

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE

House Bill 1163 (Delegate Franchot)
 Ways and Means

Motor Fuel Tax - Rates

This bill increases the motor fuel tax rates by 10 cents.

The bill takes effect January 1, 2004.

Fiscal Summary

State Effect: State revenues to the Transportation Trust Fund (TTF) could increase by \$139.7 million in FY 2004, increasing to \$282.2 million in FY 2005, reflecting the January 1, 2004 effective date. Special fund revenues dedicated to certain natural resources programs could increase by \$900,000 in FY 2004 and \$1.7 million in FY 2005. General funds dedicated to Chesapeake Bay programs could increase by \$3.3 million FY 2004 and \$6.7 million in FY 2005. Future year revenues reflect projected growth in motor fuel sales, less an adjustment for assumed price elasticity.

(\$ in millions)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
GF Revenue	\$3.3	\$6.7	\$6.8	\$6.8	\$6.9
SF Revenue	140.5	284.0	287.0	290.1	293.1
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$143.9	\$290.7	\$293.8	\$296.9	\$300.0

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

Local Effect: Local highway user revenue sharing from the TTF would increase by approximately \$43.2 million in FY 2004 and \$87.2 million in FY 2005.

Small Business Effect: Meaningful.

Analysis

Bill Summary: The bill increases the motor fuel tax rate for gasoline from 23.5 cents per gallon to 33.5 cents per gallon; for special fuel (diesel) from 24.25 cents per gallon to 34.25 cents per gallon; and for clean burning fuel from 23.5 cents per gasoline-equivalent gallon to 33.5 cents per gasoline-equivalent gallon.

Current Law: See discussion above.

Background: The motor fuel tax rates for gasoline in neighboring jurisdictions are as follows: Delaware (23 cents per gallon), the District of Columbia (20 cents per gallon), Pennsylvania (12 cents per gallon plus an oil franchise tax for an effective rate of 26.6 cents per gallon), Virginia (17.5 cents per gallon plus a local option tax), and West Virginia (25.35 cents per gallon).

State Revenues: The projected impact on State revenues is illustrated in **Exhibit 1**. The fiscal 2004 estimate reflects one-half year of additional revenues based on the January 1, 2004 effective date. The estimate assumes a 1.3% long-term decline in total gasoline sales associated with price elasticity (assuming that the price increase causes consumption to decline as consumers purchase fuel out-of-state, drive less, or eventually switch to more fuel efficient vehicles). To the extent that actual elasticity is higher or lower than that assumed, then estimated overall consumption could be higher or lower accordingly.

Exhibit 1

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Base Motor Fuel Revenues	727.0	734.1	741.3	748.6	755.9
Tax Increase	301.2	304.1	307.1	310.1	313.2
Total Tax Receipts	1,028.1	1,038.3	1,048.4	1,058.7	1,069.1
Less Elasticity	13.5	13.5	13.3	13.2	13.2
Total Net Tax Receipts	143.9	290.7	293.8	296.9	300.0
Special Fund Distributions					
Transportation Trust Fund	139.7	282.2	285.2	288.3	291.3
MDOT Share	96.5	195.0	197.1	199.2	201.3
Local - Highway User Share	43.2	87.2	88.1	89.1	90.0
DNR Programs	0.9	1.7	1.8	1.8	1.8
Chesapeake Bay Programs (GF)	3.3	6.7	6.8	6.8	6.9
Total	143.9	290.7	293.8	296.9	300.0

The Comptroller's Office estimates the annualized revenue increase at \$314 million, with no reduction for demand elasticity.

State Expenditures: An increase in TTF revenues would result in increased Maryland Department of Transportation operating expenditures and/or an increase in the agency's bonding capacity.

Small Business Effect: Small businesses for which fuel costs constitute a significant portion of their costs (transportation firms, delivery companies, taxicabs, etc.) could be meaningfully and negatively affected by a 10 cent per gallon increase.

Additional Information

Prior Introductions: None.

Cross File: SB 758 (Senator Giannetti) – Budget and Taxation.

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

Fiscal Note History: First Reader - March 13, 2003
ncs/jr

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