Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 325 (Senator Colburn)
Budget and Taxation

Regional Mass Transit Account

This bill increases the State sales and use tax rate from 6% to 7% in Baltimore City, and Anne Arundel, Baltimore, Montgomery, and Prince George's counties. The bill establishes a Regional Mass Transit Account in the Transportation Trust Fund. The Comptroller is required to pay 14.2% of sales and use tax revenues collected in Baltimore City, and Anne Arundel, Baltimore, Montgomery, and Prince George's counties into the Regional Mass Transit Account to pay the cost of transit facilities and transit service in those jurisdictions.

The bill takes effect July 1, 2012.

Fiscal Summary

State Effect: Special fund revenues increase by an estimated $436.3 million in FY 2013. General fund revenues decrease by an estimated $4.2 million in FY 2013. General fund expenditures increase by $280,050 in FY 2013 for computer programming and notification costs.

($ in millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
GF Revenue	($4.2)	($4.2)	($4.3)	($4.4)	($4.5)
SF Revenue	$436.3	$451.4	$473.0	$492.7	$517.4
GF Expenditure	$.3	$0	$0	$0	$0
Net Effect	$431.8	$447.2	$468.7	$488.3	$512.9

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: The State sales and use tax rate is 6%, except for the sale of alcoholic beverages, which are taxed at 9%. Local governments in Maryland are not authorized to impose general sales taxes. Certain local governments are authorized to levy selected sales taxes on certain categories of sales, the most common of which are utility, hotel rental, and parking taxes.

Background: The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately $4.0 billion in both fiscal 2012 and 2013, according to the December 2011 revenue forecast. **Exhibit 1** shows the sales and use tax rates in surrounding states and the District of Columbia.

Exhibit 1
Sales and Use Tax Rates in Maryland and Surrounding States

Delaware	0%
District of Columbia	6%
Maryland	6%
	9% for alcoholic beverages
Pennsylvania	6% plus 1% in certain local jurisdictions
	0% sales tax on clothing
Virginia	5%; 2.5% for food, both rates include 1% for local jurisdictions
West Virginia	6%; 2% for food

Transportation Trust Fund (TTF)

TTF is a nonlapsing special fund that provides funding for transportation. It consists of tax and fee revenues, operating revenues, bond proceeds, and fund transfers. MDOT issues bonds backed by TTF revenues and invests the TTF fund balance to generate investment income. The Maryland Transit Administration, Motor Vehicle Administration, Maryland Port Administration, and Maryland Aviation Administration generate operating revenues that cover a portion of their operating expenditures.

The tax and fee revenues allocated to TTF include motor fuel taxes, titling taxes, vehicle registration fees, a portion of the rental car sales and corporate income taxes, and other miscellaneous motor vehicle fees.

Blue Ribbon Commission on Transportation Funding

Chapters 525 and 526 of 2010 established the Blue Ribbon Commission on Transportation Funding. The commission was tasked with reviewing, evaluating, and making recommendations on a variety of issues, including: (1) the current State funding sources and structure of TTF; (2) short- and long-term transit and highway construction and maintenance funding needs; (3) options for public-private partnerships to meet transportation funding needs; (4) the structure of regional transportation authorities and their ability to meet transportation needs; and (5) options for sustainable, long-term revenue sources for transportation.

The commission's November 2011 final report recommends, among other things, protecting and increasing transportation funding and facilitating funding partnerships. **Exhibit 2** summarizes the key recommendations included in the final report.

Exhibit 2
Summary of the Final Recommendations of the
Blue Ribbon Commission on Transportation Funding

Protect and Increase Transportation Funding

- Amend the Maryland Constitution to prohibit transfers from TTF to nontransportation purposes, except in fiscal emergencies.
- Raise $870 million in new annual revenues for transportation by, for example, increasing (1) the motor fuel tax over three years by five cents per gallon per year and then indexing it to inflation; (2) vehicle registration fees by 50%; and (3) other transportation revenues.
- Restore the allocation of annual highway user revenues to local governments.
- Increase transportation bonding capacity commensurate with revenue adjustments.
- Remove the cost-recovery cap for Motor Vehicle Administration fees.
- Consider establishing tolls on new or expanded transportation facilities in conjunction with variable pricing techniques.

Support Transit

- Reach the transit cost-recovery ratio goal of 35%.
- Regularly adjust transit fares and eliminate nonpaying ridership.

Support State Growth Policies

- Collaborate with local governments to ensure that local plans reflect State growth policies.

Capture Value Created by Transportation Investments

- Integrate value capture analysis into transportation decisionmaking.
- Seek authority to apply tax increment financing support to highway project development.

Facilitate Transportation Financing Partnerships

- Establish centralized enabling legislation for public-private partnerships (P3) outlining efficient and timely legislative review.
- Revise the current transportation P3 process.
- Assess the feasibility of loaning State funds to local governments and private sponsors to facilitate transportation investments.

Source: Blue Ribbon Commission on Transportation Funding Final Report, November 2011.

State Revenues: The bill increases the State sales and use tax rate from 6% to 7% in Baltimore City, and Anne Arundel, Baltimore, Montgomery, and Prince George's counties and also requires a distribution of 14.2% of all sales and use tax revenue collected in those jurisdictions to the Regional Mass Transit Account in the Transportation Trust Fund. As a result, special fund revenues will increase by an estimated $436.3 million in fiscal 2013. General fund revenues will decrease by an estimated $4.2 million in fiscal 2013. The decrease in general fund revenues is attributable to revenues from the 9% sales tax rate on the sale of alcoholic beverages that are included within the required 14.2% distribution to the Regional Mass Transit Account from all sales tax revenues in Baltimore City, and Anne Arundel, Baltimore, Montgomery, and Prince George's counties.

Exhibit 3 shows the estimated revenue for the Regional Mass Transit Account resulting from increasing the State sales and use tax rate to 7% in Baltimore City, and Anne Arundel, Baltimore, Montgomery, and Prince George's counties. The estimate is based upon fiscal 2011 sales tax collections, by county, as reported by the Comptroller. The estimate accounts for some level of consumers shifting sales to other jurisdictions without the additional sales tax. The estimate also assumes that, to the extent consumers do decide to shop in another jurisdiction in order to avoid the additional tax, these sales will remain in the State rather than going to another state. As a result, existing revenues from the State sales tax are assumed to be unaffected by any change in sales resulting from the additional sales tax rate in certain jurisdictions.

It is important to note, however, that data showing sales tax revenue collections by county has limitations with regards to accuracy; the actual allocation of sales tax revenues may differ somewhat from what is reported. For example, when larger businesses with many locations across the State remit sales tax collections, they may attribute collections to one "primary" location or may simply allocate collections evenly across all locations. In either case, the actual collections for any one establishment may not be totally accurate. As a result, the actual revenue increase could vary depending on the actual amount of sales and use taxes collected from the various counties.

Exhibit 3
Revenue Impact of SB 325
($ in Thousands)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
General Fund	($4,155)	($4,177)	($4,284)	($4,420)	($4,528)
Regional Mass Transit Account	436,258	451,405	472,997	492,730	517,383

State Expenditures: The Comptroller's Office will incur a variety of one-time expenditures to administer the sales tax rate changes, including form changes, notification costs relating to mailing and postage, and computer programming modifications. As a result, general fund expenditures increase by $280,050 in fiscal 2013.

Small Business Effect: Increasing the sales tax rate in some jurisdictions may result in a decline in consumer purchases of goods and services from retailers in the affected jurisdictions. To the extent possible, residents may purchase more items in other jurisdictions, or even other states where the tax rate is lower. The extent to which this may happen cannot be reliably estimated, but it would not be difficult for many residents to shop in a local jurisdiction in the State with a 6% tax rate.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Baltimore and Montgomery counties, Comptroller's Office, Maryland Department of Transportation, Department of Legislative Services

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