

Department of Legislative Services
 Maryland General Assembly
 2024 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1025 (Delegate M. Morgan, *et al.*)
 Ways and Means and Environment and
 Transportation

**Transportation - Motor Fuel Tax Rates, Vehicle-Miles-Traveled Tax, and
 Farebox Recovery Requirement (Transportation Equity, Fairness, and Privacy
 Act of 2024)**

This bill (1) repeals, beginning in fiscal 2025, future increases in specified motor fuel tax rates based on annual growth in the Consumer Price Index (CPI); (2) prohibits the State or a local jurisdiction from imposing or levying a vehicle-miles-traveled tax or other similar fee, toll, or tax; and (3) requires the Maryland Transit Administration (MTA) to recover at least 35% of total operating costs for specified services through farebox revenues by fiscal 2029. The minimum farebox recovery requirement is phased in over five fiscal years (15% for fiscal 2025, 20% for fiscal 2026, 25% for fiscal 2027, and 30% for fiscal 2028). **The bill takes effect June 1, 2024.**

Fiscal Summary

State Effect: No effect in FY 2024. Transportation Trust Fund (TTF) revenues increase by a net of \$15.2 million in FY 2025. Future years reflect projected fuel consumption, inflation, and phased increases in the minimum farebox recovery ratio. Expenditures are not directly affected.

(\$ in millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
SF Revenue	\$15.2	\$25.4	\$38.8	\$52.1	\$65.2
Expenditure	0	0	0	0	0
Net Effect	\$15.2	\$25.4	\$38.8	\$52.1	\$65.2

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

Local Effect: None. The bill’s prohibition on the imposition or levying of a vehicle-miles-traveled tax or similar fee, toll, or tax is not expected to affect local finances.

Small Business Effect: Minimal.

Analysis

Bill Summary: The State or a local jurisdiction may not directly or indirectly, including through a third-party agreement or as part of a pilot program or study, impose or levy a vehicle-miles-traveled tax, a mileage-based user fee, a toll based on global positioning satellite tracking, or any other similar form of tax. The bill may not be construed to prohibit the Comptroller from entering into reciprocal interstate agreements relating to the fuel use taxation, registration, and reporting by motor carriers subject to the motor carrier tax. The bill further specifies that the State or a local jurisdiction may not require the installation of a device in or on a privately owned vehicle to facilitate the reporting of vehicle miles traveled.

By fiscal 2029, MTA must recover from fares and other operating revenues at least 35% of the total operating costs for bus, light rail, and Metro subway services in the Baltimore region and all passenger railroad services under MTA control. By July 1 annually, MTA must set fare prices in an amount sufficient to achieve the bill's farebox recovery requirements. Any increase in fare prices by the minimum amount necessary under the bill is not subject to public hearing requirements.

Current Law:

Indexing of Motor Fuel Tax Rates to Consumer Price Index

Pursuant to the Transportation Infrastructure Investment Act of 2013 (Chapter 429), motor fuel tax rates for all motor fuels except aviation and turbine fuel are indexed to the annual change in the CPI. By June 1 annually, the Comptroller must determine and announce the growth in the CPI for all urban consumers and the motor fuel tax rates effective for the fiscal year beginning the following July 1.

The rate increase is equal to the percentage growth in the CPI multiplied by the motor fuel tax rates in effect for the previous fiscal year, rounded to the nearest one-tenth of one cent. The percentage growth in the CPI is determined by averaging the CPI for the 12 months preceding April 30 to the average index for the prior 12 months. If there is a decline or no growth in the CPI, the motor fuel tax rates remain unchanged. Any increase in the motor fuel tax rates may not exceed 8% of the tax rates in effect for the previous year.

A floor tax is imposed on any person possessing tax-paid motor fuel for sale at the start of business on the date of an increase in the motor fuel tax rate. Such persons must compile and file an inventory held at the close of business on the immediately preceding date and remit within 30 days any additional tax due.

The revenue generated as a result of the CPI component of the motor fuel tax rates is distributed to TTF and retained by the Maryland Department of Transportation (MDOT). As of July 1, 2023, the cumulative CPI component accounts for 7.5 cents of the motor fuel tax rates for (1) gasoline and clean burning fuel and (2) special fuel and diesel, for which the combined applicable motor fuel tax rate per gallon is equal to 47.00 cents and 47.75 cents, respectively.

In addition to indexing specified motor fuel tax rates to inflation, Chapter 429 imposed a 5% sales and use tax equivalent rate on all motor fuels except aviation and turbine fuel; the rate was phased in over fiscal 2014 to 2017. As of July 1, 2023, the sales and use tax equivalent rate accounts for 16.00 cents of the combined applicable motor fuel tax rates for gasoline and clean burning fuel and special fuel and diesel.

Transit Farebox Recovery

Prior to fiscal 2018, MTA was required to recover from fares and other operating revenues at least 35% of total operating costs for bus, light rail, and Metro subway services in the Baltimore region and all passenger railroad services under MTA control. State law further required MTA to set fare prices and collect other operating revenues in an amount sufficient to achieve this farebox recovery requirement and prohibited MTA from reducing services in order to meet the requirement.

Chapters 16 and 24 of 2017 repealed the minimum farebox recovery requirement. MDOT advises that, prior to the legislation, MTA had not been meeting farebox recovery requirements for many years. Chapters 16 and 24 left in place a requirement that MTA annually report to specified standing committees on farebox recovery ratios for the prior fiscal year compared to farebox recovery ratios for other similar transit systems nationwide. As shown in MTA's [most recent report](#), in fiscal 2022, farebox recovery rates for MTA bus, light rail, heavy rail (subway), and commuter rail operating costs were 7%, 6%, 8%, and 8%, respectively.

Chapters 483 and 484 of 2023 repealed a requirement that MTA increase base fare prices every two years or, for specified services, every five years based on the increase in the CPI. Under current law, MTA may not fix or revise any fare or rate charged the general public until a public hearing is held on the matter.

State Revenues: As discussed above, the bill prohibits future inflation adjustments to specified motor fuel tax rates and requires MTA to meet specified minimum farebox recovery requirements beginning in fiscal 2025.

Pursuant to existing law, MTA may not reduce services in order to achieve the minimum farebox recovery requirements established by the bill. Thus, MTA fare revenues increase

beginning in fiscal 2025 as MTA increases fare prices to meet the bill’s requirements. Such revenues are offset by decreased motor fuel tax revenues due to the bill’s motor fuel tax provisions. As noted above, revenue generated from the CPI component of the motor fuel tax rates is distributed to TTF and retained by MDOT.

Exhibit 1 displays the bill’s estimated effect on TTF revenues in fiscal 2025 through 2029. As shown in the exhibit, in fiscal 2025, motor fuel tax revenues decrease by an estimated \$30.2 million, and MTA fare revenues increase by an estimated \$45.4 million, resulting in a net revenue increase of \$15.2 million. Future years reflect projected inflation and motor fuel use and phased increases in the minimum farebox recovery ratio.

Exhibit 1
Projected Transportation Trust Fund Revenue Effects
Fiscal 2025-2029
(\$ in Millions)

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
Motor Fuel Tax	(\$30.2)	(\$54.3)	(\$75.3)	(\$96.4)	(\$117.6)
MTA Fares	45.4	79.7	114.1	148.5	182.8
Net TTF Revenues	\$15.2	\$25.4	\$38.8	\$52.1	\$65.2

MTA: Maryland Transit Administration
TTF: Transportation Trust Fund

Note: Numbers may not sum to total due to rounding.

Source: Maryland Department of Transportation; Department of Legislative Services

This estimate does not account for any decrease in transit ridership as a result of fare increases necessitated by the bill’s farebox recovery requirements. Actual revenues under the bill may differ significantly from the above estimate depending on the effect of fare increases on transit ridership as well as actual MTA operating expenses.

The bill’s prohibition on the imposition or levying of a vehicle-miles-traveled tax or similar fee, toll, or tax is not expected to affect State finances.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: SB 841 (Senator Ready, *et al.*) - Budget and Taxation.

Information Source(s): Maryland Department of Transportation; Comptroller's Office; Baltimore, Carroll, Harford, Queen Anne's, and St. Mary's counties; Maryland Municipal League; Department of Legislative Services

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