

Department of Legislative Services
 Maryland General Assembly
 2013 Session

FISCAL AND POLICY NOTE

House Bill 1210 (Delegate Hershey)
 Environmental Matters

Waterway Improvement Fund - Revenue Distributions - Marinas

This bill requires the Comptroller to allocate, after making specified distributions, motor fuel tax and sales and use tax revenue collected by marinas to the Department of Natural Resources' (DNR) Waterway Improvement Fund (WIF). A "marina" is a person who maintains a place of business where motor fuel is sold primarily to vessels.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: General fund expenditures increase by \$129,000 in FY 2014 for accounting system programming changes and tax form modifications. Transportation Trust Fund (TTF), general fund, and Chesapeake and Atlantic Coastal Bays 2010 Trust Fund revenues decrease significantly in FY 2014 and in subsequent years and WIF revenues increase correspondingly; however, the amount of revenue redistributed cannot be reliably estimated.

(in dollars)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GF Revenue	(-)	(-)	(-)	(-)	(-)
SF Revenue	-	-	-	-	-
GF Expenditure	\$129,000	\$0	\$0	\$0	\$0
Net Effect	(\$129,000)	\$0	\$0	\$0	\$0

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

Local Effect: The bill is not expected to materially affect local finances; however, local transportation aid and local grants for nonpoint source projects may decrease and local grants for waterway improvement projects may increase.

Small Business Effect: Minimal.

Analysis

Current Law:

Motor Fuel Tax

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. Motor fuel tax revenues are projected to total \$745.5 million in fiscal 2014.

Motor fuel taxes, after distributions to an administrative and refund account, are distributed as follows:

- all of the net proceeds of the aviation fuel tax to TTF;
- fuel tax revenues that are attributable to the portion of the rate that exceeds 18.5 cents per gallon are distributed to TTF's Gasoline and Motor Vehicle Revenue Account (GMVRA); and
- the remainder is distributed as follows: 2.3% to the Chesapeake Bay 2010 Trust Fund (of which specified amounts are allocated to the general fund in fiscal 2013, 2014, 2015, and 2016) and the remainder to GMVRA.

GMVRA revenue (commonly known as highway user revenue) must be distributed to the Maryland Department of Transportation (MDOT) and local jurisdictions as follows: 90% in fiscal 2013 and 90.4% in fiscal 2014 and future years to MDOT, and the balance to counties, municipalities, and Baltimore City. The funds retained by TTF support MDOT's capital program, debt service, and operating costs. Local governments use highway user revenues to help fund local transportation projects.

Sales and Use Tax

The State sales and use tax rate is 6%, except for the sale of alcoholic beverages, which are taxed at 9%. Motor fuel sales are exempt from the tax. The sales and use tax is the State's second largest source of general fund revenue, accounting for approximately \$4.1 billion in fiscal 2013 and \$4.3 billion in fiscal 2014, according to the December 2012 revenue forecast.

Chesapeake and Atlantic Coastal Bays 2010 Trust Fund

The Chesapeake and Atlantic Coastal Bays 2010 Trust Fund was established in 2008 and is funded with a portion of revenues from the motor fuel tax and the sales and use tax on short-term vehicle rentals. In fiscal 2013, and in the Governor's proposed fiscal 2014 budget, general obligation bond capital funding has also been allocated to the fund. The

fund, which is administered by DNR, is used for nonpoint source pollution control projects to help meet Chesapeake Bay restoration goals and to improve the health of the Atlantic Coastal Bays and their tributaries. Money in the fund is expended in accordance with work and expenditure plans developed each year and is required to be targeted, geographically and by practice, to proven, scientifically based projects that provide the most cost-effective and measurable water quality benefits to the Chesapeake and Atlantic Coastal Bays. Examples of nonpoint source projects that can be funded include cover crops, natural filters, and local watershed restoration projects, including stormwater management projects.

Waterway Improvement Fund

The State Boat Act, enacted in 1960, governs boating in the State. Any revenue DNR collects under the State Boat Act must be deposited in the State Treasury and used exclusively for the administration, functions, and objectives of the State Boat Act. These funds are credited to DNR's WIF. Financial support for WIF comes primarily from the vessel excise tax; however, in the past, WIF received revenue from 0.3% of eligible proceeds from Maryland's motor fuel tax.

Background: Since 1965, WIF has been essential in financing projects and activities that promote, develop, and maintain Maryland's waterways for the benefit of the boating public. Among other things, WIF is used to (1) mark channels and harbors and establish aid to navigation; (2) clear debris, aquatic vegetation, and obstructions from State waters; (3) dredge channels and harbors and construct jetties and breakwaters; (4) construct and maintain marine facilities beneficial to the boating public; (5) provide matching grants to local governments for the construction of specified marine facilities, vessels, and equipment; (6) construct structural and nonstructural shore erosion projects; and (7) provide boating information and education.

The vessel excise tax serves as the major source of funding for WIF and, consequently, public boating projects. Due to a significant decrease in boat sales in recent years, WIF revenues have declined by 50% since fiscal 2006. WIF vessel excise tax revenues totaled approximately \$14 million in fiscal 2012 and are estimated to remain level in fiscal 2013 and 2014. Based on program funding requests, DNR estimates the annual need for boating-related projects and services in Maryland is approximately \$21 million. Additional State funds may be required for dredging to offset recent decreases in federal funding for shallow water dredging projects in the State.

The Maryland Department of Agriculture's Weights and Measures Unit, which regulates the sale of gasoline through gasoline pumps by verifying accurate measurement, indicates that there are approximately 200 gas station accounts with one or more gasoline pumps located at small airports and marinas.

State Revenues: While the bill does not impact the State's *overall* revenues, a significant amount of revenue is redistributed in fiscal 2014 and in future years from the general fund, TTF, and the 2010 Trust Fund to WIF. The exact amount of revenue redistributed cannot be reliably estimated because the Comptroller does not collect data for motor fuel sold to marinas. However, the Comptroller does track sales and use tax revenue collected from marine sales and rentals. In fiscal 2012, \$6.5 million in marine sales and use tax revenue was collected; however, the Comptroller advises that a large portion of this total is likely from the sale of marine supplies and equipment at businesses that are not marinas.

State Expenditures: General fund expenditures increase by \$129,000 in fiscal 2014 for the Comptroller to make various modifications to implement the modified revenue distribution. This estimate assumes:

- general fund expenditures increase by \$6,000 to contact businesses to determine if the account holder maintains “a place of business where motor fuel is sold primarily to vessels”;
- general fund expenditures increase by \$23,000 to add a new sales and use tax code for marinas to the accounting and revenue reporting systems; and
- general fund expenditures increase by \$100,000 to modify the motor fuel tax form, adjust processing and revenue accounting systems, and conduct system testing.

The Comptroller can absorb any costs associated with implementing the bill in fiscal 2015 and subsequent years.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Natural Resources, Maryland Department of Agriculture, Comptroller's Office, Department of Legislative Services

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