

**Department of Legislative Services**  
 Maryland General Assembly  
 2007 Session

**FISCAL AND POLICY NOTE**

Senate Bill 80 (Senators Stone and Harris)  
 Budget and Taxation

**Motor Fuel Tax - Refunds - Motor Fuel Used to Operate Vessels**

This bill exempts motor fuel that is purchased to operate a recreational boat from the State motor fuel tax.

The bill takes effect July 1, 2007.

**Fiscal Summary**

**State Effect:** Transportation Trust Fund (TTF) revenues would decrease by \$2.7 million in FY 2008, of which the State’s share is \$1.9 million. General fund revenues would decrease by \$50,500 and certain dedicated special funds would decrease by \$13,200. Future year revenue losses reflect a constant number of refunds and annualization of administrative costs at the Comptroller’s Office.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$.1)	(\$.1)	(\$.1)	(\$.1)	(\$.1)
SF Revenue	(2.7)	(2.8)	(2.8)	(2.8)	(2.8)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$2.8)	(\$2.8)	(\$2.8)	(\$2.8)	(\$2.8)

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

**Local Effect:** Local highway user revenues distributed from the TTF would decrease by about \$825,000 annually. Local expenditures would not be affected.

**Small Business Effect:** None.

## Analysis

**Current Law:** Motor fuel that is purchased to operate a recreational boat is subject to the State motor fuel tax. Fuel purchased for use in a vessel that is used only for commercial purposes, however, is exempt from the motor fuel tax. The State motor fuel tax rate per gallon or gasoline-equivalent gallon is: (1) 23.5 cents for gasoline; (2) 24.25 cents for special fuel (diesel); (3) 7.0 cents for aviation fuel; and (4) 23.5 cents for clean burning fuel.

**Background:** Ten states, including Delaware and Virginia, currently allow recreational boaters to apply for a full or partial state motor fuel tax refunds, subject to certain conditions. Some of these states dedicate a small portion of motor fuel tax revenues to fishery- and boating-related purposes while others do not. Based on current projections from the Bureau of Revenues Estimates, the State motor fuel tax will contribute approximately \$1.8 million each to the Waterway Improvement Fund (WIF) and Fisheries Research and Development Fund and approximately \$13.8 million to Chesapeake Bay programs.

WIF serves the boating public by funding projects that mark channels, clear debris, build and maintain boat facilities, improve bridges that may obstruct boats, and other activities. The goal of the Fisheries Research and Development Fund is to replenish, protect, and conserve fish stocks caught by recreational fisherman, enhance recreational fish opportunities, and provide funding for research concerning tidal fishery resources. The Chesapeake Bay Program is a regional partnership focused on the restoration of the Chesapeake Bay and its members include Maryland, Pennsylvania, Virginia, the District of Columbia, the Chesapeake Bay Commission, and the federal Environmental Protection Agency.

**State Fiscal Effect:** Motor fuel tax revenues could decrease by \$2.8 million beginning in fiscal 2008. Based on the current distribution of motor fuel taxes, the State's revenue loss for fiscal 2008 is illustrated below:

<u>Program</u>	<u>Statutory Distribution</u>	<u>Revenue Loss under SB 80</u>
Waterway Improvement Fund (SF)	0.3% of first 18.5 cents	\$6,587
Fisheries Research & Development Fund (SF)	0.3% of first 18.5 cents	6,587
Chesapeake Bay Programs (GF)	2.3% of first 18.5 cents	50,503
Transportation Trust Fund (TTF)	100% after above deductions on first 18.5 cents; 100% above 18.5 cents	2,725,544
Maryland Department of Transportation	70%	1,907,881
Highway User Revenues (Local)	30%	<u>817,663</u>
<b>Total</b>		<b>\$2,789,221</b>

This estimate reflects both the projected number of refunds issued to recreational boaters and administrative costs of processing these additional refunds at the Comptroller's Office. Under current law, the cost of administrating the motor fuel tax is deducted from motor fuel tax revenues. **Exhibit 1** shows the estimated number of refunds, the increased administrative expenses at the Comptroller's Office, and the total projected revenue loss in each fiscal year.

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**Exhibit 1**  
**SB 80 Fiscal Impact**

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Additional Refunds	\$2,659,320	\$2,659,320	\$2,659,320	\$2,659,320	\$2,659,320
Administrative Expenses	129,901	159,213	167,716	176,736	186,310
<b>Total Revenue Loss</b>	<b>\$2,789,221</b>	<b>\$2,818,533</b>	<b>\$2,827,036</b>	<b>\$2,836,056</b>	<b>\$2,845,630</b>

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This estimate is based on projected motor fuel consumption by recreational boaters in Pennsylvania and Oregon and actual refund amounts issued to recreational boaters in Delaware and Virginia. The estimate was adjusted by the number of registered boats in Maryland and the other states.

The Comptroller's Office advises that it would not be able to verify whether refunds submitted were purchased for recreational boating uses. To the extent that individuals submit refunds to which they are not entitled, revenue losses would be greater than estimated.

The Motor Fuel Tax Bureau of the Comptroller's Office advises that in the past two fiscal years, it has processed, on average, approximately 4,500 motor fuel tax refunds annually. Three fiscal clerks process these refunds on a full-time basis. In fiscal 2006, Delaware processed approximately 1,100 motor fuel tax refunds from recreational boat owners and Virginia processed 4,528. The Comptroller's Office reports that it would need to hire nine fiscal clerks to process additional motor fuel tax refunds. Legislative Services estimates that, based on the staffing levels required in Delaware and Virginia to process recreational boat refunds (two positions in each state), the Comptroller's Office would need to hire only three additional fiscal clerks to process the additional motor tax refunds.

Accordingly, special fund expenditures could increase by approximately \$129,900 in fiscal 2008. The Comptroller's Office would deduct these costs from motor fuel tax revenues, resulting in a corresponding decrease in motor fuel tax revenue. Although refunds could be submitted as early as July 1, 2007, it is assumed that there is a three-month lag before the Comptroller's Office would be required to hire additional staff. This estimate includes salaries, fringe benefits, and ongoing operating expenses.

Positions	3
Salaries and Fringe Benefits	\$113,633
Operating Expenses	<u>16,268</u>
<b>Total FY 2008 Expenditures</b>	<b>\$129,901</b>

Future year expenditures reflect: (1) a full salary with 4.5% annual increases and 3% employee turnover

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 259 (Delegate Impallaria, *et al*). – Ways and Means.

**Information Source(s):** Boat Owner's Association of America, Department of Natural Resources, Comptroller's Office, Delaware Department of Transportation, Virginia Department of Motor Vehicles, Department of Legislative Services

**Fiscal Note History:** First Reader - January 30, 2007  
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