requiring additional transportation aid to be distributed to municipalities increases municipal revenues by \$17.5 million in fiscal 2018. The total distribution is shown in Exhibit 1, while **Exhibit 2** shows the increase and total amount of highway user revenues distributed to municipalities in each county in fiscal 2018 under the bill.

Exhibit 2
Municipal Revenue Increase and Total (Organized by County)
Highway User Revenues
Fiscal 2018 (\$ in Millions)

	<u>Increase</u>	<u>Total</u>
Allegany	\$0.9	\$1.2
Anne Arundel	0.8	1.1
Baltimore City	0.0	0.0
Baltimore	0.0	0.0
Calvert	0.2	0.3
Caroline	0.3	0.5
Carroll	1.0	1.5
Cecil	0.5	0.7
Charles	0.3	0.4
Dorchester	0.4	0.5
Frederick	1.9	2.8
Garrett	0.3	0.4
Harford	0.9	1.2
Howard	0.0	0.0
Kent	0.2	0.3
Montgomery	2.8	4.0
Prince George's	3.6	5.1
Queen Anne's	0.1	0.2
St. Mary's	0.1	0.1
Somerset	0.1	0.2
Talbot	0.5	0.7
Washington	1.1	1.6
Wicomico	1.0	1.4
Worcester	0.6	0.8
Total	\$17.5	\$25.0

Notes: Includes revenues provided only to municipalities within each county. Does not reflect additional out-year capital grants that are not reflected in the CTP.

Assumes that highway road miles and vehicle registrations in fiscal 2017 remain constant through fiscal 2018. Totals may not sum due to rounding.

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: HB 723 (Delegate Beidle, *et al.*) - Environment and Transportation.

Information Source(s): Maryland Association of Counties, Maryland Municipal League, Maryland Department of Transportation, Department of Legislative Services

Fiscal Note History: First Reader - February 24, 2016
min/lgc Revised - Senate Third Reader/Updated Budget Information -
March 30, 2016

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Appendix – Highway User Revenues

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.

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

<u>Aid Program</u>	<u>FY 2011</u>	<u>FY 2016</u>	<u>Difference</u>	<u>Percent Difference</u>
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%
Total	\$146.7	\$201.5	\$54.8	37.4%

Source: Department of Legislative Services

Exhibit 2
Transportation Aid Programs
Fiscal 2016

County	Highway User Revenues	Municipal Grants	County Grants	Elderly/ Disabled	Paratransit	Total Aid	Per Capita Aid	Per Capita Ranking
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
Total	\$169,304,256	\$19,000,000	\$6,000,000	\$4,305,938	\$2,926,702	\$201,536,896	\$34	

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)

	Fiscal 2012		Fiscal 2013		Fiscal 2014		Fiscal 2015	
	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars
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
Total	100%	\$1,652.3	100%	\$1,606.0	100%	\$1,707.3	100%	\$1,767.6

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.