

Department of Legislative Services  
 Maryland General Assembly  
 2005 Session

FISCAL AND POLICY NOTE

House Bill 342 (Delegates Ramirez and Hixson)  
 Ways and Means

Corporate Income Tax and Vehicle Rental Excise Tax - Revenue Distribution

This bill transfers revenue from the Transportation Trust Fund (TTF) that is not pledged to repayment of consolidated transportation bonds to the general fund in an amount equal to the amount of corporate income taxes that is currently distributed to the TTF. For bonds that have been issued after July 1, 2005, the bill eliminates the provision that corporate income tax revenues distributed to the TTF are pledged to the repayment of consolidated transportation bonds. The bill also increases to 100% the amount of car rental tax that is distributed to the TTF.

The bill takes effect July 1, 2005.

Fiscal Summary

**State Effect:** General fund revenues would increase by approximately \$117.8 million in FY 2006 as a result of funds transferred from the TTF. Corresponding decrease of \$117.8 million in the TTF in FY 2006. Future years reflect transfers based on estimated amount of car rental and corporate income taxes.

(\$ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	\$117.8	\$118.2	\$118.6	\$119.0	\$120.4
SF Revenue	(117.8)	(118.2)	(118.6)	(119.0)	(120.4)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$0	\$0	\$0	\$0	\$0

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

**Local Effect:** Local highway user revenues would decrease by approximately \$37.1 million in FY 2006 and remaining relatively unchanged in future years.

**Small Business Effect:** None.

---

## Analysis

**Bill Summary:** For any fiscal year during which consolidated transportation bonds issued before July 1, 2005 are still outstanding and unpaid the following provisions apply:

- Of the funds in the TTF that are not pledged to repayment of consolidated transportation bonds, an amount equal to the corporate income tax revenues distributed to the fund be transferred to the general fund.
- Twenty-four percent of corporate income tax revenues are distributed to the TTF and not to the Gasoline and Motor Vehicle Revenue Account (GMVRA).

For any bonds issued after July 1, 2005, no portion of corporate income tax revenue distributed to the TTF can be pledged to repayment of consolidated transportation bonds.

**Current Law:** The current law that applies to the various provisions of the bill is described below.

*Corporate Income Tax Revenues:* 76% of corporate income tax is distributed to the general fund and 24% is distributed to the TTF. After specified administration costs are distributed, corporate income tax revenues distributed to the TTF are distributed to the GMVRA within the TTF.

*Gasoline and Motor Vehicle Revenue Account:* The GMVRA is an account within the TTF that is funded by: (1) all of the motor vehicle tax; (2) 80% of the vehicle titling tax; (3) 24% of corporate income tax revenue; and (4) specified vehicle registration fees.

*Vehicle Rentals:* Short-term vehicle rentals are subject to an 11.5% State sales tax; 45% of sales tax revenue from short-term vehicle rentals is dedicated to the TTF. The remaining funds are dedicated to the general fund. Of the amount distributed to the TTF, 80% is distributed to the GMVRA.

*Consolidated Transportation Bonds:* The Maryland Department of Transportation (MDOT) may issue consolidated transportation bonds as long as the aggregate outstanding principal balance of these bonds and bonds of prior issues does not exceed \$1.5 billion at one time. The maximum unpaid balance as of June 30 for the next fiscal year must be set by the General Assembly in the budget bill and may not exceed the \$1.5 billion limit.

Corporate income tax revenues, motor fuel taxes, vehicle excise tax revenues, and titling fees that are distributed to the TTF are irrevocably pledged to the payment of the principal and interest on consolidated transportation bonds as they become due and payable, and no part of the corporate income tax revenues distributed to the TTF applicable to debt service on the bonds may be repealed, diminished, or applied to any other purpose until: (1) the bonds and interest on them have become due and fully paid; or (2) adequate and complete provision for payment of the principal and interest has been made.

**Background:** The TTF is the State's principal transportation funding mechanism. It was created in 1971 to establish a dedicated fund to support 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:

- 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;
- 24% 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.

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

**State Fiscal Effect:** MDOT advises that there are sufficient revenues in the TTF that are not pledged to payment of consolidated transportation bonds to cover the TTF's share of the corporate income tax in fiscal 2006 through 2010. As a result, approximately \$117.8

million of the TTF would be transferred to the general fund in fiscal 2006, \$118.2 million in fiscal 2007, \$118.6 million in fiscal 2008, \$119.0 million in fiscal 2009, and \$120.4 million in fiscal 2010. **Exhibits 1, 2, and 3** detail the change in TTF revenues resulting from the provisions of the bill.

---

**Exhibit 1**  
**Distributions to the TTF and Local Highway User Revenues under Current Law**  
(\$ in Millions)

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
<b>Rental Car Tax:</b>					
Total Receipts to TTF	\$23.9	\$24.4	\$24.9	\$25.4	\$25.9
TTF – MDOT	18.2	18.6	18.9	19.3	19.7
Local Highway User Revenues	5.7	5.9	6.0	6.1	6.2
<b>24% Corporate Income Tax:</b>					
Total Receipts to TTF	\$147.0	\$148.0	\$149.0	\$150.0	\$152.0
TTF – MDOT	102.9	103.6	104.3	105.0	106.4
Local Highway User Revenues	44.1	44.4	44.7	45.0	45.6
<b>Total Revenue:</b>					
Total Receipts to TTF	\$170.9	\$172.4	\$173.9	\$175.4	\$177.9
TTF – MDOT	121.1	122.2	123.2	124.3	126.1
Local Highway User Revenues	49.8	50.3	50.7	51.1	51.8

---



---

**Exhibit 2**  
**Distributions to the TTF and Local Highway User Revenues under HB 342**  
(\$ in Millions)

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
<b>Rental Car Tax:</b>					
Total Receipts to TTF	\$53.1	\$54.2	\$55.3	\$56.4	\$57.5
TTF – MDOT	40.4	41.2	42.0	42.9	43.7
Local Highway User Revenues	12.8	13	13.3	13.5	13.8
<b>24% Corporate Income Tax:</b>					
Total Receipts to TTF	\$0	\$0	\$0	\$0	\$0
TTF – MDOT	0	0	0	0	0
Local Highway User Revenues	0	0	0	0	0
<b>Total Revenue:</b>					
Total Receipts to TTF	\$53.1	\$54.2	\$55.3	\$56.4	\$57.5
TTF – MDOT	40.4	41.2	42.0	42.9	43.7
Local Highway User Revenues	12.8	13.0	13.3	13.5	13.8

---

---

**Exhibit 3**  
**Net Effect of HB 342**  
**(\$ in Millions)**

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
<b>Rental Car Tax:</b>					
Total Receipts to TTF	\$29.2	\$29.8	\$30.4	\$31.0	\$31.6
TTF – MDOT	22.2	22.6	23.1	23.6	24.0
Local Highway User Revenues	7.0	7.2	7.3	7.4	7.6
<b>24% Corporate Income Tax:</b>					
Total Receipts to TTF	(\$147.0)	(\$148.0)	(\$149.0)	(\$150.0)	(\$152.0)
TTF – MDOT	(102.9)	(103.6)	(104.3)	(105.0)	(106.4)
Local Highway User Revenues	(44.1)	(44.4)	(44.7)	(45.0)	(45.6)
<b>Total Revenue:</b>					
Total Receipts to TTF	(\$117.8)	(\$118.2)	(\$118.6)	(\$119.0)	(\$120.4)
TTF – MDOT	(80.7)	(81.0)	(81.2)	(81.4)	(82.4)
Local Highway User Revenues	(37.1)	(37.2)	(37.4)	(37.6)	(38.0)

---

The reduction in TTF revenues that are transferred to the general fund will cause a corresponding decrease in the amount of capital project spending conducted by MDOT. For fiscal 2006 through 2010 capital project spending could be reduced by approximately \$406.7 million.

**Local Revenues:** The decrease in each fiscal year for local highway users funds as a result of the bill is detailed in Exhibit 3.

---

**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - February 23, 2005  
ncs/hlb

---

Analysis by: Robert J. Rehrmann

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510

