Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader - Revised

House Bill 73 (Delegate Carr)
Environment and Transportation

Vehicle Laws - Multiyear Registration

This bill requires the Motor Vehicle Administration (MVA) to adopt a system of multiyear registration that includes options for one-, two-, or three-year registration periods. Any method that MVA authorizes for obtaining or renewing a vehicle registration must be made available for any of the registration periods allowed under the bill.

Fiscal Summary

State Effect: Special fund revenues decrease by $94.6 million in FY 2019 and by lesser amounts in FY 2020 and 2021, and then increase in FY 2022 and 2023. Transportation Trust Fund (TTF) bond revenues decrease by about $105.0 million in FY 2020 only; TTF bond expenditures decrease in subsequent years, reflecting debt service savings. TTF expenditures increase by $210,600 in FY 2019 for programming; annually thereafter, TTF expenditures increase by $1.0 million or more for ongoing administrative costs.

($ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
SF Revenue	($94.6)	($20.9)	($9.7)	$4.5	$9.0
Bond Rev.	$0	($105.0)	$0	$0	$0
SF Expenditure	$0.2	$1.0	$1.2	$1.2	$1.2
Bond Exp.	$0	($2.0)	($4.0)	($4.0)	($10.0)
Net Effect	($94.8)	($124.9)	($6.9)	$7.2	$17.7

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

Local Effect: Local highway user revenues distributed through the Gasoline and Motor Vehicle Revenue Account (GMVRA) decrease by approximately $7.8 million in FY 2019 and by lesser amounts in FY 2020 and 2021, and then increase by about $405,200 in FY 2022 and by $784,100 in FY 2023. Expenditures are expected to decrease commensurately, as discussed below.

Small Business Effect: Minimal.

Analysis

Current Law/Background: MVA is authorized (but not required) to adopt a system of multiyear registration. The fee for a multiyear registration is the annual registration fee multiplied by the number of years for which the registration is issued. MVA must refund the registration fees upon surrender of the registration card and plates if the return is made before the beginning of any 12-month registration year for which the application for refund is made.

MVA is authorized to adopt regulations related to multiyear registrations.

Most classes of vehicles are currently registered for two years, although some less common classes are registered on an annual basis. Registration fees also include a yearly $17.00 surcharge for the Emergency Medical Services (EMS) system. A small portion of the EMS charge ($2.50) goes to the Trauma Physician Services Fund.

Registration periods offered in surrounding states vary. For example, Virginia allows vehicles to be registered for one, two, or three years, while Pennsylvania and the District of Columbia offer one- or two-year registration periods. In each of those jurisdictions, MVA notes that a majority of registrants tend to choose a one-year registration period rather than a multiyear registration period.

Transportation Trust Fund

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. The Maryland Department of Transportation (MDOT) issues bonds backed by TTF revenues and invests the TTF fund balance to generate investment income. The Maryland Transit Administration, MVA, 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; it 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.

Highway User Revenues

TTF provides local transportation aid through GMVRA. 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.

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.

State Revenues: Based on data from Virginia, MVA advises that it expects transactions in Maryland to be distributed as shown in **Exhibit 1**. Most vehicle registrants are expected to choose a one-year registration period, while a bit under a third are expected to continue registering for two years. Relatively few registrants are expected to choose the three-year option.

Under the assumptions above, the effect on revenues is shown in **Exhibit 2**. Taking into account the bill's October 1, 2018 effective date, TTF revenues retained by MDOT decrease by about $73.8 million in fiscal 2019 as the portion of vehicle owners eligible to choose a new registration period do so.

Exhibit 1
Expected Distribution of Vehicle Registration Transactions under the Bill
(Full Year)

	Number	Percent
3 Years	89,763	4%
2 Years	695,665	31%
1 Year	1,458,653	65%
Total Annual Transactions	**2,244,081**	**100%**

Source: Motor Vehicle Administration

Because of the bill's effective date, a small portion of registrations in fiscal 2019 are ineligible for the new registration periods established by the bill. Those registrations are accounted for in subsequent years – either in fiscal 2020 for individuals still required to register for one year, or in fiscal 2021 for those individuals still required to register for two.

The effect on TTF registration fee revenues generally moderates over time. In fiscal 2020, TTF revenues retained by MDOT decrease by about $16.1 million; in fiscal 2021, the decrease is approximately $7.3 million. By fiscal 2022, TTF revenues increase by about $3.8 million relative to current law; in fiscal 2023, TTF revenues increase by about $7.4 million.

However, the TTF revenue loss also limits MDOT's ability to issue CTBs in support of its capital program. In order to maintain its required debt service coverage ratio, MDOT must reduce its bond issuances by about $105.0 million in fiscal 2020 only.

Other revenues are affected under the bill as well. Vehicle registrations include a $17.00 surcharge for the EMS program. Moreover, a portion of that fee – $2.50 – is reserved for the Maryland Trauma Physician Services Fund. The effect on revenues for those special funds is also shown in Exhibit 2. The directional change in revenues for those funds parallels the change for TTF revenues.

Exhibit 2
Summary of Fiscal Impact of the Bill on Revenues and Expenditures
Fiscal 2019-2023

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Total Change in Vehicle Registration Revenues	**($81,644,942)**	**($17,831,338)**	**($8,053,044)**	**$4,220,780**	**$8,167,812**
TTF Revenues (90.4% of total retained by MDOT)	(73,807,027)	(16,119,529)	(7,279,952)	3,815,585	7,383,702
MDOT Bond Revenue		(105,000,000)			
Subtotal, TTF Revenues	*(73,807,027)*	*(121,119,529)*	*(7,279,952)*	*3,815,585*	*7,383,702*
TTF Expenditures					
Variable Expenditures	-	954,140	1,183,187	1,229,688	1,241,391
Programming Changes	210,625	-	-	-	-
Debt Service on Bond Issuances		(2,000,000)	(4,000,000)	(4,000,000)	(10,000,000)
Subtotal, TTF Expenditures	*210,625*	*(1,045,860)*	*(2,816,813)*	*(2,770,312)*	*(8,758,609)*
Net Effect on TTF	**(74,017,652)**	**(120,073,669)**	**(4,463,139)**	**6,585,897**	**16,142,311**
GMVRA Revenues (local highway user revenues)					
Change in Local Revenues (9.6% of total)	**(7,837,914)**	**(1,711,808)**	**(773,092)**	**405,195**	**784,110**
EMS Surcharge Revenues					
Medical Systems Surcharge	(17,763,928)	(4,112,500)	(2,097,887)	544,665	1,355,130
Trauma Physicians Surcharge	(3,062,746)	(709,052)	(361,705)	93,908	233,643
Net Effect on EMS Revenues	**(20,826,675)**	**(4,821,552)**	**(2,459,592)**	**638,573**	**1,588,773**

TTF: Transportation Trust Fund
MDOT: Maryland Department of Transportation
GMVRA: Gasoline and Motor Vehicle Revenue Account
EMS: Emergency Medical Services
Source: Motor Vehicle Administration; Department of Legislative Services

State Expenditures: In fiscal 2019 only, MVA advises that reprogramming changes totaling $210,625 are necessary in order to update systems to accommodate the registration periods required by the bill.

Beginning in fiscal 2021, MVA anticipates a significant increase in the number of mailings required (*e.g.*, registration renewal notices, registration cards, stickers, etc.). The resulting increase in TTF expenditures is tied to the number of additional transactions relative to current law. In fiscal 2021, the increase in TTF expenditures totals $954,140; by fiscal 2023, the increase totals $1,241,391.

As previously discussed, the reduction in TTF revenues limits MDOT's ability to issue CTBs in support of its capital program. This reduction results in debt service savings because MDOT no longer has to make payments on the unissued debt. Specifically, TTF expenditures decrease by approximately $2.0 million in fiscal 2020, $4.0 million in fiscal 2021 and 2022, and $10.0 million in fiscal 2023; savings continue in the out-years.

Because the number of one-year registrations is likely to far exceed the number of multiyear registrations, there is likely an effect on the number of registrations eligible for a refund. As noted above, most (65%) registrations are likely to be for one year. Those registrants are no longer eligible for a refund under the bill because refunds are only issued in the event that more than one year remains on the registration. In fiscal 2017, refunds totaled about $14.0 million. MVA anticipates about a 50% reduction in plate returns as a result of the bill. Thus, there may be an offsetting reduction in TTF refund expenditures totaling about $7.0 million in fiscal 2019.

This does not take into account the possibility that additional refunds are likely to be issued for three-year registrants. Because those vehicles have more years remaining on the registration, owners are more likely to qualify for a refund under the bill. Ultimately, given the overall effect of transitioning to the multiyear registration system established by the bill, the reduction in refunds is not likely to have a significant offsetting impact on the initial reduction in TTF revenues. Thus, the estimates above do not take any such impact into account.

Local Fiscal Effect: As shown in Exhibit 2, jurisdictions' highway user revenues are also affected beginning in fiscal 2019. Local governments receive a percentage of the revenues affected by the bill – in total, about 9.6%.

Under the bill, local government revenues decrease through fiscal 2021. The effect on local expenditures likely varies by jurisdiction. Some jurisdictions may be able to absorb the initial decline in highway user revenues, while others may need to reduce expenditures by an amount corresponding to the loss in revenues.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - January 24, 2018
md/ljm Revised - Updated Information - February 12, 2018

Analysis by: Eric F. Pierce

Direct Inquiries to:
(410) 946-5510
(301) 970-5510