

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1361 (Delegate Parrott, *et al.*)
Environment and Transportation

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

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, 2018. **Specified provisions take effect July 1, 2018.**

Fiscal Summary

State Effect: TTF revenues available to MDOT decrease by an estimated \$487.9 million in FY 2019, \$501.7 million in FY 2020, \$520.7 million in FY 2021, \$538.1 million in FY 2022, and \$559.0 million in FY 2023. 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 \$487.9 million in FY 2019, \$501.7 million in FY 2020, \$520.7 million in FY 2021, \$538.1 million in FY 2022, and \$559.0 million in FY 2023.

Small Business Effect: None.

Analysis

Bill Summary/Current law:

Transportation Trust Fund – Generally

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. This includes issuing Consolidated Transportation Bonds (CTBs).

Debt Service Requirements and Practices

State law and agency debt practices limit 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 future annual 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.

Exhibit 1
Sales and Use and CPI Indexing Tax Revenue Estimates
Fiscal 2019-2023
(\$ in Millions)

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Sales and Use Tax Equivalent	\$300.7	\$318.6	\$339.7	\$357.8	\$379.4
CPI Increase	64.0	86.9	110.0	130.1	150.4
Total	\$364.6	\$405.4	\$449.7	\$487.9	\$529.8

CPI: Consumer Price Index

Note: Totals may not sum due to rounding.

Source: Department of Legislative Services

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

The *Consolidated Transportation Program* for fiscal 2019 through 2023 has set aside approximately \$53.8 million in fiscal 2019 to be distributed to local governments as capital transportation grants. Of this total, \$27.8 million goes to counties, \$5.6 million goes to Baltimore City, and \$20.4 million goes to municipalities. Budget bill language specifies that the grants be distributed to the counties and municipalities using the GMVRA distribution formula.

State Fiscal Effect:

Redistribution Provisions

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 \$487.9 million in fiscal 2019, \$501.7 million in fiscal 2020, \$520.7 million in fiscal 2021, \$538.1 million in fiscal 2022, and \$559.0 million in fiscal 2023, totaling \$2.6 billion over the five-year period.

The \$2.6 billion reduction in highway user revenues available to MDOT over the five-year period requires MDOT to reduce its bond issuances by approximately \$2.3 billion (which is 100% of MDOT’s planned bond issuances over the next five fiscal years), resulting in an initial reduction of \$4.9 billion in revenues available to MDOT. As MDOT issues less debt under the bill, it experiences a corresponding reduction in debt service payments. When debt service savings of \$358.0 million are taken into account, the net decrease in MDOT’s capital budget is \$4.5 billion.

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, 2018, 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.

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 \$487.9 million in fiscal 2019, \$501.7 million in fiscal 2020, \$520.7 million in fiscal 2021, \$538.1 million in fiscal 2022, and \$559.0 million in fiscal 2023. The distribution of the increase among Baltimore City, the counties, and municipalities is shown in **Exhibit 2**.

Exhibit 2
Projected Increase in Local Distribution of Highway User Revenues
Fiscal 2019-2023
(\$ in Millions)

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Baltimore City	\$125.8	\$131.0	\$137.6	\$143.5	\$150.4
Counties	311.8	319.1	329.8	339.6	351.7
Municipalities	50.3	51.5	53.3	54.9	56.9
Total	\$487.9	\$501.7	\$520.7	\$538.1	\$559.0

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

Exhibit 3 shows the increase in highway user revenues distributed to localities and the total amount of highway user revenues distributed to localities from fiscal 2019 through 2023 under the bill (by county). (The total highway user revenues in this exhibit do not reflect the fiscal 2019 capital transportation grants for counties, municipalities, and Baltimore City.)

Exhibit 3
Local Government Increase and Total – Highway User Revenues
Fiscal 2019-2023
(\$ in Millions)

	FY 2019		FY 2020		FY 2021		FY 2022		FY 2023	
	<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	\$7.8	\$8.6	\$8.0	\$8.8	\$8.3	\$9.1	\$8.5	\$9.4	\$8.8	\$9.7
Anne Arundel	35.5	38.8	36.3	39.6	37.5	40.9	38.6	42.0	40.0	43.5
Baltimore City	125.8	268.6	131.0	274.5	137.6	283.2	143.5	291.4	150.4	301.4
Baltimore	46.5	50.6	47.6	51.7	49.1	53.4	50.6	54.9	52.4	56.8
Calvert	7.8	8.6	8.0	8.8	8.3	9.0	8.5	9.3	8.8	9.6
Caroline	5.4	5.9	5.5	6.1	5.7	6.3	5.9	6.4	6.1	6.7
Carroll	15.6	17.2	16.0	17.6	16.5	18.1	17.0	18.6	17.6	19.3
Cecil	8.8	9.6	9.0	9.8	9.3	10.1	9.5	10.4	9.9	10.8
Charles	11.8	12.9	12.1	13.2	12.5	13.6	12.9	14.0	13.3	14.5
Dorchester	6.1	6.7	6.2	6.8	6.4	7.1	6.6	7.3	6.9	7.5
Frederick	21.0	23.2	21.5	23.7	22.2	24.5	22.9	25.2	23.7	26.0
Garrett	6.8	7.5	7.0	7.6	7.2	7.9	7.4	8.1	7.7	8.4
Harford	18.0	19.8	18.4	20.2	19.0	20.8	19.6	21.4	20.3	22.2
Howard	18.2	19.8	18.6	20.2	19.2	20.9	19.8	21.4	20.5	22.2
Kent	3.1	3.4	3.2	3.5	3.3	3.6	3.4	3.7	3.5	3.8
Montgomery	50.3	55.3	51.5	56.5	53.2	58.3	54.8	59.9	56.8	62.0
Prince George's	44.5	49.1	45.6	50.2	47.1	51.8	48.5	53.3	50.3	55.1
Queen Anne's	6.3	6.9	6.5	7.1	6.7	7.3	6.9	7.5	7.2	7.8
Somerset	3.6	3.9	3.6	4.0	3.8	4.1	3.9	4.2	4.0	4.4
St. Mary's	9.1	10.0	9.4	10.2	9.7	10.5	10.0	10.8	10.3	11.2
Talbot	5.1	5.6	5.2	5.8	5.4	5.9	5.6	6.1	5.8	6.3
Washington	13.2	14.5	13.5	14.9	13.9	15.3	14.4	15.8	14.9	16.3
Wicomico	10.2	11.2	10.4	11.5	10.8	11.8	11.1	12.2	11.5	12.6
Worcester	7.5	8.2	7.6	8.4	7.9	8.7	8.1	8.9	8.4	9.2
Total	\$487.9	\$666.0	\$501.7	\$680.5	\$520.7	\$702.2	\$538.0	\$722.4	\$559.0	\$747.2

Notes: Totals may not sum due to rounding.

Estimate assumes that highway road miles and vehicle registrations in fiscal 2019 remain constant through fiscal 2023.

Source: Department of Legislative Services

Additional Information

Prior Introductions: HB 552 of 2017 received a hearing in the House Environment and Transportation Committee, but no further action was taken. 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.

Cross File: None.

Information Source(s): Maryland Department of Transportation; Maryland Association of Counties; Department of Legislative Services

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Appendix – Highway User Revenues

Transportation Aid to Local Governments

In fiscal 2018, local governments received \$175.5 million in State aid from highway user revenues and \$38.4 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 2018.

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 2018**

County	Highway User Revenues	County Grants	Municipal Grants	Elderly/ Disabled	Paratransit	Per Capita Aid	Per Capita Rank
Allegany	\$832,087	\$220,002	\$991,798	\$141,544	-	\$30	8
Anne Arundel	3,221,498	1,358,907	851,278	245,966	\$217,351	10	21
Baltimore City	140,766,857	5,484,423	-	379,335	-	239	1
Baltimore	4,127,744	1,926,280	-	395,836	-	8	24
Calvert	726,380	295,765	254,643	127,003	76,099	16	16
Caroline	527,472	184,008	366,216	-	-	33	6
Carroll	1,544,593	521,396	1,175,124	151,029	-	20	14
Cecil	853,921	300,969	574,716	134,073	-	18	15
Charles	1,079,426	448,309	326,598	137,609	-	13	19
Dorchester	595,741	207,513	415,488	122,724	50,000	43	4
Frederick	2,162,068	630,207	2,231,971	159,159	-	21	13
Garrett	647,220	246,388	327,922	119,664	-	46	2
Harford	1,753,040	644,754	1,021,418	170,371	-	14	17
Howard	1,589,922	741,964	-	162,520	430,000	9	23
Kent	303,393	105,117	214,892	-	-	32	7
Montgomery	4,873,972	1,727,668	3,222,520	379,107	-	10	22
Prince George's	4,484,948	1,395,053	4,112,763	332,819	450,000	12	20
Queen Anne's	579,271	245,078	148,792	122,064	-	22	11
St. Mary's	816,040	365,518	90,166	117,447	135,000	14	18
Somerset	335,208	130,865	150,657	131,054	-	29	9
Talbot	532,876	150,782	576,870	360,652	40,000	45	3
Washington	1,343,554	408,283	1,288,815	269,015	-	22	12
Wicomico	1,055,069	302,541	1,118,612	146,917	-	26	10
Worcester	749,231	239,621	648,334	-	110,000	34	5
Total	\$175,501,531	\$18,281,410	\$20,109,551	\$4,305,908	\$1,508,450	\$32	

Notes: Highway User Revenues column includes municipal aid. Per Capita estimates based off of 2016 Census population estimates.
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 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)

	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%	\$1,543.4	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
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 from these grants in fiscal 2014, \$16 million in fiscal 2015, \$19 million in fiscal 2016, \$19 million in fiscal 2017, and \$20.1 million in fiscal 2018. In fiscal 2016, 2017, and 2018, the counties and Baltimore City were also awarded additional transportation aid through special grants. In fiscal 2016 and 2017, Baltimore City received \$2 million and the counties received a total of \$4 million; in fiscal 2018, Baltimore City received \$5.5 million and the counties received a total of \$12.8 million.

Although the municipal transportation grants and the special grants are supplemental to the amounts received from highway user revenues, the grants were 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.