SB 167

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 167 (Senator Kramer, *et al.*)
Budget and Taxation

Transportation Funding - Mass Transit Account

This bill requires the Comptroller to distribute 2.5% of State sales tax revenue to a newly-created Mass Transit Account of the Transportation Trust Fund (TTF) in fiscal 2009 and 5% annually beginning in fiscal 2010. The Mass Transit Account can be used only to fund the capital and operating expenses of the Maryland Transit Administration (MTA) and the Washington Metropolitan Area Transit Authority (WMATA); and to provide 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 2007 through 2012.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: General fund revenues would decrease by $94.7 million in FY 2009 and TTF revenues would increase by a corresponding amount. The shift in revenues increases in the out-years as the amount of the dedication increases to 5% in FY 2010. Expenditures would not be affected.

($ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	$0	($94.7)	($199.1)	($208.0)	($218.9)
SF Revenue	0	94.7	199.1	208.0	218.9
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

Bill Summary: The Mass Transit Account may only be used to fund: (1) capital and operating expenses of WMATA, including additional funding for the maintenance and improvement of the transportation system of WMATA consistent with federal law providing additional federal grants to WMATA for the maintenance and improvement of the transportation system and laws enacted the District of Columbia and the Commonwealth of Virginia dedicating revenues for the same purpose; (2) capital and operating expenses of MTA; and (3) grants to local jurisdictions for mass transit capital and operating expenses.

The bill also provides that it is the intent of the General Assembly that the WMATA board of directors should study and adopt the following improvements to WMATA's financial planning and business practices: (1) after consultation with stakeholders and the funding jurisdictions, complete a strategic plan that prioritizes goals for the transportation system and strategies to achieve these goals, and adopts performance measures and benchmarks, which are reported through the annual budget process to the board and funding jurisdictions; (2) develop a long-range budget plan, outlining WMATA's long-term capital and operating needs and funding requirements; and (3) adopt an annual five-year service and financial plan that outlines planned transportation services; estimates the operating costs of planned service expansions; and includes detailed expenditure and revenue projections.

Current Law: All State sales 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 tax; and (3) 45% of the sales tax collected on short-term vehicle rentals, which is dedicated to the TTF. The latter is projected to distribute approximately $29.9 million of the sales tax revenue to the TTF in fiscal 2008.

Background: The TTF is the State's principal transportation funding mechanism. All activities of the Maryland Department of Transportation (MDOT) 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 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 2008 forecast assumes $2.15 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.

Chapter 443 of 2006 (SB 850)

Chapter 443 of 2006 (SB 850) required 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. In addition, MDOT was required to identify funding strategies to leverage potential new federal funding. Finally, a steering committee was created to provide guidance and direction to MDOT in conducting the funding study and analysis.

The Maryland Transit Funding Study Steering Committee met during the fall of 2006 and issued a report in January 2007. The report consists of three major parts – (1) Understanding Maryland Transit; (2) Learning from Others; and (3) Understanding Maryland's Transit Needs – and contains findings within each part, including the importance of transit as a part of the Maryland Transportation system, how other states operate and fund transit, and alternative means of increasing funding for transit in Maryland.

Federal Government Proposals

On July 28, 2005, Representative Tom Davis of Virginia introduced H.R. 3496 in the U.S. Congress (the "Davis Bill") to amend the compact of WMATA. Specifically the bill provides $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, there were several provisions that had to be agreed upon by each of the compact jurisdictions and adopted as amendments to the compact agreement. The most controversial of these amendments was 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." This language implied that the total Maryland contribution, operating, capital, and the federal match, would need to come from a dedicated source.

The bill passed the House of Representatives on July 17, 2006. Federal funding as originally proposed in the bill would have come from the federal general fund. The bill then moved to the Senate where a number of amendments were added that would have altered the phrasing of the dedicated funding requirement and struck the land use provisions. However, the congressional term ended without the Senate taking any action on the bill, effectively killing the bill.

In January 2007, the bill was reintroduced with a number of Maryland representatives co-sponsoring the bill. This second version of the bill closely mirrors the language that was inserted in the Senate bill. Some of the changes include the land use provisions being removed from the bill. In addition, the federal funding would come from the general fund of the federal government and the language regarding the dedicated matching would only require a match of the federal funds and not dedicated funding for the entire subsidy paid to WMATA. Finally the language regarding what represents a dedicated match was written as follows: "any source of funding which is earmarked or required under State or local law to be used to match federal appropriations authorized under this Act." This language is broader than the original language and would appear to mean that TTF revenues could be used to support the local matching requirement.

State Revenues: State sales tax general fund revenues are estimated to total approximately $3.6 billion in fiscal 2008 (after the deductions discussed above). Sales tax revenues are forecasted to grow through fiscal 2012 at an annual rate of approximately 5.0%.

Dedicating 2.5% of those revenues to the Mass Transit Account would increase TTF revenues by approximately $94.7 million in fiscal 2009, with a corresponding decrease in general fund revenues. Under the bill, the amount dedicated to the Mass Transit Account increases to 5% beginning in fiscal 2010. By fiscal 2012, $218.9 million of the projected $4.4 billion in State sales and use tax revenue would be dedicated to the TTF, as illustrated in **Exhibit 1**.

State Expenditures: The proposed fiscal 2008 budget includes $3.2 billion for State transportation spending (both operating and capital and including federal funds), as illustrated in **Exhibit 2**.

Exhibit 1
Maryland Sales Tax Revenue Estimates
Fiscal 2008-2012
($ in Millions)

Fiscal Year	Sales Tax Revenue	Percentage Dedicated to the Mass Transit Account	Amount Dedicated to the Mass Transit Account
2008	$3,623.0	0.0%	$0.0
2009	3,789.4	2.5%	94.7
2010	3,982.7	5.0%	199.1
2011	4,159.8	5.0%	208.0
2012	4,377.1	5.0%	218.9

Exhibit 2
Maryland Transportation Expenditures
Proposed Fiscal 2008 Budget
TTF Capital and Operating Funds – State and Federal Funds
($ in Millions)

Mode	Operating	Capital	Total
Maryland Transit	$513.5	$308.1	$821.6
WMATA	191.2	80.3	271.5
Highway	210.7	1,106.3	1,317.0
Motor Vehicle	146.0	34.3	180.3
Aviation	183.6	80.2	263.8
Port	106.3	123.9	230.2
Secretary	75.1	20.4	95.5
Total	**$1,426.5**	**$1,753.3**	**$3,179.8**

Numbers may not total due to rounding.

The bill prohibits any reduction in existing TTF funding for mass transit over the course of MDOT's current CTP for fiscal 2007 through 2012. **Exhibit 3** illustrates the impact of the bill on mass transit funding over the course of the current CTP. After fiscal 2012, there is no further requirement that the funds generated under the bill be in addition to currently proposed mass transit funding.

Exhibit 3
Current and Proposed Mass Transit Funding
MDOT Consolidated Transportation Program
State Funds Only
($ in Millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Current Funding	$784.1	$828.4	$852.6	$828.5	$853.3
Additional Funding – SB 167	0.0	94.7	199.1	208.0	218.9
Total Mass Transit Funding	**$784.1**	**$923.1**	**$1,051.7**	**$1,036.5**	**$1,072.2**

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

Additional Information

Prior Introductions: Identical bills were introduced as SB 850/HB 1345 in 2006. Both bills were amended to create a Mass Transit Funding Study. SB 850 became Chapter 443 of 2006.

Cross File: None.

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

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bfl/hlb

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