

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

House Bill 240 (Delegate Amedori, *et al.*)
 Ways and Means

Motor Fuel Tax - Reduction

This bill reduces the motor fuel tax rate for gasoline and clean-burning fuel from 23.5 cents per gallon to 11.75 cents per gallon.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues would decrease by approximately \$197 million, general fund revenues would decrease by approximately \$6.5 million, and special fund revenues to the Waterways Improvement Fund and Fisheries Research and Development Fund would decrease by approximately \$900,000 each in FY 2003. Future year revenue losses reflect projected growth in gallonage. Expenditures would not be directly affected, although capital and operating transportation projects would likely be reduced.

(\$ in millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF Revenue	(\$6.5)	(\$6.5)	(\$6.5)	(\$6.5)	(\$6.5)
SF Revenue	(198.7)	(200.5)	(202.5)	(204.6)	(206.7)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$205.3)	(\$207.0)	(\$209.1)	(\$211.1)	(\$213.2)

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

Local Effect: Local revenues would decrease by approximately \$84 million in FY 2003. Future year revenue losses reflect projected growth in gallonage.

Small Business Effect: Meaningful.

Analysis

Current Law: The current motor fuel tax rate for gasoline and clean-burning fuel is 23.5 cents per gallon.

Background: Motor fuel tax revenues are distributed as follows: after setting aside for refunds and administrative costs, those fuel tax revenues that are attributable to the rate that exceeds 18.5 cents per gallon are distributed to the Gasoline and Motor Vehicle Revenue Account (GMVRA) of the TTF administered by the Maryland Department of Transportation (MDOT). GMVRA consists of portions of the gas, titling, and corporate income taxes, and registration fees.

The remainder of the gas tax revenues are distributed for the following purposes:

- 0.3% to the Waterway Improvement Fund;
- 0.3% to the Fisheries Research and Development Fund;
- 2.3% to the general fund for Chesapeake Bay related programs; and
- the balance to GMVRA which is 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: The anticipated decrease in revenues as a result in the gasoline fuel tax rate is illustrated below.

HB 240 Gas Tax Reduction (\$ in Millions)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
TTF - SF	197.0	198.7	200.8	202.8	204.9
WWIF - SF	0.9	0.9	0.9	0.9	0.9
Fisheries R&D - SF	0.9	0.9	0.9	0.9	0.9
General Fund	6.5	6.5	6.5	6.5	6.5
Locals	84.0	85.2	86	86.9	87.8
Total	289.3	292.2	295.1	298.1	301.0

Future year revenue losses reflect forecasted 1% per year growth in gasoline gallonage.

State Expenditures: Capital and operating projects of MDOT would likely need to be reduced to keep the TTF in balance.

Local Revenues: As noted above, local aid to assist in the development and maintenance of local transportation projects will decrease by approximately \$84 million in fiscal 2003. Future year revenue losses reflect forecasted 1% per year growth in gasoline gallonage.

Small Business Effect: Small businesses that are heavily reliant upon motor vehicle transportation to deliver their services, such as shipping, courier, and taxi services could experience a meaningful impact on their expenditures due to the decrease 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 decrease in comparison to other businesses. This impact assumes that the fuel tax decrease is not offset, partially or completely, by a corresponding increase in the pre-tax price by fuel sellers.

Additional Comments: MDOT advises that gas tax revenues are pledged to the payment of debt service on MDOT's consolidated transportation bonds and that reducing such revenues may: (1) contradict existing State law pledging the revenues; (2) subject the State to potential lawsuits from bondholders; (3) impact the department's bond rating; and (4) lower the debt service coverage ratio reducing the amount of future bonds the department may issue for capital projects.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 7, 2002

lc/jr

Analysis by: Matthew D. Riven

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