Department of Legislative Services

Maryland General Assembly
2007 Special Session

FISCAL AND POLICY NOTE

Senate Bill 19 (Senator Frosh)
Budget and Taxation

Motor Vehicle Excise Tax - Fuel Efficiency Surcharge

This bill imposes a 1% fuel efficiency surcharge on the purchase price of each new passenger vehicle (in addition to the vehicle excise tax imposed) that falls within the lowest 25% of fuel economy for all passenger vehicles for that model year beginning January 1, 2008. In addition, the bill repeals the currently unenforceable section of law establishing the fuel efficiency surcharge and fuel efficiency credit program.

The provision of the bill requiring the Motor Vehicle Administration (MVA) to adopt regulations to implement the fuel efficiency surcharge takes effect December 1, 2007. Other provisions take effect January 1, 2008.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues increase $17.2 million in FY 2008 as a result of the fuel efficiency surcharge. Beginning in FY 2009, the revenue increase reflects annualization, as a result, TTF revenues increase $35.0 million by FY 2012. Potential increase in TTF expenditures in FY 2008 only incurred by the MVA for computer programming.

($ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
SF Revenue	$17.2	$32.8	$33.5	$34.3	$35.0
SF Expenditure	--	0	0	0	0
Net Effect	$17.2	$32.8	$33.5	$34.3	$35.0

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

Local Effect: Local highway user revenues would increase by $4.1 million in FY 2008, escalating to $8.4 million in FY 2012. Expenditures would not be directly affected.

Small Business Effect: Potential minimal. To the extent that car dealers would be able to recover some of the costs associated with collecting the surcharge, these dealers who are small businesses would benefit from the bill.

Analysis

Current Law/Background: Chapter 3 of the 1st Special Session of 1992 created the fuel efficiency surcharge and fuel efficiency credit program. One section of the Act (TR § 13-818(f)) contained a notification requirement that is invalid under federal law; according to an opinion by the Attorney General, because this section of the Act was not severable, the Act should not be enforced. 77 Op. Atty Gen. 222 (June 24, 1992). This bill repeals the entire section and replaces it with new language.

The vehicle excise tax (currently at 5%) is applied to the purchase price or fair market value of all new and used motor vehicles at the time of sale. The MVA is responsible for its administration and collection. A licensed dealer who collects and remits the excise tax on behalf of the MVA may keep the lesser of $24 per vehicle or 1.2% of the gross excise tax collected.

The Gasoline and Motor Vehicle Revenue Account (GMVRA) is an account within the TTF. Under current law, 80% of the vehicle titling tax is credited to the GMVRA. After certain deductions, 30% of the funds in the GMVRA are distributed to local jurisdictions as highway user revenues; the rest is retained at the State level.

Background: **Exhibit 1** shows (1) national sales of new vehicles from 2000 to 2006; (2) the threshold for falling within the lowest quartile of fuel economy (based on the average combined fuel economy for all powertrains available for a vehicle for that model year); (3) the number of new vehicles sold in the United States that fall within the lowest quartile; and (4) the percentage of new vehicles sold in the United States that fall within the lowest quartile. On average, from 2000 to 2006, 31.7% of new vehicles sold in the United States fell within the lowest quartile of fuel economy. However, the percentage of vehicles in the lowest quartile decreased approximately 5.2% from calendar 2004 to 2006 due to an increase in the demand for more fuel efficient vehicles. As shown below, the 2004 to 2006 average was 30.2%. The average miles per gallon (mpg) that triggered whether or not a vehicle fell within the lowest quartile ranged between 17.7 mpg and 18.6 mpg from 2000 to 2006.

Exhibit 1
National Sales and Fuel Economy Data for New Vehicles

Calendar Year	U.S. New Vehicle Sales (in Millions)	Threshold for Lowest Quartile of Fuel Economy (mpg)	New Vehicle Sales in Lowest Quartile of Fuel Economy (in millions)	Percentage of New Vehicle Sales in Lowest Quartile
2000	17.3	18.5	5.8	33.6%
2001	17.1	18.6	5.6	33.0%
2002	16.8	17.8	5.6	33.2%
2003	16.6	17.7	5.3	31.9%
2004	16.8	17.7	5.5	32.9%
2005	16.9	18.0	5.1	29.9%
2006	16.5	18.0	4.6	27.7%
Seven-year Average				**31.7%**
Three-year Average (2004-2006)				**30.2%**

Source: Ward's Automotive Group, U. S. Environmental Protection Agency, Department of Legislative Services

According to the MVA, in calendar 2006, there were 399,282 new passenger vehicles sold in Maryland. To better reflect the declining trend of vehicle sales in the lowest quartile of fuel economy, the three-year average (2004 to 2006) percentage of new vehicle sales in the lowest quartile was used to calculate the revenue estimates. Using this average, 120,409 vehicles sold in Maryland in calendar 2006 would have fallen within the lowest quartile of fuel economy. According to the MVA, in calendar 2006, the average price of a new vehicle was $26,076. Assuming a 2.2% annual increase in the price of a new car, the calendar 2008 price would be $27,236 – this is the price used in calculating the fiscal 2008 estimate.

State Fiscal Effect: The bill would generate $17.2 million in net revenues in fiscal 2008 and $35.0 million by fiscal 2012. Based on historical trends, 53.1% of yearly vehicle purchases occur in the second half of each fiscal year. This estimate applies this factor when determining the fiscal 2008 impact.

It is assumed that the revenues generated by the surcharge on the vehicle excise tax would be distributed in the same manner as vehicle excise tax revenues. Thus, the estimate deducts 1.2% of the surcharge for retention by the dealer as a collection fee. Of the remainder, 20% would be deposited into the TTF and 80% into the GMVRA. From this 80% distribution, 70% would be retained by the GMVRA at the State level and 30%

would go to local governments (as highway user revenues). The amount retained by the Maryland Department of Transportation equates to 76% and the local share equates to 24% of the increase.

The estimate is also based on the following assumptions:

- national new vehicle sales data and fuel economy data can be generalized to Maryland;
- the average price of a new vehicle in the lowest quartile of fuel economy is identical to the average price of a new vehicle in general;
- the number of new vehicles sold remains constant at calendar 2006 levels (399,282);
- the average price for a new vehicle increases by 2.2% annually; and
- the percentage of vehicles falling in the lowest quartile of fuel economy remains constant at 30.2%.

Exhibit 2
Revenue Impact of SB 19
($ in Millions)

	Fiscal Year				
	2008	**2009**	**2010**	**2011**	**2012**
Revenue Generated	$17.4	$33.2	$34.0	$34.7	$35.5
Less Dealer Fee (1.2%)	0.2	0.4	0.4	0.4	0.4
Net Revenues Increase*	17.2	32.8	33.5	34.3	35.0
State Share (76% net distribution)	*13.1*	*24.9*	*25.5*	*26.1*	*26.6*
Local Share (24% net distribution)	*4.1*	*7.9*	*8.1*	*8.2*	*8.4*

* These revenues would be distributed as follows: 20% would be credited only to the TTF and the other 80% would be deposited into the GMVRA, from which 70% would be retained by the GMVRA and 30% would go to local governments (as highway user revenues). The cumulative effect would be that 76% of the funds would be retained by MDOT at the State level and 24% would go to local governments.

Note: Numbers may not sum to total due to rounding.

The MVA advises that it would likely incur additional expenditures for computer programming as a result of the bill. The MVA estimates that computer programming expenditures could reach $27,000 in fiscal 2008 only – 120 hours of computer programming at a cost of $225 per hour.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, Maryland Department of Transportation, U.S. Environmental Protection Agency, Ward's Automotive Group, CNW Marketing Research, Department of Legislative Services

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