

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 223

(Senator Waugh, *et al.*)

Budget and Taxation

Transportation - Highway User Revenues - Allocation

This bill gradually redistributes funds from the Gasoline and Motor Vehicle Revenue Account (GMVRA) to local jurisdictions if the Transportation Trust Fund (TTF) revenue for a fiscal year exceeds the most recent estimate of the Board of Revenue Estimates (BRE) for that fiscal year. In a fiscal year where actual revenues exceed the BRE estimate, the distribution for local governments is increased for the following fiscal year, and the allocation for the Maryland Department of Transportation (MDOT) is decreased commensurately. After the seventh adjustment, GMVRA revenues are no longer redistributed and are allocated as follows: 70% to MDOT; 24% to Baltimore City; 4.8% to counties; and 1.2% to municipalities. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: Any reduction in TTF revenues available to MDOT depends wholly on whether actual TTF revenues in a fiscal year exceed the most recent BRE estimate for that year and, therefore, cannot be predicted. Any TTF revenue decrease likely requires MDOT to reduce bond issuances and related capital expenditures to ensure it maintains its legal debt service coverage ratio, as discussed below.

Local Effect: Any increase in local highway user revenues depends wholly on whether actual TTF revenues in a fiscal year exceed the most recent BRE estimate for that year and, therefore, cannot be predicted.

Small Business Effect: None.

Analysis

Bill Summary: Exhibit 1 summarizes the bill’s proposed distribution of highway user revenues. A permanent redistribution takes place in the fiscal year after any fiscal year when actual TTF revenue exceeds the BRE estimate for that fiscal year. After the seventh occurrence, highway user revenues are no longer redistributed.

Exhibit 1 Highway User Revenue Redistribution When TTF Revenues Exceed BRE Estimates

	<u>MDOT</u>	<u>Baltimore City</u>	<u>Counties</u>	<u>Municipalities</u>
Current	90.4%	7.7%	1.5%	0.4%
First Occurrence	87.0%	10.4%	2.1%	0.5%
Second Occurrence	84.0%	12.8%	2.6%	0.6%
Third Occurrence	81.0%	15.2%	3.0%	0.8%
Fourth Occurrence	79.0%	16.8%	3.4%	0.8%
Fifth Occurrence	76.0%	19.2%	3.8%	1.0%
Sixth Occurrence	73.0%	21.6%	4.3%	1.1%
Seventh Occurrence	70.0%	24.0%	4.8%	1.2%

BRE: Board of Revenue Estimates

MDOT: Maryland Department of Transportation

TTF: Transportation Trust Fund

Source: Department of Legislative Services

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, 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.

Highway User Revenues – Distributions and Authorized Purposes

TTF's GMVRA revenues (commonly known as highway user revenues) 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 *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: The bill requires GMVRA revenues to be redistributed the year after any fiscal year when actual TTF revenue exceeds the most recent BRE estimate for that fiscal year. When a change to the distribution formula occurs, TTF revenues available to MDOT decrease significantly. In the last six fiscal years, actual TTF revenues have only exceeded the BRE estimate for that fiscal year once, in fiscal 2012; however, the year or years in which actual TTF revenue will exceed the estimate in future years cannot be reliably predicted.

For illustrative purposes only, if the bill's first redistribution were to take place in fiscal 2020, TTF revenues available to MDOT decrease by \$63.3 million in that year. This TTF revenue loss alone would still limit MDOT's ability to issue CTBs in support of its capital program in order to maintain its legal debt service coverage ratio in future years.

Local Fiscal Effect: *For illustrative purposes only*, if the bill's first redistribution were to take place in fiscal 2020, the local share of highway user revenues increases by \$63.3 million, distributed as follows: \$50.3 million to Baltimore City; \$11.2 million to counties; and \$1.9 million to municipalities (the total does not sum due to rounding). **Exhibit 2** shows the increase in highway user revenues and the total amount of highway user revenues that would be distributed to local governments in fiscal 2020 under the same scenario.

Exhibit 2
Highway User Revenues – Local Government Increase over Current Law and Total
Fiscal 2019 and 2020
(\$ in Millions)

	FY 2019		FY 2020	
	<u>Increase</u>	<u>Total</u>	<u>Increase</u>	<u>Total</u>
Allegany	\$0.0	\$0.8	\$0.3	\$1.1
Anne Arundel	0.0	3.3	1.3	4.6
Baltimore City	0.0	142.9	50.3	193.8
Baltimore	0.0	4.1	1.7	5.8
Calvert	0.0	0.7	0.3	1.0
Caroline	0.0	0.5	0.2	0.7
Carroll	0.0	1.6	0.6	2.1
Cecil	0.0	0.9	0.3	1.2
Charles	0.0	1.1	0.4	1.5
Dorchester	0.0	0.6	0.2	0.8
Frederick	0.0	2.2	0.8	3.0
Garrett	0.0	0.7	0.2	0.9
Harford	0.0	1.7	0.6	2.4
Howard	0.0	1.6	0.7	2.3
Kent	0.0	0.3	0.1	0.4
Montgomery	0.0	5.0	1.8	6.8
Prince George's	0.0	4.6	1.6	6.2
Queen Anne's	0.0	0.6	0.2	0.8
St. Mary's	0.0	0.3	0.1	0.5
Somerset	0.0	0.8	0.3	1.2
Talbot	0.0	0.5	0.2	0.7
Washington	0.0	1.4	0.5	1.8
Wicomico	0.0	1.1	0.4	1.4
Worcester	0.0	0.8	0.3	1.0
Total	\$0.0	\$178.1	\$63.3	\$242.2

Notes: Includes revenues provided to both counties and municipalities within the counties. Totals may not sum due to rounding. Estimate assumes Transportation Trust Fund revenues exceed the Board of Revenue Estimates estimate for fiscal 2019 and the bill's first redistribution takes place for fiscal 2020.

Source: Department of Legislative Services

Additional Comments: The Department of Legislative Services notes that the bill may be difficult to implement as introduced. Preliminary fiscal year closeout revenue figures, which are necessary to determine if projected TTF revenues are greater than or less than the BRE projections, are typically not available until late August, and the audit of the closeout is not completed until January. However, local and State budgets are formulated during the summer months, so neither MDOT nor local governments will have the necessary information to assemble their budgets for the coming fiscal year.

Additional Information

Prior Introductions: SB 161 of 2017 received a hearing from the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: None.

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

Fiscal Note History: First Reader - January 29, 2018
mm/lgc

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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	
	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>
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.