

Department of Legislative Services
 Maryland General Assembly
 2000 Session

FISCAL NOTE

Senate Bill (Senator Hafer. *et al.*)

Budget and Taxation

Transportation Funding - Mass Transit - Sales and Use Tax

This bill requires the Comptroller to distribute 20% of sales and use tax revenue to a newly-created Mass Transit Account of the Transportation Trust Fund (TTF). The revenue dedication is phased in, so that in fiscal 2001, 2% of the sales and use tax revenue is dedicated to the Mass Transit Account, increasing 2% per year until fully phased-in in fiscal 2010. The Mass Transit Account is to be used only to fund the capital and operating expenses of the Mass Transit Administration, the capital and operating expenses of the Washington Metropolitan Area Transit Authority (WMATA), and local grants to local jurisdictions for mass transit capital and operating expenses.

The bill takes effect July 1, 2000.

Fiscal Summary

State Effect: General fund revenues decrease by \$51.8 million in FY 2001 and revenues to the TTF increase by a corresponding amount, due to the dedication of 2% of sales tax revenue to the Mass Transit Account of the TTF. The shift in revenues increases in the out-years as the amount of the dedication increases by 2% per year.

(in millions)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	(\$51.8)	(\$109.4)	(\$171.2)	(\$240.3)	(\$315.4)
SF Revenues	51.8	109.4	171.2	240.3	315.4
Expenditures	0.0	0.0	0.0	0.0	0.0
Net Effect	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

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

Local Effect: The Gasoline and Motor Vehicle Revenue Account (GMVRA), which provides a portion of its revenues to local jurisdictions, is not directly affected.

Small Business Effect: None.

Analysis

Current Law: Under current law, all sales and use tax collections are paid to the general fund. The only exceptions are: (1) an amount necessary to pay refunds, withheld by the Comptroller; (2) an amount necessary for the Comptroller to administer the sales and use tax; and (3) 45% of the sales and use tax collected on short-term vehicle rentals, which is dedicated to the TTF. The latter is projected to distribute approximately \$17 million of the sales and use tax revenue to the TTF in fiscal 2001.

Background: The TTF is the State's principal transportation funding mechanism. It was created in 1971 to establish a dedicated fund to support the Maryland Department of Transportation (MDOT). All activities of the department are supported by the trust fund, including agency operations and administration, capital construction and maintenance projects, and debt service. A portion of the revenues credited to the trust fund are also shared with local governments and other State agencies. Unexpended funds remaining in the trust fund at the close of each fiscal year are carried over, not reverted to the general fund.

All or part of the following revenues are used to fund the TTF, as illustrated in **Exhibit 1**:

- motor fuel tax revenues, including a 23.5 cents per gallon gasoline tax;
- motor vehicle excise (titling) tax revenues;
- motor vehicle registration, license, and other fees;
- approximately 23% of corporate income tax revenues;
- bus and rail fares;
- fees from the Maryland Port Administration and the Maryland Aviation Administration;
- federal funds;
- bond proceeds; and
- other miscellaneous sources.

Exhibit 1
Sources of TTF Revenues
FY 2001 Allowance
(\$ Millions)

<u>Revenue Source</u>	<u>Revenues (Est.)</u>	<u>Percentage of Total</u>
Motor Fuel	655	23.5%
Titling/Rental Car Tax	565	20.3%
MVA/Registration	302	10.8%
Operating	291	10.4%
Federal Operating/Other	49	1.8%
Federal Capital	643	23.1%
Bonds	175	6.3%
Corporate Income Tax	105	3.8%
Total	\$2780	100.0%

Source: Maryland Department of Transportation, Transportation Trust Fund Forecast, January 2000

By law, a portion of TTF revenues are allocated between the department and the local jurisdictions of the State 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 assist in the development and maintenance of local transportation projects.

State Revenues: Fiscal 2001 sales and use tax general fund revenues are estimated to be approximately \$2.6 billion (after the deductions discussed above). Sales and use tax revenues are forecasted to grow through fiscal 2005 at an annual rate that ranges between 4.2% and 5.2%. For fiscal 2006 through 2010, it is assumed that sales and use tax revenue will grow at a rate of 5.0%.

Dedicating 2% of those revenues to the Mass Transit Account of the TTF would increase TTF revenues by approximately \$52 million in fiscal 2001, with a corresponding decrease in general fund revenues. Under the bill, the amount dedicated increases by 2% per year, until the bill is fully phased-in in fiscal 2010, when 20% of sales and use tax revenue is dedicated to the TTF. At that time, approximately \$805 million of the projected \$4.0 billion in sales and use tax revenue would be dedicated to the TTF, as illustrated in **Exhibit 2**.

Exhibit 2
Maryland Sales and Use Tax Revenues
FYs 1999 - 2010

Thousands \$	2001 Estimate	2002 Estimate	2003 Estimate	2004 Estimate	2005 Estimate
Sales and use tax revenue	\$2,592,375	\$2,735,401	\$2,854,121	\$3,004,189	\$3,154,257
Percentage dedicated to Mass Transit Account	2%	4%	6%	8%	10%
Amount dedicated to Mass Transit Account	\$51,848	\$109,416	\$171,247	\$240,335	\$315,426
Thousands \$	2006 Estimate	2007 Estimate	2008 Estimate	2009 Estimate	2010 Estimate
Sales and use tax revenue	\$3,311,821	\$3,477,256	\$3,650,956	\$3,833,331	\$4,024,818
Percentage dedicated to Mass Transit Account	12%	14%	16%	18%	20%
Amount dedicated to Mass Transit Account	\$397,419	\$486,816	\$584,153	\$690,000	\$804,964

State Expenditures: The fiscal 2001 allowance for transportation spending (both operating and capital) is \$2.1 billion, as illustrated in **Exhibit 3**:

Exhibit 3
Transportation Expenditures by Purpose
FY 2001 Allowance
Total Capital and Operating Funds
\$ in Millions

Mode	Operating	Capital	Total	Share of Total
Mass Transit	\$326.4	\$313.7	\$640.1	30.3%
Highway	176.2	729.0	905.2	42.9%
Motor Vehicle	117.4	29.0	146.4	6.9%
Aviation	72.9	103.3	176.2	8.3%
Port	76.3	95.1	171.4	8.1%
Secretary	56.8	14.9	71.7	3.4%
Total	\$826.0	\$1,285.0	\$2,111.0	100.0%
Local Hwy			\$404.9	

Numbers may not total due to rounding. Mass transit includes WMATA and is net of operating revenue. Includes federal funds.

The Commission on Transportation Investment (CTI), in its recently-completed report,

identified at least \$27 billion in unmet transportation needs (both capital and operating) over the next 20 years, of which \$6.1 billion are mass transit projects.

If the additional \$52 million dedicated revenues in fiscal 2001 were added to existing mass transit funding, then funding for mass transit would account for 32% of all transportation spending, versus the 30% under the fiscal 2001 allowance. The amount directed to mass transit in fiscal 2010, under the bill, would be \$805 million, or \$223 million more than current projected special fund expenditures (including both capital and operating) for mass transit statewide in that year (assuming 5% growth in the out-years).

It is unclear, however, whether the dedicated funds in the Mass Transit Account will result in additional mass transit spending or whether it will result in reduced funding to mass transit from other TTF sources and increased funding to other modes of transportation. Whether mass transit receives a net increase in expenditures as a result of this legislation will depend on the Governor's and the General Assembly's transportation priorities, as expressed in the State budget.

Additional Information

Prior Introductions: None.

Cross File: HB 1 (Delegate Taylor, *et al.*) - Ways and Means.

Information Source(s): Comptroller's Office (Bureau of Revenue Estimates), Department of Legislative Services

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