

Department of Legislative Services
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 766

(Senator Edwards)

Budget and Taxation

Motor Fuel - Mass Transit Tax - Transit Funding

This bill imposes an additional tax on motor fuel sold by a distributor to retail service stations located in Baltimore City and Anne Arundel, Baltimore, Montgomery, and Prince George's counties. The tax rate is equal to 2.1% of the sales price charged by a distributor. The bill establishes a Mass Transit Account in the Transportation Trust Fund (TTF). The Comptroller is required to distribute the revenues generated from the tax into the Mass Transit Account to pay for the cost of light rail and Metro subway transit facilities and transit service operated by the Maryland Transit Administration (MTA) in those jurisdictions. The Comptroller's Office is required to adopt regulations to implement the bill.

The bill takes effect July 1, 2012.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues increase by \$126.1 million in FY 2013. Future year revenues reflect the application of the tax as specified by the bill and current fuel consumption and price forecasts. Potential increase in special fund expenditures beginning in FY 2013 at the Comptroller's Office due to administrative costs.

(\$ in millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
SF Revenue	\$126.1	\$128.0	\$129.9	\$131.8	\$133.8
SF Expenditure	-	-	-	-	-
Net Effect	\$126.1	\$128.0	\$129.9	\$131.8	\$133.8

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

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Bill Summary: The bill imposes an additional tax on motor fuel sold by a distributor to retail service stations located in Baltimore City and Anne Arundel, Baltimore, Montgomery, and Prince George's counties and establishes a Mass Transit Account in TTF. The bill specifies that for each fiscal year, of the funds in TTF that are not credited to the Mass Transit Account, the Maryland Department of Transportation (MDOT) may not budget an amount to pay transit costs in excess of the amount budgeted for that purpose in fiscal 2012 unless the excess amount is paid from the Mass Transit Account.

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 are projected to total \$752.6 million in fiscal 2013.

Background:

Motor Fuel Tax

Some states, including Maryland, impose only a motor fuel excise tax, while other states impose both an excise tax and a sales tax or equivalent 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 rate of 18.4 cents per gallon of gasoline and 24.4 cents per gallon of diesel fuel. Maryland's gasoline tax rate of 23.5 cents per gallon is about one-fifth less than the average rate imposed by all states. In addition, Maryland's motor fuel tax rate is not adjusted periodically for inflation. However, 12 states (California, Connecticut, Florida, Georgia, Iowa, Kentucky, Nebraska, New York, North Carolina, Pennsylvania, Vermont, and West Virginia) have adopted variable motor fuel tax rates that do incorporate inflationary adjustments. Six states impose the sales tax on the retail purchase of motor fuel (California, Illinois, Indiana, Michigan, New York, and Virginia).

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

	<u>Sales Tax</u>	<u>Variable Rate</u>	<u>Gasoline</u>	<u>Diesel</u>
Delaware	-	-	23.0¢	22.0¢
District of Columbia	-	-	23.5	23.5
North Carolina	-	Yes	39.2	39.2
Pennsylvania	-	Yes	32.3	39.2
Virginia	Yes*	-	19.8	20.1
West Virginia	-	Yes	33.4	32.1
Maryland	-	-	23.5¢	24.25¢
National Average	-	-	30.4¢	29.6¢

Note: The tax rates for other states may include other state taxes and fees.

*Virginia imposes a 2.1% sales tax in Northern Virginia for transportation that is collected at the distributor and not retail level.

Source: American Petroleum Institute

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. During the September 2010 to October 2011 period, the 28-member commission held 14 meetings and received feedback from numerous experts and affected parties.

The commission's November 1, 2011 final report recommends, among other things, protecting and increasing transportation funding and facilitating funding partnerships. **Exhibit 2** summarizes key recommendations included in the final report. The bill implements some of the commission's recommendations.

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.

Exhibit 3 shows the amount of local sales tax revenues generated in Northern Virginia counties in fiscal 2007 through 2011. The tax proposed by SB 766 is similar to the local sales tax imposed in these counties.

Exhibit 3
Northern Virginia Local Sales Tax Revenues
Fiscal 2007-2011

<u>Locality</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Arlington County	\$3,771,350	\$3,738,090	\$3,310,688	\$3,116,089	\$3,919,086
Fairfax County	22,277,757	24,853,138	21,161,193	20,238,696	22,908,710
Loudoun County	8,303,207	9,266,846	8,185,363	7,910,011	9,464,579
Alexandria City	2,498,120	2,793,990	2,361,611	2,638,904	3,260,035
Fairfax City	1,430,842	1,307,130	1,108,263	1,656,957	2,467,878
Falls Church City	403,624	433,480	330,402	558,849	1,002,005
Northern Virginia					
Transportation Commission	\$38,684,902	\$42,392,674	\$36,457,519	\$36,119,507	\$43,022,294
Prince William County	\$11,926,870	\$13,293,562	\$11,784,558	\$11,543,386	\$13,749,156
Stafford County	3,957,734	4,502,861	3,768,233	3,926,166	5,011,443
Fredericksburg City	1,586,685	1,610,258	1,379,537	1,322,784	1,873,488
Manassas City	1,646,455	1,712,072	1,413,530	1,727,327	2,024,665
Manassas Park City	860,730	949,672	948,388	703,088	689,392
Spotsylvania County	N/A	N/A	N/A	928,906	3,152,621
Potomac and Rappahannock					
Transportation Commission	\$19,978,476	\$22,068,425	\$19,294,247	\$20,151,658	\$26,500,765
Total	\$58,663,377	\$64,461,099	\$55,751,766	\$56,271,165	\$69,523,059

Source: Virginia Department of Revenue

State Fiscal Effect: This bill imposes an additional tax rate on motor fuel sold by a distributor to retail service stations located in Baltimore City and Anne Arundel, Baltimore, Montgomery, and Prince George's counties. As a result, TTF revenues may increase by \$126.1 million in fiscal 2013.

This estimate is based on the amount of local sales tax revenue generated in Northern Virginia counties in fiscal 2011, adjusted for differences in population and gasoline prices.

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, which will also impact the owners of the small businesses. In addition, any small business that is a service station located in a county in which the proposed tax would apply could be harmed by a decrease in sales. Small businesses may potentially benefit to the extent that additional funding improves the State's transportation infrastructure.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): American Petroleum Institute, Comptroller's Office, Maryland Department of Transportation, Virginia Department of Revenue, Department of Legislative Services

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mlm/jrb

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