Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1345 (Delegate Hixson, *et al.*)

Ways and Means Budget and Taxation

Transportation Funding - Mass Transit - Funding Study

This bill requires the Maryland Department of Transportation (MDOT) to conduct an analysis of funding needs for transit services across the State and to study how transit services are funded in other states and internationally. MDOT must identify funding strategies to leverage potential new federal funding. A steering committee is created to provide guidance and direction to MDOT in conducting the funding study and analysis. A report must be submitted to the General Assembly by December 15, 2006.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) expenditures could increase by $500,000 in FY 2007 only to hire a consultant to assist in conducting the required study. No effect on revenues.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	$0	$0	$0	$0	$0
SF Expenditure	500,000	0	0	0	0
Net Effect	($500,000)	$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

Bill Summary: Specifically, the bill requires MDOT to:

- Provide an analysis of operating and capital funding needs for transit services in the State over a 20-year horizon, including a comprehensive, financially unconstrained review of potential needs. Projections should provide detail on operating and capital assumptions, including baseline growth, system preservation, service expansion, and system expansion including all new transit projects currently under study. To the extent practical, the analysis must consider previous studies or approved service expansion plans for the Washington Metropolitan Area Transit Authority (WMATA), Maryland Transit Administration services (metro, light rail, bus, commuter bus, and MARC), and locally operated transit systems.

- Review how transit services are funded across the country and in select cities outside the United States with large transit systems. The review should provide a list of revenue sources used, examples of the mix of sources applied, and other detailed information helpful to considering transit funding strategies. The review should consider state, regional, and local approaches to funding transit systems, including capital expansion projects. The study may discuss the policy considerations of potential revenue sources not currently used in Maryland.

- Identify State funding strategies to take advantage of potential new federal funding for WMATA that could be authorized by pending federal legislation.

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). 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.

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 adds 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, several provisions 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 Fiscal Effect: MDOT advises that, due to the study's scope, outside consultant services would be needed to assist MDOT staff in completing the study by December 15, 2006. As a result, TTF expenditures could increase by $500,000 in fiscal 2007.

MDOT also advises that it would need $100,000 for staff support of the steering committee. However, Legislative Services advises that committee support could be provided with existing budgeted staff resources.

Legislative Services advises that the projected expenditure increase is an estimate and actual costs could differ depending on the amount of data and analysis needed to meet the needs and direction of the study as defined by the steering committee in the limited time frame required by the bill.

Additional Information

Prior Introductions: None.

Cross File: SB 850 (Senator Kramer, *et al.*) – Budget and Taxation.

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

Fiscal Note History: First Reader - March 4, 2006
mll/hlb Revised - House Third Reader - April 6, 2006

Analysis by: Michael Sanelli

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