HB 1034

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 1034 (Delegate C. Davis)
Ways and Means

Transportation Funding

This bill increases the State's sales and use tax from 5% to 6% and dedicates one-sixth of the remaining revenue after distributions to the Gasoline and Motor Vehicle Revenue Account (GMVRA) of the Transportation Trust Fund (TTF). The sales and use tax on short-term vehicle rentals is increased from 11.5% to 12.5%. The bill also increases motor fuel taxes as follows: (1) from 23.5 cents to 28.5 cents per gallon of gasoline; (2) from 24.25 cents to 29.25 cents per gallon of special fuel; and (3) from 23.5 cents to 28.5 cents per gasoline-equivalent gallon of clean burning fuel. Further, the bill increases annual registration fees from $27 to $32 for Class A vehicles of 3,700 pounds or less and from $40.50 to $45.50 for Class A vehicles over 3,700 pounds.

Fiscal Summary

State Effect: TTF revenues would increase by $414.6 million in FY 2000. General fund revenues would increase by $1.4 million in FY 2000. Future years reflect projected growth. General fund expenditure increase of $64,000 in FY 1999 only. Potential indeterminate increase in TTF expenditures for computer programming. Estimates are exclusive of bond proceeds and related debt service expenditures.

(in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	$1.4	$1.5	$1.5	$1.6	$1.6
SF Revenues	414.6	435.4	450.7	466.9	486.4
SF Expenditures	-	0	0	0	0
Net Effect	$416.0	$436.9	$452.2	$468.5	$488.0

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

Local Effect: Revenues would increase by an estimated $177.6 million in FY 2000.

Small Business Effect: Meaningful.

Fiscal Analysis

Background: The Maryland Department of Transportation (MDOT) shares a portion of TTF revenues with local jurisdictions by way of the GMVRA. The GMVRA consists of portions of the gas, titling, and corporate income taxes, and registration fees. The funds in this account are distributed 70% to the TTF for use by MDOT and 30% to local jurisdictions to assist in the development and maintenance of local transportation projects. The local distribution is split with Baltimore City receiving the greater of $157,500,000 or 11.5% and the remainder distributed to the 23 counties and then shared with municipal corporations within each county. Distributions to the local jurisdictions are based on their proportion of motor vehicle registrations and county road miles.

State Revenues:

Sales and Use Tax

Increasing the sales tax from 5% to 6% could generate an additional $458.6 million in revenues in fiscal 2000. The additional revenue would be credited to the GMVRA which is distributed 70% to the TTF and 30% to local jurisdictions. The following exhibit details the projected distribution of the increase in revenue generated by the increase in the sales and use tax. Estimates are exclusive of the anticipated amount of tax revenue businesses retain for collecting the State sales tax to cover administrative costs. Future year revenues assume a 4% growth rate.

Projected Distribution of Sales Tax Increase

(in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
TTF	$321.0	$333.2	$347.3	$362.4	$380.7
Local Jurisdictions	$137.6	$142.8	$148.8	$155.3	$163.2
GMVRA Total	**$458.6**	**$476.0**	**$496.1**	**$517.7**	**$543.9**

Short-Term Rental Vehicles

The bill increases the sales and use tax on short-term vehicle rentals from 11.5% to 12.5%. Chapter 706 of 1998 altered the distribution of the proceeds of the sales tax on short-term rental vehicles. As of July 1, 1999, the TTF will receive 45% of these revenues. Therefore, increasing the tax on such rentals will increase both TTF and general fund revenues. It is expected that total TTF revenues would increase by about $1.2 million over the expected increase under current law. However, 80% of TTF revenues from the sales tax on short-term vehicle rentals is credited to the GMVRA. Accordingly, the TTF would retain $877,600 and locals would receive $277,100 in fiscal 2000. General fund revenues would increase by $1.4 million in fiscal 2000. Future years reflect an assumed 3.5% growth in sales.

Projected Distribution of Short-Term Vehicle Rental Sales Tax Revenue

(in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
TTF	$0.9	$0.9	$0.9	$1.0	$1.0
Local Jurisdictions	$0.3	$0.3	$0.3	$0.3	$0.3
General Fund	$1.4	$1.5	$1.5	$1.6	$1.6
Total	**$2.6**	**$2.7**	**$2.7**	**$2.9**	**$2.9**

Motor Fuel Tax

The bill increases motor fuel taxes as follows: (1) from 23.5 cents to 28.5 cents per gallon of gasoline; (2) from 24.25 cents to 29.25 cents per gallon of special fuel; and (3) from 23.5 cents to 28.5 cents per gasoline-equivalent gallon of clean burning fuel. These increases are estimated to generate an average of $135 million per year for the GMVRA. In fiscal 2000 the increase is estimated to be $121.7 million because motor fuel taxes are due 30 days after the end of the month. Accordingly, the estimate reflects a one-month lag in revenue collection. The estimates are based on annual sales of 2.27 billion gallons of gasoline and clean-fuels and 380 million gallons of special fuels.

A portion of this increase is attributed to motor carrier tax revenues. Interstate operators of commercial motor vehicles in Maryland are subject to a road use tax in each jurisdiction under the International Fuel Tax Agreement (IFTA). Maryland's tax is based on the tax due on fuel used in Maryland minus a refund received for fuel purchased in Maryland. Therefore, an increase in the special fuel tax rate will increase motor carrier tax revenues. Based on revenue collected under IFTA in fiscal 1998, it is estimated that motor carrier revenues will increase by $1.4 million in fiscal 2000. Individual trip permits may be purchased by commercial vehicle owners to operate the vehicle for a limited time period in the State without registering, reporting, or paying the motor carrier tax under IFTA. The permit fee is tied to the special fuel tax. Accordingly, increasing the special fuel tax rate as under the bill will increase the permit fee from $42 to $51. Approximately 2,200 permits are purchased annually, creating an increase in revenue of $19,800.

Refunds for the motor fuel tax are allowed for certain uses such as non-highway uses related to agriculture, non-profit transportation, and public transportation, among other uses. Approximately 27.9 million gallons of gasoline and special fuel is subject to the refund. This would decrease the projected revenue gain by about $1.3 million in fiscal 2000.

Projected Distribution of Motor Fuel Tax Increase

(in millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
Gas & Clean Fuels	$104.3	$114.6	$115.8	$116.9	$118.1
Special Fuels	$17.3	$19.2	$19.4	$19.6	$19.8
IFTA Taxes	$1.4	$1.5	$1.5	$1.6	$1.6
Permit Fees	$0.02	$0.02	$0.02	$0.02	$0.02
Refunds	($1.3)	($1.4)	($1.4)	($1.5)	($1.5)
GMVRA Total	**$121.7**	**$133.9**	**$135.3**	**$136.6**	**$138.0**
TTF	$85.2	$93.7	$94.7	$95.6	$96.6
Local Distribution	$36.5	$40.2	$40.6	$41.0	$41.4

As shown in the above exhibit, revenues associated with the motor fuel tax and motor carrier tax are shared between the local jurisdictions and the TTF. Out-years reflect 1% annual growth.

Vehicle Registration Fees

The bill increases annual registration fees from $27 to $32 for Class A vehicles of 3,700 pounds or less and from $40.50 to $45.50 for Class A vehicles over 3,700 pounds. Revenues from registration fees are credited to the GMVRA. There are approximately 1.4 million registrations involving Class A vehicles annually. In fiscal 2000, the increase in the fee is expected to generate a total of $10.7 million. A growth rate of 2% is assumed.

Projected Distribution of Registration Fee Increase

(in million)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
TTF	$7.5	$7.6	$7.8	$7.9	$8.1
Local Jurisdictions	$3.2	$3.3	$3.3	$3.4	$3.5
GMVRA Total	$10.7	$10.9	$11.1	$11.3	$11.6

State Expenditures: The Office of the Comptroller would incur $64,000 in expenditures to notify vendors of the sales and use tax rate change. This notification is expected to occur prior to the effective date of the bill. The expenses account for postage costs to 100,000 accounts registered for the sales and use tax and other notification costs.

The Motor Vehicle Administration (MVA) advises that computer programming expenditures could increase by an indeterminate amount to modify the computer programs to reflect the increased registration fee. The Department of Legislative Services (DLS) advises that if other legislation is passed requiring computer reprogramming changes, economies of scale could be realized. This would reduce computer programming costs associated with this bill and other legislation affecting the MVA system.

Local Revenues: As noted above, local jurisdictions will receive a significant increase in funding to assist in the development and maintenance of local transportation projects. In fiscal 2000, it is expected that local jurisdictions will receive about $177.6 million. Local revenue increases would reach $208.4 million in fiscal 2004. The following exhibit details the average annual increase in revenue that would be distributed to each jurisdiction.

Projected Average Annual Distribution of Revenue Increase

County	Average Annual Amount (in millions)
Allegany	$3.5
Anne Arundel	13.4
Baltimore County	19.3
Calvert	2.5
Caroline	2.2
Carroll	6.0
Cecil	3.4
Charles	4.0
Dorchester	2.6
Frederick	7.7
Garrett	2.9
Harford	6.9
Howard	6.8
Kent	1.3
Montgomery	19.7
Prince George's	17.1
Queen Anne's	2.4
St. Mary's	3.1
Somerset	1.5
Talbot	2.0
Washington	5.2
Wicomico	4.0
Worcester	3.0
Baltimore City	54.4
	$194.9

Small Business Effect: Small businesses that are heavily reliant upon motor vehicle transportation to deliver their services, such as shipping, courier, and taxi services, will experience a meaningful impact on their expenditures due to the increase in the motor fuel tax. Fuel costs represent a comparatively large proportion of such companies' expenditures. Such businesses will be disproportionately affected by a fuel tax increase in comparison to other businesses.

Increasing the State sales tax by 1 percentage point would increase the cost of purchasing products, thus slightly reducing overall commercial activity and revenues received by businesses. However, any such revenue decrease may be partially or fully offset by an increase in the amount of tax revenue businesses retain for collecting the State sales tax.

Additional Comments: Due to the increase in revenues, MDOT's bonding capacity would increase significantly. MDOT leverages revenues dedicated to the TTF by issuing 15-year Consolidated Transportation Bonds. The issuance of debt is limited by a cap on the maximum debt outstanding and certain debt service coverage tests. Proceeds from the issuance of debt and the related debt service expenditures are expected to significantly increase under the bill's provisions, subject to the $1.2 billion debt limit prescribed by statute. Expected debt outstanding for fiscal 2000 is about $965,000. Debt service is payable solely from the trust fund. Total debt service payments are approximately 150% of the bond indebtedness over the life of the bond.

Information Source(s): Comptroller's Office, Maryland Department of Transportation, Department of Legislative Services

Fiscal Note History: First Reader - March 22, 1999
lnc/jr

Analysis by: Jody J. Minnich

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510