

Department of Legislative Services
 Maryland General Assembly
 2009 Session

FISCAL AND POLICY NOTE

House Bill 423 (Delegate Bronrott)
 Ways and Means

Motor Fuel Tax - Indexing

This bill indexes the motor fuel tax rate for all fuels except aviation gasoline and turbine fuel to the change in the Construction Cost Index (CCI). The motor fuel tax rate could increase beginning on October 1, 2009 and annually beginning on July 1, 2010 based on the percentage change in the index. The tax rates would potentially increase once in a fiscal year and by no more than one cent per gallon in each fiscal year.

The bill takes effect June 1, 2009.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues increase by \$21.0 million in FY 2010; with the State share totaling \$14.7 million. Future year revenues reflect estimated fuel consumption and inflation. Expenditures are not affected.

| (\$ in millions) | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 |
|------------------|---------|---------|---------|---------|---------|
| SF Revenue | \$21.0 | \$47.9 | \$64.4 | \$84.2 | \$107.6 |
| Expenditure | 0 | 0 | 0 | 0 | 0 |
| Net Effect | \$21.0 | \$47.9 | \$64.4 | \$84.2 | \$107.6 |

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

Local Effect: Local highway user revenues increase by \$6.3 million in FY 2010 and by \$32.3 million by FY 2014. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill indexes the motor fuel tax rates for all fuels except aviation gasoline or turbine fuel to the CCI published by the Engineering News-Record (ENR). By July 1, 2009 the Comptroller's Office is required to calculate and determine the increase, if any, in the motor fuel tax that will take effect October 1, 2009. This increase will be in effect for nine months. Beginning July 1, 2010 motor fuel rates will increase annually if the Comptroller's Office determines the CCI has increased over a specified time period. The increase will be the percentage change in the CCI multiplied by the current motor fuel tax rates, rounded up to the nearest one-tenth of one cent. Motor fuel tax rates cannot increase by more than one cent per gallon in any fiscal year.

The bill also imposes a floor tax on any person possessing tax-paid motor fuel for sale at the start of business on the date of any increase in the motor fuel tax under the bill. Individuals are required to compile and file an inventory of the motor fuel tax held at the close of business on the preceding date and remit within 30 days any additional motor fuel tax that is due.

Current Law: The State motor fuel tax rate per gallon or gasoline-equivalent gallon is: 23.5 cents for gasoline; 24.25 cents for special fuel (diesel); 7 cents for aviation gasoline and turbine fuel; and 23.5 cents for clean burning fuel. The motor fuel tax rate is not indexed or automatically adjusted. The State is projected to collect \$749.1 million in motor fuel taxes in fiscal 2010.

Background: Some states, including Maryland, impose only a motor fuel excise tax, while other states impose both an excise tax and a sales tax. The total motor fuel tax rates for gasoline in neighboring jurisdictions are shown in **Exhibit 1**. These rates are in addition to a federal motor fuel tax of 18.4 cents per gallon of gasoline and 24.4 cents per gallon of diesel fuel. Compared with the rest of the nation, Maryland's fuel tax rates are slightly below the national average.

ENR publishes both a Construction Cost Index and Building Cost Index that are widely used in the construction industry. CCI calculates the estimate 20-city average change in common labor wages and fringe benefits, structural steel, bulk portland cement, and lumber. ENR index measures how much it costs to purchase this hypothetical package of goods compared to what it was in the base year. Compared to the Consumer Price Index (CPI), which is a measure of the change in overall prices in the economy, the CCI within the last 10 years has increase by about 3.5% annually compared with a 2.8% annual average increase in the CPI.

Exhibit 1
Total Motor Fuel Tax Rates in Surrounding Jurisdictions
(cents per gallon)

| | <u>Gasoline</u> | <u>Diesel</u> |
|----------------------|-----------------|---------------|
| Delaware | 23.0 ¢ | 22.00 ¢ |
| District of Columbia | 20.0 | 31.00 |
| Pennsylvania | 32.3 | 39.20 |
| Virginia | 19.0 | 19.30 |
| West Virginia | 32.2 | 32.10 |
| Maryland | 23.5 | 24.25 |

Source: American Petroleum Institute

State Revenues: TTF revenues increase by \$21.0 million in fiscal 2010 as a result of indexing the motor fuel tax to the CCI. **Exhibit 2** illustrates the fiscal effect and the cumulative increase in motor fuel tax rates under the bill. The estimate is based on current forecasts for motor fuel consumption and changes in the CCI.

Exhibit 2
Estimated Revenue Impact and Cumulative Tax Rate Increase

| | <u>FY 2010</u> | <u>FY 2011</u> | <u>FY 2012</u> | <u>FY 2013</u> | <u>FY 2014</u> |
|---|---------------------|---------------------|---------------------|---------------------|----------------------|
| Motor Fuel Tax Rate Increase (Cumulative Increase) | 0.9¢ | 1.5¢ | 2.0¢ | 2.6¢ | 3.3¢ |
| Total TTF Increase | \$21,044,800 | \$47,929,500 | \$64,353,400 | \$84,245,000 | \$107,567,900 |
| MDOT Share | 14,731,400 | 33,550,700 | 45,047,400 | 58,971,500 | 75,297,500 |
| Local Share | \$6,313,400 | \$14,378,900 | \$19,306,000 | \$25,273,500 | \$32,270,400 |

Local Effect: Local governments receive a portion of TTF revenues in the form of local highway user revenues for the purpose of constructing and maintaining local roads. Pursuant to this legislation, local highway user revenues increase by \$6.3 million in fiscal 2010 and by \$32.3 million in fiscal 2014, as shown in Exhibit 2. Local expenditures are not affected.

Small Business Effect: Small businesses for which motor fuel constitutes a significant portion of their costs (transportation firms, delivery companies, taxicabs, *etc.*) will have increased tax burdens as a result of the bill. Based on the estimated increases under the bill the impact is expected to be minimal. The incidence of the tax will be shared by customers in higher product prices and owners of the small businesses. Small businesses could also benefit to the extent that additional transit funding improves the State's infrastructure.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): American Petroleum Institute, Comptroller's Office, Engineering News-Record, Maryland Department of Transportation, Moody's Investor Services, Department of Legislative Services

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