

Department of Legislative Services
Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 726

(Senator McCray, *et al.*)

Budget and Taxation

Environment and Transportation

Transportation – Highway User Revenues – Revenue and Distribution

This bill increases the amount of funds from the Gasoline and Motor Vehicle Revenue Account (GMVRA) that the Maryland Department of Transportation (MDOT) must annually provide to local governments beginning in fiscal 2024. Additionally, beginning in fiscal 2024, the bill increases (1) the portion of the corporate income tax revenue that must be distributed to a special fund for distribution to GMVRA and an administrative cost account within the Comptroller’s Office and (2) the portion of that special fund that must be distributed to the administrative cost account. **The bill takes effect July 1, 2022.**

Fiscal Summary

State Effect: No effect in FY 2023. Over the five-year period addressed by this fiscal and policy note, general fund revenues decrease by approximately \$325.8 million, Transportation Trust Fund (TTF) revenues and expenditures increase by approximately \$320.4 million, and special fund revenues for the Comptroller’s administrative cost account increase by approximately \$5.3 million. In addition, MDOT must redirect funding from other projects in its capital program beginning in FY 2024, as discussed below. This estimate does not reflect any potential increase in bond revenues and debt service payments, as discussed below.

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	\$0	(\$52.1)	(\$72.8)	(\$97.3)	(\$103.6)
SF Revenue	\$0	\$52.1	\$72.8	\$97.3	\$103.6
SF Expenditure	\$0	\$51.2	\$71.6	\$95.7	\$101.9
Net Effect	\$0.0	(\$51.2)	(\$71.6)	(\$95.7)	(\$101.9)

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

Local Effect: Over the five-year period addressed in this fiscal and policy note, relative to current law, local government revenues increase by an estimated \$51.9 million in FY 2024, \$190.3 million in FY 2025, \$241.5 million in FY 2026, and \$245.6 million in FY 2027. The *Consolidated Transportation Program* (CTP) for FY 2022 through 2027

reflects a portion of the bill’s changes, as discussed below. Expenditures are not directly affected.

Small Business Effect: None.

Analysis

Bill Summary: The bill increases the portion of the corporate income tax revenue that must be distributed to a special fund to then be distributed to GMVRA and an administrative cost account within the Comptroller’s Office, after other required distributions, from 17.2% to:

- 20% for fiscal 2024;
- 21% for fiscal 2025;
- 22% for fiscal 2026 and 2027; and
- 20% for fiscal 2028 and each fiscal year thereafter.

The bill also increases the portion of the special fund that must be distributed to the administrative cost account before the remainder is remitted to GMVRA, from 17.2% of the “cost to administer the income tax on corporations” to the same percentages in the same years as described above.

Exhibit 1 illustrates the bill’s effect on the percentage of GMVRA revenues annually distributed to local governments beginning in fiscal 2024.

Exhibit 1 Local Share of Highway User Revenues Fiscal 2024 through 2028

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
MDOT	84.4%	82.0%	80.0%	80.0%	84.4%
Baltimore City	9.5%	11.0%	12.2%	12.2%	9.5%
Counties	3.7%	4.3%	4.8%	4.8%	3.7%
Municipalities	2.4%	2.7%	3.0%	3.0%	2.4%

MDOT: Maryland Department of Transportation

Note: The distribution in fiscal 2028 continues in future fiscal years.

Source: Department of Legislative Services

Current Law:

Gasoline and Motor Vehicle Revenue Account

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.

Chapters 330 and 331 of 2018 altered the manner in which GMVRA revenues are shared with local governments, beginning in fiscal 2020. Instead of directly sharing the revenue with local governments, the Acts require 100% of the funds in GMVRA to be retained by TTF and distributed to local governments through capital transportation grants. This change allows MDOT to issue bonds backed by the GMVRA revenues that are ultimately issued to local governments; MDOT was unable to do so prior to the enactment of Chapters 330 and 331.

Chapters 330 and 331 also increased the local government share of GMVRA revenues from fiscal 2020 through 2024. **Exhibit 2** shows the effect of Chapters 330 and 331 on the local share of GMVRA revenues beginning in fiscal 2020. Beginning in fiscal 2025, the percentage of revenues provided to local governments is set to revert back to the totals in place before the enactment of Chapters 330 and 331; however, the revenues must continue to be distributed as capital transportation grants.

Exhibit 2
Distribution of Highway User Revenues
Effect of Chapters 330 and 331 of 2018

	<u>Prior to FY 2020</u>	<u>FY 2020-2024</u>	<u>Beginning in FY 2025</u>
MDOT	90.4%	86.5%	90.4%
Baltimore City	7.7%	8.3%	7.7%
Counties	1.5%	3.2%	1.5%
Municipalities	0.4%	2.0%	0.4%

MDOT: Maryland Department of Transportation

Source: Department of Legislative Services

Corporate Income Tax Revenue Distributions

A corporate income tax rate of 8.25% is applied to a corporation's Maryland taxable income. State law requires revenues from the corporate income tax to be distributed in the following manner:

- First, the Comptroller must distribute the amount necessary to pay refunds relating to income tax from corporations to the income tax refund account.
- Second, of the remaining tax revenue, the Comptroller must distribute (1) 6.0% to the Higher Education Investment Fund and (2) 9.15% to the general fund.
- Third, the Comptroller must distribute 17.2% of the remaining tax revenue to a special fund. From this special fund, the Comptroller must first distribute revenues to an administrative cost account equal to 17.2% of the cost to administer the income tax on corporations (in practice, this has been approximately 0.73% of the revenues each year) and then distribute the remainder to GMVRA.
- Finally, all remaining tax revenue must be distributed to the general fund.

State Fiscal Effect: Under various assumptions concerning future year corporate income tax revenues and related administrative costs, the bill's changes to the distribution of corporate income tax revenues decrease general fund revenues and increase TTF revenues (within GMVRA) as well as special fund revenues for the Comptroller's administrative cost account. Specifically, from fiscal 2024 through 2027, (1) general fund revenues decrease by approximately \$325.8 million; (2) TTF revenues (within GMVRA) increase by approximately \$320.4 million; and (3) special fund revenues for the Comptroller's administrative cost account increase by approximately \$5.3 million. The annual revenue impact is shown below in **Exhibit 3**. TTF expenditures increase correspondingly to the increase in TTF revenues as GMRA funds are disbursed to local governments under the requirements of the bill.

Exhibit 3
Effect of the Bill on Revenues
Fiscal 2024 through 2027
(\$ in Millions)

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
General Fund	(\$52.1)	(\$72.8)	(\$97.3)	(\$103.6)
TTF (within GMVRA)	51.2	71.6	95.7	101.9
Admin. Cost Account	0.8	1.2	1.6	1.7
Net Effect	\$0	\$0	\$0	\$0

GMVRA: Gasoline and Motor Vehicle Revenue Account

TTF: Transportation Trust Fund

Note: Totals may not sum due to rounding

Source: Department of Legislative Services

As noted above, MDOT must provide capital grants based on certain percentages of the funds within GMVRA to local governments, and the bill modifies the percentages used in calculating the capital grants in order to increase the local share of highway user revenues. However, the amount MDOT must redirect in its capital program to account for the increase in capital grants to local governments is not equal to the increase in capital grants (discussed in more detail in the following section) because MDOT also receives a portion of GMVRA revenues, which are significantly increased as a result of the bill's changes. Relative to current law, and under these same assumptions, MDOT must redirect \$657,451 in fiscal 2024, \$118.6 million in fiscal 2025, \$145.8 million in fiscal 2026, and \$143.7 million in fiscal 2027 (totaling \$408.8 million over the five-year period addressed in this fiscal and policy note).

Additionally, the CTP for fiscal 2022 through 2027 already assumes increased capital grants for local governments beginning in fiscal 2025 that are consistent with the distribution described above in the Current Law section for fiscal 2020 through 2024. As such, since MDOT has already partially modified its capital program to increase the local capital grants beginning in fiscal 2025, MDOT is only required to redirect \$657,451 in fiscal 2024, \$36.3 million in fiscal 2025, \$62.4 million in fiscal 2026, and \$59.2 million in fiscal 2027 (totaling \$158.6 million over the five-year period addressed in this fiscal and policy note) from other projects due to the bill's changes.

This estimate does not reflect any additional (1) bond revenues that MDOT may receive from additional capacity to issue debt as a result of the \$320.4 million increase in TTF revenues it receives over the five-year period addressed in this fiscal and policy note or (2) expenditures associated with any debt service payments relating to the issuance of such bonds.

Local Fiscal Effect: Over the five-year period addressed in this fiscal and policy note, relative to current law, local jurisdictions’ highway user revenues increase by an estimated \$51.9 million in fiscal 2024, \$190.3 million in fiscal 2025, \$241.5 million in fiscal 2026, and \$245.6 million in fiscal 2027. The distribution of the increase among Baltimore City, the counties, and municipalities is shown in **Exhibit 4**.

Exhibit 4
Projected Increase in Local Distribution of Highway User Revenues
Fiscal 2024-2027
(\$ in Millions)

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
Baltimore City	\$30.0	\$77.6	\$107.9	\$109.9
Counties	12.3	62.2	75.1	76.4
Municipalities	9.6	50.5	58.5	59.4
Total	\$51.9	\$190.3	\$241.5	\$245.6

Note: Totals may not sum due to rounding.

Source: Department of Legislative Services

Exhibit 5 shows the *increase* in highway user revenues distributed to localities and the *total* amount of highway user revenues distributed to localities for fiscal 2023 through 2027 under the bill (by county), relative to current law.

Exhibit 5
Local Government Increase and Total – Highway User Revenues
Fiscal 2023-2027
(\$ in Millions)

	FY 2023		FY 2024		FY 2025		FY 2026		FY 2027	
	<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	\$0.0	\$3.0	\$0.7	\$3.7	\$3.4	\$4.3	\$4.0	\$4.9	\$4.0	\$5.0
Anne Arundel	0.0	8.7	1.7	10.6	8.8	12.5	10.5	14.3	10.7	14.5
Baltimore City	0.0	170.0	30.0	203.5	77.6	240.2	107.9	272.5	109.9	276.6
Baltimore	0.0	9.6	1.8	11.6	9.1	13.8	11.0	15.7	11.2	16.0
Calvert	0.0	2.0	0.4	2.5	2.1	2.9	2.5	3.3	2.5	3.4
Caroline	0.0	1.7	0.4	2.1	1.8	2.4	2.2	2.8	2.2	2.8
Carroll	0.0	5.0	1.1	6.2	5.4	7.2	6.4	8.2	6.5	8.3
Cecil	0.0	2.7	0.6	3.3	2.9	3.9	3.5	4.5	3.5	4.5
Charles	0.0	3.0	0.6	3.7	3.1	4.4	3.7	5.0	3.7	5.1
Dorchester	0.0	1.9	0.4	2.4	2.1	2.8	2.5	3.2	2.5	3.2
Frederick	0.0	8.1	1.7	10.0	9.1	11.6	10.6	13.3	10.8	13.5
Garrett	0.0	1.9	0.4	2.3	1.9	2.7	2.3	3.1	2.4	3.1
Harford	0.0	5.2	1.1	6.4	5.5	7.5	6.6	8.6	6.7	8.7
Howard	0.0	3.9	0.7	4.7	3.7	5.5	4.4	6.3	4.5	6.4
Kent	0.0	1.0	0.2	1.2	1.0	1.4	1.2	1.6	1.2	1.6
Montgomery	0.0	15.3	3.2	18.8	16.4	22.0	19.4	25.1	19.7	25.5
Prince George's	0.0	15.7	3.3	19.3	17.3	22.5	20.3	25.6	20.7	26.0
Queen Anne's	0.0	1.6	0.3	1.9	1.6	2.3	1.9	2.6	1.9	2.6
Somerset	0.0	1.0	0.2	1.2	1.0	1.4	1.2	1.6	1.2	1.6
St. Mary's	0.0	2.1	0.4	2.6	2.1	3.0	2.5	3.5	2.5	3.5
Talbot	0.0	1.9	0.4	2.4	2.2	2.8	2.5	3.2	2.6	3.2
Washington	0.0	4.6	1.0	5.7	5.1	6.6	6.0	7.6	6.1	7.7
Wicomico	0.0	3.8	0.8	4.7	4.3	5.5	5.0	6.2	5.1	6.3
Worcester	0.0	2.5	0.5	3.1	2.8	3.7	3.3	4.2	3.3	4.2
Total	\$0.0	\$276.5	\$51.9	\$334.1	\$190.3	\$393.0	\$241.5	\$446.7	\$245.6	\$453.5

Notes: Totals may not sum due to rounding. Estimate assumes that highway road miles and vehicle registrations in fiscal 2023 remain constant through fiscal 2027.

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Designated Cross File: HB 1187 (Delegate Anderton, *et al.*) - Environment and Transportation.

Information Source(s): Maryland Department of Transportation; Comptroller's Office; Maryland Association of Counties; Charles, Frederick, and Montgomery counties; Maryland Municipal League; City of Havre de Grace; Department of Legislative Services

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Analysis by: Richard L. Duncan

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