

Department of Legislative Services
2010 Session

FISCAL AND POLICY NOTE

House Bill 969
Ways and Means

(Delegate Barkley, *et al.*)

Motor Fuel Tax - Adjustments

This bill increases the State motor fuel tax rate for all fuels except aviation gasoline and turbine fuel by one-half cent. Beginning July 1, 2011, these tax rates will be indexed to the change in the Construction Cost Index (CCI) and would potentially increase once in a fiscal year based on the percentage change in the CCI; however, the increase is limited to one cent per gallon in each fiscal year.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues increase by \$15.4 million in FY 2011; with the State share totaling \$10.8 million. Future year revenues reflect forecasts of fuel consumption and construction costs. Expenditures are not affected.

(\$ in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
SF Revenue	\$15.4	\$28.3	\$44.7	\$64.8	\$88.6
Expenditure	0	0	0	0	0
Net Effect	\$15.4	\$28.3	\$44.7	\$64.8	\$88.6

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

Local Effect: Local highway user revenues increase by \$4.6 million in FY 2011 and by \$25.3 million in FY 2015. Local expenditures are not affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill increases the State motor fuel tax rate for all fuels except aviation gasoline and turbine fuel by one-half a cent. The bill also 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). Beginning July 1, 2011 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. 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.

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 has increase by about 3.5% annually in the last decade compared with a 2.8% annual average increase in the CPI.

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 Fiscal Effect: TTF revenues increase by \$15.4 million in fiscal 2011 as a result of increasing motor fuel tax rates by one-half cent. **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
(\$ 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 Increase (Cumulative Increase)	0.5¢	0.9¢	1.4¢	2.0¢	2.7¢
Total TTF	\$15.4	\$28.3	\$44.7	\$64.8	\$88.6
MDOT Share	10.8	20.3	32.0	46.3	63.4
Local Share	4.6	8.1	12.7	18.5	25.3

Local Fiscal Effect: Local governments receive a portion of TTF revenues as highway user revenues for the purpose of constructing and maintaining local roads. Pursuant to this legislation, local highway user revenues increase by \$4.6 million in fiscal 2011 and

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by \$25.3 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. 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 (including 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: HB 747 of 2009 was not reported from the House Ways and Means Committee.

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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