

Department of Legislative Services
 Maryland General Assembly
 2000 Session

FISCAL NOTE

House Bill 156 (Delegate Hixson)

Ways and Means

Motor Fuel Tax - Tax Rate - Inflationary Adjustment

This bill links the motor fuel tax rates, except for aviation fuel, to the consumer price index for motor fuel, beginning in fiscal 2003. An increase in the consumer price index versus the prior year would result in a corresponding increase in the motor fuel tax rate. If the index decreased, the rate would remain the same.

This bill takes effect July 1, 2000.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues would increase by \$15.5 million in FY 2003 due to higher motor fuel prices, growing in the out-years based on the growth in motor fuel prices.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
SF Revenues	\$0.0	\$0.0	\$15.5	\$36.6	\$63.0
SF Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	\$0.0	\$0.0	\$15.5	\$36.6	\$63.0

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

Local Effect: Increase in local highway funds of \$6.7 million in FY 2003 as a result of increased motor fuel tax rates.

Small Business Effect: Meaningful.

Analysis

Bill Summary: This bill alters the motor fuel tax rate so that beginning July 1, 2002, the rate for each type of motor fuel, other than aviation gasoline and turbine fuel, will be increased annually by an amount determined by multiplying the prior rate by the percentage increase of the motor fuel component of the U.S. consumer price index for urban consumers (CPI-U) for the most recent 12-month period as determined on October 1 of the preceding calendar year by the Bureau of Labor Statistics of the U.S. Department of Labor. If any amount computed under this provision is less than or equal to the motor fuel tax rate set for that fuel for the preceding fiscal year, the motor fuel tax rate for that fuel shall remain at the rate set for the preceding fiscal year. The new rate is rounded down to the nearest one-quarter of a cent.

Current Law: The current motor fuel tax rate for gasoline is 23.5 cents per gallon and 24.25 cents for special fuel. There is no factor to adjust the motor fuel tax rates for inflation.

Background:

History of Maryland Motor Fuel Tax Rate

Periodically, the statute is revised to increase the motor fuel tax rates. **Exhibit 1** summarizes the legislative changes to the rate for gasoline.

Exhibit 1 History of Gasoline Tax Increases

<u>Year</u>	<u>New Rate</u>	<u>Year</u>	<u>New Rate</u>
1922	1 cent per gallon	1964	7 cents
1924	2 cents	1969	9 cents
1927	4 cents	1982	11 cents
1947	5 cents	1983	13.5 cents
1953	6 cents	1987	18.5 cents
		1992	23.5 cents

Other States

The International Fuel Tax Agreement (IFTA), to which all the states and the District of

Columbia are parties, requires that the states express their motor fuel taxes in cents per gallon. Among the states, the tax rate for gasoline ranges from a low of 7.5 cents per gallon (Georgia) to a high of 32 cents per gallon (Connecticut). The federal tax is 18.3 cents per gallon in addition to the applicable state tax.

According to the Federation of Tax Administrators, ten states have variable tax rates that are subject to periodic adjustments depending on current market conditions and state revenue needs. Four of these states impose a tax based on the average wholesale price, with the gallonage rate adjusted periodically according to the average price. The actual tax rates are 9% in Kentucky, 10% in Massachusetts, 13% in Rhode Island, and 17 cents per gallon plus 7% in North Carolina. The current rates are at the statutory minimum amounts in Massachusetts and Rhode Island. Meanwhile, the tax rates in Delaware, Michigan, Nebraska, Ohio, and Wisconsin are adjusted annually based on a formula taking into account highway maintenance costs, the volume of sales, or wholesale fuel prices.

Impact of Price Volatility

Under the bill, the motor fuel tax rates would increase depending on the increase in the CPI-U for motor fuel from year to year. Motor fuel, however, is a commodity that is subject to wide swings in price based on worldwide supply and demand. **Exhibit 2** illustrates the volatility of the CPI-U for motor fuel from 1989 to 1999.

Exhibit 2
HB 156 - Motor Fuel Tax Inflationary Adjustment
Hypothetical Application to 1989-1999

<u>Year</u>	<u>Prior Year CPI</u>	<u>Current Year CPI</u>	<u>CPI Change</u>	<u>Actual Gas Tax Rate</u>	<u>Hypo. Gas Tax Rate</u>
1989	n/a	88.8	n/a	18.50	18.50
1990	88.8	112.0	26.1%	18.50	23.25
1991	112.0	99.8	-10.9%	18.50	23.25
1992	99.8	101.7	1.9%	23.50	23.50
1993	101.7	96.1	-5.5%	23.50	23.50
1994	96.1	103.7	7.9%	23.50	25.25
1995	103.7	99.8	-3.8%	23.50	25.25
1996	99.8	106.2	6.4%	23.50	26.75
1997	106.2	109.3	2.9%	23.50	27.50
1998	109.3	90.0	-17.7%	23.50	27.50
1999	90.0	110.3	22.6%	23.50	33.50

Because the provisions of HB 156 allow motor fuel taxes to rise during periods of inflation, but not to decrease during periods of deflation, there will be a general upward trend in the fuel tax rates. The greater the volatility in the CPI-U, the higher the upward trend in rates.

Exhibit 2 also illustrates the hypothetical impact on the gasoline tax rate from 1990 to 1999 if HB 156 had been in place during that period.

State Revenues: The CPI-U for motor fuel is forecast to increase by approximately 5% per year over the next five years. This 5% growth, however, could manifest itself in any number of patterns; for example, as a large increase one year followed by a smaller decrease the following year. The pattern of such increases will determine the actual impact on the motor fuel tax rates. As noted above, greater volatility will result in a larger net increase in the tax rates. For the purposes of estimating the fiscal impact, Legislative Services assumes a consistent year-on-year increase of approximately 5% through fiscal 2005, based on the forecast by Regional Financial Associates, Inc., a private economic forecasting company.

Exhibit 3 illustrates the fiscal impact on the gasoline tax, the largest motor fuel tax. By fiscal 2005, the tax rate would be 26.5 cents per gallon, versus the current rate of 23.5 cents, resulting in additional revenue of \$75.2 million in fiscal 2005.

Exhibit 3
HB 156 - Motor Fuel Tax Rate - Inflationary Adjustment
Example - Gas Tax

	Gallons Sold (forecast) (millions)	Current Tax Rate (Cents)	Current Forecast Tax Rev. (\$ millions)	CPI-U (Forecast)	Adjusted Tax Rate (Cents)	Proposed Tax Revenue (\$ millions)	Revenue Increase (\$ millions)
FY 01	23.2	23.50	\$544.1	--	23.50	\$544.1	--
FY 02	23.6	23.50	544.9	--	23.50	554.9	--
FY 03	24.1	23.50	566.0	1.0497	24.25	584.1	18.1
FY 04	24.6	23.50	577.4	1.0497	25.25	620.3	43.0
FY 05	25.1	23.50	588.9	1.0511	26.50	644.1	75.2

Exhibit 4 illustrates the impact on all the various motor fuel tax rates.

Exhibit 4
HB 156 - Motor Fuel Tax Inflationary Adjustment - Impact on Rates
(cents per gallon)

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Rates - cents per gallon					
Gas	23.50	23.50	24.25	25.25	26.50
Diesel	24.25	24.25	25.25	26.50	27.75
Clean-Burning	23.50	23.50	24.25	25.25	26.50

Total revenues will increase by \$22.1 million beginning in fiscal 2003, increasing to \$90.0 million in fiscal 2005 based on the increase in the tax rates, as illustrated in **Exhibit 5**.

Exhibit 5
Projected Increase in Motor Fuel Tax Revenues Under HB 156
(\$ in millions)

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Gas	\$0	\$0	\$18.1	\$43.0	\$75.2
Diesel	0	0	4.1	9.3	14.8
Total	\$0	\$0	\$22.1	\$52.3	\$90.0

Numbers may not total due to rounding.

This estimate uses the Board of Revenue Estimates' official forecast of motor fuel tax revenues for fiscal 2001. Projections for subsequent year growth under current law assume 2% growth in volume and no change in the tax rate. No sales of clean-burning fuels is assumed. No adjustment for behavior changes is assumed.

Revenues from motor vehicle fuel taxes (except for aviation fuel taxes), less certain deductions, are deposited in the Gasoline and Motor Vehicle Revenue Account (GMVRA). Thirty percent of the GMVRA's revenues are distributed to local governments; the remaining 70% are deposited in the TTF. All net collections from aviation fuel taxes are deposited in the TTF.

Exhibit 6 illustrates the distribution of revenue under the bill.

Exhibit 6
Distribution of Change Under HB 156
(\$ in millions)

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
TTF	0	0	15.5	36.6	63.0
Locals	\$0	\$0	\$6.6	\$15.7	\$27.0
Total	\$0	\$0	\$22.1	\$52.3	\$90.0

Local Revenues: Local revenues will increase by \$6.6 million beginning in fiscal 2003, based on receipt of 30% of the increase tax revenue.

Small Business Effect: Small businesses that consume large quantities of gasoline and other fuels, such a transportation or delivery companies, would experience an increase in costs as a result of this legislation. Small businesses that operate gas stations may experience minor additional administrative expenses to annually re-program gasoline pumps to reflect the new prices.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office (Bureau of Revenue Estimates and Motor Fuel Tax Unit), Maryland Department of Transportation, Federation of Tax Administrators, Department of Legislative Services

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