Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 1392 (Delegate Kaiser, *et al.*)
Ways and Means

Transportation Funding - Mass Transit - Sales and Use Tax

This bill requires the Comptroller to distribute 20% of State 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 2007, 2% of the State sales and use tax revenue is dedicated to the Mass Transit Account, increasing by two percentage points each year until fully phased-in in fiscal 2016. The Mass Transit Account can be used only to fund the capital and operating expenses of: the Maryland Transit Administration, the Washington Metropolitan Area Transit Authority (WMATA), and grants to local jurisdictions. The Mass Transit Account funds would be in addition to projected TTF funding for mass transit as identified in the approved Consolidated Transportation Program (CTP) for fiscal 2006 through 2011.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: General fund revenues would decrease by $70.0 million in FY 2007 and revenues to the TTF would increase by a corresponding amount. The shift in revenues increases in the out-years as the amount of the dedication increases by two percentage points each year. Expenditures would not be affected.

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	($70.0)	($146.6)	($230.1)	($320.5)	($419.2)
SF Revenue	70.0	146.6	230.1	320.5	419.2
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: None.

Small Business Effect: None.

Analysis

Current Law: Under current law, all State sales and use tax revenues are deposited in 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 $26.8 million of the sales and use tax revenue to the TTF in fiscal 2007.

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 parts 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.

The fiscal 2007 forecast assumes $2.14 billion in net revenues for the TTF; this includes revenue from all sources, after all required deductions, exclusive of fund transfers and bond sale proceeds.

By law, a portion of TTF revenues are allocated between the department and local governments by way of the Gasoline and Motor Vehicle Revenue Account (GMVRA). 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.

Federal Government Proposals

On July 28, 2005, Representative Tom Davis, a Republican from Virginia, introduced H.R. 3496 in the U.S. Congress (the "Davis Bill") which would amend the compact of WMATA. Specifically, the bill provides that the federal government would provide $1.5 billion in federal funding over 10 years and add several amendments to the compact. The federal funds, $150 million a year for 10 years, would be used for new and additional capital expenses associated with the ongoing maintenance of the system and to ensure its operation at full capacity.

To receive these additional federal funds, there are several provisions that must be agreed upon by each of the compact jurisdictions and adopted as amendments to the compact agreement. The most controversial of these amendments is the need for each compact jurisdiction to identify a dedicated funding source "for the cost of operating and maintaining the adopted regional system." Furthermore, the legislation defines dedicated funding source as "any source of funding which is earmarked and required under State or local law to be used for payments."

Virginia and the District of Columbia each have proposed bills that would either increase or dedicate a portion of the sales tax to cover the matching component of the additional $150 million annually in federal funding. **Exhibit 1** provides a summary of each piece of legislation. The funds earmarked by each piece of legislation do not cover the entire operating and capital subsidy requirements of each jurisdiction.

Exhibit 1
Compact Jurisdiction Proposed Dedicated Revenues

	Virginia	Washington, DC
Proposal	Increase the sales and use tax by a quarter-cent in the five jurisdictions supporting WMATA (Alexandria, Arlington, Fairfax City, Fairfax County, and Falls Church).	Dedicate one-half of 1% of the existing retail sales tax to provide additional funding for WMATA.
Revenue Raised	A quarter-cent of the sales tax in the five jurisdictions is estimated to generate over $55 million per year.	One-half of 1% of the sales tax is estimated to raise roughly $50 million per year.

Source: Washington Metropolitan Area Transit Authority

State Revenues: State sales and use tax general fund revenues are estimated to total approximately $3.5 billion in fiscal 2007 (after the deductions discussed above). Sales and use tax revenues are forecasted to grow through fiscal 2011 at an annual rate of approximately 5.0%. The estimate assumes that for fiscal 2012 through 2016, sales and use tax revenue will continue to increase at a rate of 5.0% annually.

Dedicating 2% of those revenues to the Mass Transit Account would increase TTF revenues by approximately $70.0 million in fiscal 2007, with a corresponding decrease in general fund revenues. Under the bill, the amount dedicated increases by two percentage points each year, until the bill is fully phased-in in fiscal 2016, when 20% of sales and use tax revenue is dedicated to the Mass Transit Account of the TTF. At that time, approximately $1.1 billion of the projected $5.4 billion in State sales and use tax revenue would be dedicated to the TTF, as illustrated in **Exhibit 2**.

Exhibit 2
Maryland Sales and Use Tax Estimated Revenues
Fiscal 2007 – 2011
($ in Millions)

	Sale and Use tax Revenue	Percentage Dedicated to Mass Transit Account	Amount Dedicated to Mass Transit Account
FY 2007	$3,502.1	2%	$70.0
FY 2008	3,665.3	4%	146.6
FY 2009	3,834.5	6%	230.1
FY 2010	4,005.8	8%	320.5
FY 2011	4,192.0	10%	419.2
FY 2012	4,401.6	12%	528.2
FY 2013	4,621.7	14%	647.0
FY 2014	4,852.8	16%	776.4
FY 2015	5,095.4	18%	917.2
FY 2016	5,350.2	20%	1,070.0

State Expenditures: The proposed fiscal 2007 budget includes $2.1 billion for State transportation spending (both operating and capital and excluding federal funds), as illustrated in **Exhibit 3**.

Exhibit 3
Transportation Expenditures by Purpose
Proposed Fiscal 2007 Budget TTF Capital and Operating Funds – (State Only)
($ in Millions)

Mode	Operating	Capital	Total
Mass Transit	$416.3	$126.2	$542.5
WMATA	174.5	73.6	248.1
Highway	184.3	478.3	662.6
Motor Vehicle	139.6	27.0	166.6
Aviation	170.8	58.3	229.1
Port	97.7	112.5	210.2
Secretary	62.6	16.7	79.3
Total	**$1,245.8**	**$892.6**	**$2,138.4**

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

The bill prohibits any reduction in existing TTF funding for mass transit over the course of MDOT's current CTP for fiscal 2006 through 2011. **Exhibit 4** illustrates the impact of the bill on mass transit funding over the course of the current CTP. After fiscal 2011, there is no further requirement that the funds generated under the bill be in addition to currently proposed mass transit funding.

Exhibit 4
Current and Proposed Mass Transit Revenues and Expenditures
MDOT Consolidated Transportation Program
State Funds Only
($ in Millions)

	FY 2007	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**
Current Projected Mass Transit Expenditures	$679.1	$676.6	$721.2	$801.4	$766.9
Additional Mass Transit Account Funds	70.0	146.6	230.1	320.5	419.2
Total Mass Transit Funding	**$749.1**	**$823.2**	**$951.3**	**$1,121.9**	**$1,186.1**

Notes: Excludes federal funds. Includes MTA and WMATA projected operating and capital expenditures, less MTA operating revenues.

Additional Information

Prior Introductions: This bill is identical, to HB 1 of the 2000 session, as amended and approved by the House. No action was taken by the Senate Budget and Taxation Committee.

Cross File: None.

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

Fiscal Note History: First Reader - March 4, 2006
mam/hlb

Analysis by: Michael Sanelli

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