

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

**FISCAL AND POLICY NOTE**  
**Enrolled**

House Bill 713 (Chair, Ways and Means Committee)(By Request -  
 Departmental - Transportation)

Ways and Means

Budget and Taxation

**Sales and Use Tax - Light Rail Vehicles - Exemption**

This departmental bill exempts from the State sales and use tax the sale of a light rail transit vehicle or related equipment if the vehicle will be used to provide transit service on the Purple Line in Montgomery County and Prince George’s County.

The bill takes effect July 1, 2017.

**Fiscal Summary**

**State Effect:** General fund revenues decrease by approximately \$9.4 million in FY 2020 and by \$3.0 million in FY 2021. Transportation Trust Fund (TTF) expenditures decrease by \$9.4 million in FY 2020 and by \$3.0 million in FY 2021.

(\$ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF Revenue	\$0	\$0	(\$9.4)	(\$3.0)	\$0
SF Expenditure	\$0	\$0	(\$9.4)	(\$3.0)	\$0
Net Effect	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

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

**Local Effect:** None.

**Small Business Effect:** The Maryland Department of Transportation (MDOT) has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

## Analysis

**Current Law:** The State sales and use tax rate is 6%. The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.6 billion in fiscal 2017 and \$4.7 billion in fiscal 2018, according to the December 2016 revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia.

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### Exhibit 1 Sales and Use Tax Rates in Maryland and Surrounding States

Delaware	0.0%
District of Columbia	5.75%; 10.0% for liquor sold for off-the-premises consumption and restaurant meals, liquor for consumption on the premises, and rental vehicles
Maryland	6.0%; 9.0% for alcoholic beverages
Pennsylvania	6.0% plus 1.0% or 2.0% in certain local jurisdictions
Virginia*	5.3%; 2.5% for food; both rates include 1.0% for local jurisdictions
West Virginia	6.0% plus 0.5% (in one municipality) or 1.0% (in 27 municipalities)

\*An additional state tax of 0.7% is imposed in localities in Northern Virginia and the Hampton Roads region.

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**Background:** The Purple Line is a 16-mile light rail line that will extend from Bethesda in Montgomery County to New Carrollton in Prince George's County. The line will provide a direct connection to the Metrorail Red, Green, and Orange lines at Bethesda, Silver Spring, College Park, and New Carrollton. The Purple Line will also connect to Maryland Area Regional Commuter trains, Amtrak, and local bus services.

A Public-Private Partnership (P3) agreement is in place for the design, building, financing, operation, and maintenance of the Purple Line. Under the P3 agreement, MDOT and the Maryland Transit Administration (MTA) selected Purple Line Transit Partners LLC (PLTP) as the concessionaire to design, build, finance, operate, and maintain the Purple Line over a 36-year term.

Under the P3 agreement, PLTP will complete the design of and construct, equip, operate, and maintain the Purple Line, as well as provide a portion of the financing for construction.

The agreement will end 30 years after Revenue Service Availability (RSA), the point in time when the concessionaire demonstrates that the Purple Line is ready to begin carrying customers. In return, PLTP will receive progress payments paid monthly during the design-build period, a lump-sum payment upon RSA, a lump-sum payment upon final completion, and monthly availability payments once revenue service begins. Ownership of the Purple Line will remain with MDOT/MTA. MTA will set fares and receive all fare revenues generated by the Purple Line. At the end of the 30-year operating period, the Purple Line will be handed back to MTA.

Total contract design and construction costs for the project are estimated at \$1.97 billion. This cost includes the purchase of 25 light rail vehicles (LRVs) at an estimated cost of \$206.4 million. Under current law, the LRVs for use on the Purple Line would not be subject to the State sales and use tax if purchased by MTA. However, because the LRVs will be purchased by PLTP under the P3 agreement, the purchase of the LRVs is subject to the State sales and use tax. The P3 agreement contains a clause indicating that the concessionaire (PLTP) is entitled to 100% reimbursement of any sales and use tax it has to pay on the purchase of LRVs. The bill would eliminate the need to reimburse PLTP for the sales tax paid on the purchase of the LRVs.

**State Fiscal Effect:** Under the P3 agreement, the total purchase cost of the 25 LRVs is \$206.4 million. The initial project schedule indicates that 19 LRVs will be delivered over the course of fiscal 2020 and the remaining 6 LRVs will be delivered in fiscal 2021. As a result, general fund revenues will decrease by approximately \$9.4 million in fiscal 2020 and by \$3.0 million in fiscal 2021.

However, as MTA will not have to reimburse PLTP for any sales taxes paid, TTF expenditures will decrease by approximately \$9.4 million in fiscal 2020 and by \$3.0 million in fiscal 2021.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office; Maryland Department of Transportation; Department of Legislative Services

**Fiscal Note History:** First Reader - February 27, 2017  
md/jrb Third Reader - March 21, 2017  
Enrolled - May 15, 2017

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## ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Mass Transit – Exemption from Taxation

BILL NUMBER: HB 713

PREPARED BY: Maryland Department of Transportation/Maryland Transit Administration  
(Dept./Agency)

### PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

### PART B. ECONOMIC IMPACT ANALYSIS

#### FISCAL IMPACT

For the current Purple Line P3 project, sales tax on Light Rail Vehicle purchases is estimated to be approximately \$12 million. If Purple Line Transit Partners (PLTP) (the purchaser of the vehicles on behalf of the State) is subject to the sales tax, the P3 agreement states that MDOT will compensate PLTP for that amount. Ultimately, the fiscal impact to the state under this bill would be that Transportation Trust Fund dollars otherwise used to pay the tax would remain in the TTF instead of going into the General Fund, comporting with the transportation funding “lockbox” principle passed by referendum in 2014.