

Department of Legislative Services
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 827
Budget and Taxation

(Senator Madaleno)

Motor Fuel Tax - Index

This bill indexes the State motor fuel tax rate for all fuels except aviation gasoline and turbine fuel and would potentially increase quarterly based on the change in wholesale gasoline prices relative to a base period price as determined by the Comptroller. Motor fuel tax rates may not increase or decrease more than 2 cents per gallon in each quarter.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues increase by \$30.4 million in FY 2011; with the State share totaling \$21.3 million. Future year revenues reflect estimated fuel consumption and prices. Special fund expenditures increase by \$0.2 million due to increased administration costs at the Comptroller's Office.

(\$ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
SF Revenue	\$30.4	\$200.4	\$280.6	\$284.2	\$303.7
SF Expenditure	\$.2	\$.2	\$.2	\$.2	\$.2
Net Effect	\$30.2	\$200.3	\$280.4	\$284.0	\$303.6

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

Local Effect: Local highway user revenues increase by \$9.1 million in FY 2011 and by \$86.6 million in FY 2015. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill indexes the State motor fuel tax rate for all fuels except aviation gasoline and turbine fuel. Motor fuel tax rates will increase quarterly if the Comptroller's Office determines that average wholesale motor fuel prices over a specified period exceed the average wholesale price during the base period (April through June 2010). The increase in the tax rate, if any, is equal to 2 cents per gallon for every 20 cents by which the most recent wholesale price per gallon exceeds the base period price. Motor fuel tax rates may not increase or decrease more than 2 cents per gallon in each quarter.

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 or a claim for credit for motor fuel tax paid.

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. Motor fuel tax revenues totaled \$736.1 million in fiscal 2009 and are projected to total \$751.4 million in fiscal 2011.

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 state 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. Maryland's gasoline tax rate is 5.5 cents per gallon or about one-fifth less than the average rate imposed by all states.

Exhibit 1
Total State Motor Fuel Tax Rates in Surrounding Jurisdictions
(Cents per Gallon)

	<u>Gasoline</u>	<u>Diesel</u>
Delaware	23.0¢	22.0¢
District of Columbia	23.5	23.5
North Carolina	30.2	30.2
Pennsylvania	32.3	39.2
Virginia	19.5	19.6
West Virginia	32.2	32.1
Maryland	23.5¢	24.25¢
National Average	29.0¢	27.6¢

Source: American Petroleum Institute

State Revenues: TTF revenues increase by \$30.4 million in fiscal 2011 as a result of indexing motor fuel tax rates. **Exhibit 2** illustrates the fiscal effect and the average cumulative increase in motor fuel tax rates under the bill. The estimate is based on current motor fuel consumption and price forecasts.

Exhibit 2
Estimated Revenue Impact of SB 827
(\$ in Millions)

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Motor Fuel Tax Rate	1.0¢	6.5¢	9.0¢	9.0¢	9.5¢
Total TTF	\$30.4	\$200.4	\$280.6	\$284.2	\$303.7
MDOT Share	21.3	143.3	200.6	203.2	217.2
Local Share	9.1	57.1	80.0	81.0	86.6

State Expenditures: The Comptroller's Office advises that it will incur additional computer programming expenses of \$65,300 in fiscal 2011 in order to alter the motor fuel tax system. In addition, it will need to hire two additional auditors in order to handle the increased time required to perform motor fuel tax audits. As a result, special fund

expenditures increase by \$191,800 in fiscal 2011. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$126,529
Operating Expenses	<u>65,280</u>
Total FY 2011 State Expenditures	\$191,809

Future year expenditures reflect ongoing annual computer programming expenses and full salaries with 4.4% annual increases and 3% employee turnover; and 1% annual increases in ongoing operating expenses.

Local Fiscal Effect: Local governments receive a portion of TTF revenues as local highway user revenues for the purpose of constructing and maintaining local roads. Pursuant to this legislation, local highway user revenues increase by \$9.1 million in fiscal 2011 and by \$86.6 million in fiscal 2015, 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. The incidence of the tax will be shared by customers (which include other businesses) through higher product prices and owners of the small businesses. Small businesses may potentially benefit to the extent that additional funding improves the State's infrastructure.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 15, 2010
mam/hlb

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