

Department of Legislative Services
 Maryland General Assembly
 2010 Session

FISCAL AND POLICY NOTE
Revised

House Bill 445

(Delegate Weir, *et al.*)

Environmental Matters

Judicial Proceedings

Vehicle Laws - Off-Highway Recreational Vehicles - Titling

This emergency bill incorporates an off-highway recreational vehicle (OHRV) within the definition of a vehicle and, as such, subjects OHRVs to the requirement to be titled. Thus, an excise tax must generally be imposed on any OHRV purchased on or after October 1, 2010, for which sales and use tax is not collected at the time of purchase. The fair market value of the OHRV for which an excise tax is imposed is the greater of the purchase price or \$320. The application for certificate of title must be made by electronic transmission. The bill authorizes licensed title service agents to use the Motor Vehicle Administration (MVA) electronic vehicle data transmission system. An OHRV is a vehicle commonly known as an all-terrain vehicle, dirt bike, or snowmobile.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues may increase by about \$162,300 in FY 2010 and over \$1.2 million in FY 2011 under the assumptions discussed below; this revenue increase is the result of additional title and title lien fees collected by MVA and vehicle excise taxes collected on OHRV sales. TTF expenditures may increase by about \$12,500 in FY 2010 and more than \$54,900 annually due to additional personnel and communication costs at MVA. Future years primarily reflect inflation.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
SF Revenue	\$162,300	\$1,182,500	\$1,296,800	\$1,363,700	\$1,396,600
SF Expenditure	\$12,500	\$54,900	\$56,900	\$60,200	\$63,000
Net Effect	\$149,700	\$1,127,600	\$1,239,900	\$1,303,500	\$1,333,500

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

Local Effect: Local revenues may increase beginning in FY 2010 due to additional titling tax revenues distributed as highway user revenues. Expenditures are not affected.

Small Business Effect: None.

Analysis

Bill Summary: An OHRV is defined as (1) a motorized vehicle commonly known as an all-terrain vehicle designed to carry the operator and up to one passenger; (2) a motorcycle designed for off-highway operation that is commonly known as a dirt bike and that is not a Class D (motorcycle) vehicle; or (3) a snowmobile. An OHRV is not a farm vehicle or any vehicle used for landscaping, gardening, or lawn care.

OHRVs are exempted from the requirement that a licensed dealer that also is an inspection station prepare and attach an inspection certificate to a window of the vehicle.

Current Law: A “vehicle” is defined as a device in, on, or by which an individual or property is or might be transported or towed on a highway. Such vehicles, with some exceptions, must be titled. As OHRVs are not intended for highway use, they are not currently required to be titled.

The application for a vehicle certificate of title has to be made by the owner of the vehicle on the form that MVA requires. However, MVA is authorized to develop and implement an electronic system for the issuance of certificates of title and the recording and releasing of security interests. The electronic system is designed to transmit vehicle data to and from licensed dealers.

In addition to any other charge required by the Maryland Vehicle Law, an excise tax is imposed on each original and subsequent certificate of title issued in this State for a motor vehicle, trailer, or semitrailer. Except for vehicles engaged in interstate operation registered or titled in another state, excise taxes imposed on a vehicle owner are paid to MVA before the issuance of a certificate of title for that vehicle. The excise tax is based on the fair market value of the vehicle which, except in the case of a used trailer, is equal to the total purchase price of the vehicle, or \$640, whichever is greater. Any person who fails to pay the excise tax is guilty of a misdemeanor and on conviction, subject to a fine of up to \$1,000.

When a licensed dealer that also is an inspection station transfers a used vehicle, it is required to prepare and attach an inspection certificate to a window of the vehicle or have one prepared and attached by another inspection station. Vehicles excepted from this requirement include a used Class E (truck) exceeding three-fourths ton manufacturer’s rated capacity; Class F (tractor); Class G (freight trailer or semitrailer); Class G (dump service semitrailer); or Class K (farm area/island) vehicle.

Background: According to the Specialty Vehicle Institute of America, as of August 2009 17 states require all-terrain vehicles to be registered with the motor vehicle agency, and 16 states require registration with a state recreation management agency.

State Revenues: The bill requires the titling of vehicles, increasing significantly the issuance of titles by MVA and increasing to a lesser extent the number of vehicles on which a vehicle excise tax is paid and the number of vehicles secured by a title lien; registration of OHRVs is not required. The bill does not require the payment of the vehicle excise tax, except on the purchase of vehicles for which a sales and use tax was not paid. Therefore, it is assumed that general fund revenues are not affected as the sales and use tax continues to be collected on OHRVs sold in Maryland, but TTF revenues increase, mostly due to the payment of title fees to MVA, as shown in **Exhibit 1**.

Exhibit 1
Transportation Trust Fund Revenue Sources and Estimates

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Title Fees	\$119,721	\$905,011	\$965,939	\$1,005,156	\$1,041,692
Title Lien Fees	4,789	36,200	38,638	40,206	41,668
Excise Tax Revenue	30,204	192,996	233,784	254,680	250,588
Total TTF Revenues	\$162,265	\$1,182,456	\$1,296,807	\$1,363,712	\$1,396,595
<i>Retained by State</i>	<i>\$154,714</i>	<i>\$1,134,207</i>	<i>\$1,238,361</i>	<i>\$1,300,042</i>	<i>\$1,333,948</i>
<i>Distributed to Locals</i>	<i>\$7,551</i>	<i>\$48,249</i>	<i>\$58,446</i>	<i>\$63,670</i>	<i>\$62,647</i>

The revenue projection illustrated in Exhibit 1 is based on the following data and assumptions:

- Office of the Comptroller data on the number of newly purchased all-terrain vehicles and dirt bikes including fiscal 2010 sales projections of 10,334 units, estimated future sales growth rates adjusted annually through calendar 2015 based in part on 2009 forecasts of economic conditions, and average sales prices including projected inflation rates;
- MVA title fees of \$50 and title lien fees of \$20;
- 10% of OHRVs are assumed to be secured with a lien;
- snowmobile sales and prices are not reflected in the projection due to a lack of data, but they are expected to be negligible;
- the number of resale units grows 5% annually, so that resold OHRVs purchased on or after May 1, 2010 (the bill's assumed effective date), are estimated to be 25% of all OHRVs purchased by fiscal 2016; and

- the number of out-of-state OHRVs paying excise tax in Maryland represents 4% of the number of OHRVs sold in Maryland, and is primarily from Delaware, the only surrounding state with a lower effective sales tax rate.

State Expenditures: TTF expenditures increase by \$12,538 in fiscal 2010, which assumes an effective date of May 1, 2010. This estimate reflects the cost of hiring one additional customer agent at MVA to process the additional title-related transactions. MVA advises that, generally, one customer agent is required for each additional 10,000 transactions. The estimate includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses, including the cost for procuring additional title paper and postage costs to communicate with MVA customers.

	<u>FY 2010</u>	<u>FY 2011</u>
Position	1	
Salary and Fringe Benefits	\$8,018	\$48,113
Start-up Costs and Operating Expenses	4,520	6,777
Total FY 2010 State Expenditures	\$12,538	\$54,890

Future year expenditures reflect a full salary with 4.4% annual increases, 3% employee turnover, and 1% annual increases in ongoing operating expenses. DLS advises that, given the large number of additional transactions estimated under the bill, MVA may also need an additional internal auditor position consistent with current procedures; this position has not been included in the estimate.

Local Revenues: Local revenues may increase by about \$7,551 in fiscal 2010 and more than \$48,249 annually thereafter due to an increase in titling tax revenues distributed through the Gasoline and Motor Vehicle Revenue Account as highway user revenues.

Additional Information

Prior Introductions: HB 592 of 2009 passed the House, was referred to the Senate Judicial Proceedings Committee, and had no further action taken on it. Its cross file, SB 521, received an unfavorable report from the Senate Judicial Proceedings Committee.

Cross File: SB 466 (Senator Forehand) - Judicial Proceedings.

Information Source(s): Comptroller's Office, Specialty Vehicle Institute of America, Department of Legislative Services

Fiscal Note History: First Reader - February 12, 2010
mam/ljm Revised - House Third Reader - April 12, 2010

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