

**Department of Legislative Services**  
Maryland General Assembly  
2017 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

House Bill 552 (Delegate Parrott, *et al.*)  
Environment and Transportation

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**Transportation - Motor Fuel Tax and Highway User Revenue - Increased Local Share**

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This bill alters the distribution of funds from the Gasoline and Motor Vehicle Revenue Account (GMVRA) 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 addition, the bill modifies the distribution of motor fuel tax revenue by requiring that the revenue attributable to increases in the motor fuel tax rate due to increases in the Consumer Price Index (CPI) and the revenue attributable to the sales and use tax equivalent rate applied to motor fuel be distributed to GMVRA rather than to the Transportation Trust Fund (TTF). The bill also proposes to amend the Maryland Constitution to require that the revenue sources credited to GMVRA and the distribution of GMVRA revenues must remain as provided under current law in effect on July 1, 2017.

The bill's provisions that alter the distribution of funds from GMVRA and the distribution of specified motor fuel tax revenues take effect July 1, 2017.

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**Fiscal Summary**

**State Effect:** TTF revenues available to MDOT decrease by an estimated \$468.8 million in FY 2018, \$490.6 million in FY 2019, \$505.8 million in FY 2020, \$525.3 million in FY 2021, and \$544.4 million in FY 2022. Combined with a reduction in bond issuances and corresponding debt service savings, TTF revenues available to MDOT decrease by \$4.5 billion over the five-year period.

**Local Effect:** The bill increases local highway user revenues by an estimated \$468.8 million in FY 2018, \$490.6 million in FY 2019, \$505.8 million in FY 2020, \$525.3 million in FY 2021, and \$544.4 million in FY 2022.

**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 (MTA), Motor Vehicle Administration, Maryland Port Administration, and Maryland Aviation Administration generate operating revenues that cover a portion of their operating expenditures. 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.

### *Debt Service Requirements and Practices*

State law and agency debt practices limit Consolidated Transportation Bond (CTB) issuances with three criteria: a debt outstanding limit and two coverage tests. The debt outstanding limit is set in statute at \$4.5 billion. The two coverage tests are established in the department's bond resolutions and require that annual net income and pledged taxes from the prior year each equal at least 2.0 times the maximum level of future debt service payments on all CTBs outstanding and to be issued. The department has adopted a management practice that requires minimum coverages of 2.5 times maximum future debt service. The net income coverage test is the ratio of all the prior year's income (excluding federal capital, bond proceeds, and third-party reimbursements) minus prior year operating expenses, debt service payments, deductions for nontransportation agencies, and local transportation aid to maximum annual future debt service and typically is the limiting coverage ratio. The pledged taxes coverage test measures annual net revenues from vehicle excise, motor fuel, rental car sales, and corporate income taxes (excluding refunds and all statutory deductions) as a ratio of maximum future annual debt service.

If either of these coverage ratios fall below the 2.0 times level, the department is prohibited under its bond covenants from issuing additional debt until the ratios are once again at the minimum 2.0 times level.

### *Increased Transportation Trust Fund Revenues due to Chapter 429 of 2013*

To address concerns that the State lacked adequate funding to build new transportation infrastructure, Chapter 429 of 2013 increased transportation funding by, among other things, increasing motor fuel taxes and requiring MTA to increase base fare prices beginning in fiscal 2015. 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 increase annually if the Comptroller's Office determines that the CPI has increased over a specified 12-month period.

Chapter 429 also imposed a sales and use tax equivalent rate on motor fuel based on the retail price of regular unleaded gasoline, excluding federal and State taxes, as determined by the Comptroller's Office. The tax is determined by multiplying the applicable percentage rate times the annual average retail price, less federal and State taxes, rounded to the nearest tenth of a cent. The Comptroller's Office is required to calculate the average retail price of regular gasoline (excluding federal and State taxes) over a specified 12-month period and determine the tax to be imposed. The rate is equal to (1) 1% beginning July 1, 2013; (2) 2% beginning January 1, 2015; (3) 3% beginning in fiscal 2016; (4) 4% beginning January 1, 2016; and (5) 5% beginning in fiscal 2017.

### *Highway User Revenues*

*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.

Furthermore, *under current law*, the revenue generated as a result of the motor fuel tax rate indexing and sales and use tax equivalent is distributed to TTF and retained by MDOT. However, *under the bill*, these revenues are first distributed to GMVRA, which is then distributed to TTF, Baltimore City, counties, and municipalities as follows:

- 70% to MDOT;
- 12.1% to Baltimore City;
- 15.3% to counties; and
- 2.6% to municipalities.

**Exhibit 1** shows the estimated increases in motor fuel tax revenues as enacted by Chapter 429, all of which are redistributed by the bill.

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**Exhibit 1**  
**Sales and Use and CPI Indexing Tax Revenue Estimates**  
**Fiscal 2018-2022**  
**(\$ in Millions)**

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
Sales and Use Tax Equivalent	\$269.3	\$299.7	\$317.9	\$339.4	\$364.6
CPI Indexing	50.1	72.6	95.4	118.5	142.0
<b>Total</b>	<b>\$319.4</b>	<b>\$372.3</b>	<b>\$413.2</b>	<b>\$457.9</b>	<b>\$506.5</b>

CPI: Consumer Price Index

Note: Totals may not sum due to rounding.

Source: Department of Legislative Services

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

To restore highway user revenues to local governments, the *Consolidated Transportation Program* (CTP) for fiscal 2017-2022 has set aside \$100 million in fiscal 2019, \$148 million in fiscal 2020, \$198 million in fiscal 2021, and \$248 million in fiscal 2022, for a total of \$694 million. The CTP also sets aside \$53 million in fiscal 2018; however, these funds are being distributed to local governments as capital transportation grants, of which \$27.4 million goes to counties, \$5.5 million goes to Baltimore City, and \$20.1 million goes to municipalities. Budget bill language specifies that the grants be distributed to the counties and municipalities using the highway user formula.

**State Fiscal Effect:**

*Transportation Aid Redistribution*

The bill requires (1) GMVRA revenues to be distributed 70% to MDOT and 30% to local jurisdictions and (2) motor fuel tax rate indexing and sales and use tax equivalent rate revenues to be transferred to GMVRA instead of TTF. Under current law, MDOT retains 90.4% of GMVRA revenues and all of the revenue generated by the indexing of the motor fuel tax rate and the sales and use tax equivalent rate. Thus, altering the distribution formula decreases TTF revenues available to MDOT by an estimated \$468.8 million in fiscal 2018, \$490.6 million in fiscal 2019, \$505.8 million in fiscal 2020, \$525.3 million in fiscal 2021, and \$544.4 million in fiscal 2022, totaling \$2.5 billion over the five-year period.

Additionally, the TTF revenue loss limits MDOT's ability to issue CTBs in support of its capital program in that five-year period. MDOT advises that, under the bill, the \$2.5 billion reduction in highway user revenues is partially offset because it has reserved about \$747.0 million in revenues over the next five fiscal years for the restoration of local highway user revenues pending gubernatorial or legislative action. Therefore, MDOT advises that, after taking into account a reduction in bond issuances to meet its bond coverage ratios, that it must reduce its capital budget by \$4.0 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 estimates that the \$2.5 billion reduction in highway user revenues available to MDOT over the five-year period requires MDOT to reduce its bond issuances by approximately \$2.4 billion. When corresponding debt service savings of \$434.0 million are taken into account, the net decrease in MDOT's capital budget over the five-year period is \$4.5 billion. This estimate reflects MDOT's reserved \$747.0 million for the restoration of highway user revenues through the capital program because the Governor's current proposal plans to distribute those revenues through MDOT's capital budget as capital transportation grants.

#### *Constitutional Amendment*

Assuming approval of the proposed constitutional amendment in the November 2018 general election, this bill prevents any change, absent another constitutional amendment, in the provisions in effect on July 1, 2017, that specify (1) which revenues are credited to GMVRA and (2) how GMVRA revenues are distributed to MDOT and local governments. While the proposed amendment does not have a direct fiscal impact, it prohibits the State from adding or removing any revenue source to GMVRA or modifying the distribution of the funds from GMVRA. This may limit the State's ability to reprioritize funding for State or local transportation projects in future years.

State costs of printing ballots may increase to the extent inclusion of the proposed constitutional amendment on the ballot at the next general election would result in a need for a larger ballot card size or an additional ballot card for a given ballot (the content of ballots varies across the State, depending on the offices, candidates, and questions being voted on). However, it is assumed that the potential for such increased costs will have been anticipated in the State Board of Elections' budget irrespective of this bill. Pursuant to Chapter 564 of 2001, the State Board of Elections shares the costs of printing paper ballots with the local boards of elections.

**Local Fiscal Effect:** Altering the GMVRA distribution formula and requiring the distribution of specified motor fuel tax revenues to GMVRA increases local jurisdictions'

highway user revenues by an estimated \$468.8 million in fiscal 2018, \$490.6 million in fiscal 2019, \$505.8 million in fiscal 2020, \$525.3 million in fiscal 2021, and \$544.4 million in fiscal 2022. 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 2018-2022**  
**(\$ in Millions)**

	<u><b>FY 2018</b></u>	<u><b>FY 2019</b></u>	<u><b>FY 2020</b></u>	<u><b>FY 2021</b></u>	<u><b>FY 2022</b></u>
Baltimore City	\$119.1	\$126.8	\$132.4	\$139.1	\$145.9
Counties	301.2	313.3	321.6	332.4	342.9
Municipalities	48.5	50.5	51.9	53.7	55.5
<b>Total</b>	<b>\$468.8</b>	<b>\$490.6</b>	<b>\$505.8</b>	<b>\$525.3</b>	<b>\$544.4</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 2018 through 2022 under the bill. (The total highway user revenues in this exhibit do not reflect the fiscal 2018 capital transportation grants for counties, municipalities, and Baltimore City).

Local boards of elections' printing and mailing costs may increase to include information on the proposed constitutional amendment with specimen ballots mailed to voters prior to the next general election and to include the proposed amendment on ballots. It is assumed, however, that the potential for such increased costs will have been anticipated in local boards of elections' budgets irrespective of this bill.

**Exhibit 3**  
**Local Government Increase and Total – Highway User Revenues**  
**Fiscal 2018-2022**  
**(\$ in Millions)**

	FY 2018		FY 2019		FY 2020		FY 2021		FY 2022	
	<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	7.6	8.4	7.9	8.7	8.1	8.9	8.4	9.2	8.6	9.5
Anne Arundel	34.0	37.3	35.4	38.7	36.3	39.6	37.6	40.9	38.8	42.2
Baltimore City	119.1	259.9	126.8	269.8	132.4	276.5	139.1	285.5	145.9	294.0
Baltimore	45.3	49.5	47.2	51.4	48.4	52.6	50.0	54.3	51.6	56.0
Calvert	7.6	8.3	7.9	8.6	8.1	8.8	8.4	9.1	8.6	9.4
Caroline	5.2	5.7	5.4	6.0	5.6	6.1	5.8	6.3	5.9	6.5
Carroll	15.1	16.7	15.7	17.3	16.1	17.7	16.7	18.3	17.2	18.8
Cecil	8.5	9.3	8.8	9.7	9.0	9.9	9.4	10.2	9.7	10.5
Charles	11.3	12.4	11.8	12.9	12.1	13.2	12.5	13.6	12.9	14.1
Dorchester	5.9	6.5	6.1	6.7	6.3	6.9	6.5	7.1	6.7	7.3
Frederick	20.2	22.4	21.0	23.2	21.6	23.8	22.3	24.6	23.0	25.3
Garrett	6.6	7.2	6.9	7.5	7.0	7.7	7.3	8.0	7.5	8.2
Harford	17.6	19.4	18.4	20.1	18.8	20.6	19.5	21.3	20.1	21.9
Howard	17.5	19.1	18.2	19.8	18.6	20.3	19.3	20.9	19.9	21.6
Kent	3.0	3.3	3.1	3.4	3.2	3.5	3.3	3.6	3.4	3.7
Montgomery	48.4	53.3	50.4	55.4	51.7	56.7	53.5	58.6	55.2	60.3
Prince George's	42.8	47.2	44.5	49.0	45.7	50.3	47.2	51.9	48.7	53.5
Queen Anne's	6.1	6.7	6.4	7.0	6.5	7.1	6.8	7.4	7.0	7.6
Somerset	3.4	3.8	3.6	3.9	3.7	4.0	3.8	4.2	3.9	4.3
St. Mary's	8.8	9.6	9.2	10.0	9.4	10.3	9.7	10.6	10.0	10.9
Talbot	4.9	5.5	5.1	5.7	5.3	5.8	5.5	6.0	5.6	6.2
Washington	12.7	14.1	13.2	14.6	13.6	15.0	14.1	15.4	14.5	15.9
Wicomico	9.8	10.9	10.2	11.3	10.5	11.6	10.8	11.9	11.2	12.3
Worcester	7.2	8.0	7.5	8.3	7.7	8.5	8.0	8.7	8.2	9.0
<b>Total</b>	<b>468.8</b>	<b>644.3</b>	<b>490.6</b>	<b>669.0</b>	<b>505.8</b>	<b>685.6</b>	<b>525.3</b>	<b>707.8</b>	<b>544.4</b>	<b>729.0</b>

Notes: Includes revenues provided to both counties and municipalities within the counties.

Estimate assumes that highway road miles and vehicle registrations in fiscal 2018 remain constant through fiscal 2022.

Total does not reflect the grants for local transportation aid for fiscal 2018.

Source: Department of Legislative Services

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## Additional Information

**Prior Introductions:** HB 1388 of 2016 received a hearing in the House Environment and Transportation Committee, but no further action was taken. HB 837 of 2015 received an unfavorable report from the House Environment and Transportation Committee. HB 1331 of 2014, a bill with similar provisions, received a hearing in the House Appropriations Committee, but no further action was taken. Its cross file, SB 765, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - February 21, 2017  
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## Appendix – Highway User Revenues

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### *Transportation Aid to Local Governments*

In fiscal 2017, local governments received \$177.4 million in State aid from highway user revenues and \$25.0 million for special transportation grants. **Exhibit 1** shows the amount of State aid for local transportation programs in each county, including municipalities and Baltimore City, in fiscal 2017.

### *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 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.

**Exhibit 1**  
**Transportation Aid Programs**  
**Fiscal 2017**

<b>County</b>	<b>Highway User Revenues</b>	<b>County Grants</b>	<b>Municipal Grants</b>	<b>Elderly/ Disabled</b>	<b>Paratransit</b>	<b>Per Capita Aid</b>	<b>Per Capita Rank</b>
Allegany	\$846,247	\$68,992	\$946,170	\$141,544	-	\$28	8
Anne Arundel	3,281,132	427,654	815,824	245,966	\$434,969	9	21
Baltimore City	142,300,081	2,000,000	-	379,335	-	233	1
Baltimore	4,179,019	603,016	-	395,836	-	6	24
Calvert	731,936	91,983	242,833	127,003	76,099	14	16
Caroline	537,372	58,112	346,075	120,217	13,333	33	6
Carroll	1,566,587	163,549	1,113,337	151,029	-	18	14
Cecil	866,118	94,409	544,504	134,073	-	16	15
Charles	1,086,188	139,396	308,803	137,609	-	11	19
Dorchester	600,433	64,322	397,539	122,724	50,000	38	3
Frederick	2,182,072	197,292	2,094,250	159,159	-	19	12
Garrett	655,843	77,295	308,881	119,664	-	39	2
Harford	1,761,565	201,844	932,354	170,371	-	12	17
Howard	1,605,565	231,677	-	162,520	430,000	8	23
Kent	307,200	33,022	201,383	120,217	13,333	34	4
Montgomery	4,937,050	539,991	3,070,971	379,107	-	9	22
Prince George's	4,487,929	430,215	3,871,992	332,819	450,000	11	20
Queen Anne's	586,661	77,181	133,094	122,064	-	19	13
St. Mary's	821,725	113,820	84,636	131,054	135,000	12	18
Somerset	337,151	40,729	141,077	117,447	-	25	9
Talbot	537,984	47,317	539,925	120,217	13,334	34	5
Washington	1,365,307	128,092	1,227,574	146,917	-	19	11
Wicomico	1,073,152	95,128	1,063,820	134,508	-	23	10
Worcester	758,771	74,964	614,960	134,508	110,000	33	7
<b>Total</b>	<b>\$177,413,088</b>	<b>\$6,000,000</b>	<b>\$19,000,002</b>	<b>\$4,305,908</b>	<b>\$1,726,068</b>	<b>\$35</b>	

Note: Highway User Revenues column includes municipal aid.

Source: Department of Legislative Services

### *Highway User Revenues – Distribution*

Historically, highway user revenues have been distributed to (1) TTF for MDOT’s capital program, debt service, and operating costs and (2) 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 to allow a portion of the revenues to be allocated to the general fund for budget relief. 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 2** 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 2. The allocations made to counties and municipalities are distributed based on road miles and vehicle registrations.

**Exhibit 2**  
**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>Percent</b>	<b>Dollars</b>	<b>Percent</b>	<b>Dollars</b>	<b>Percent</b>	<b>Dollars</b>	<b>Percent</b>	<b>Dollars</b>
MDOT	79.8%	\$1,318.6	90.0%	\$1,445.4	90.4%	\$1,543.4	90.4%	\$1,597.9
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, \$19 million in fiscal 2016, and \$19 million in fiscal 2017. In fiscal 2016 and 2017, the counties and Baltimore City were also awarded additional transportation aid through special grants; in each of those years, Baltimore City received \$2 million, and the counties received a total of \$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, which was distributed on the basis of county road miles.