

Department of Legislative Services
 Maryland General Assembly
 2013 Session

FISCAL NOTE
 Revised

Senate Bill 90

(Senator Astle)

Budget and Taxation

Ways and Means

Natural Resources - Vessel Excise Tax - Waterway Improvement Fund

This bill allocates 0.5% of specified motor fuel tax revenue to the Department of Natural Resource’s (DNR) Waterway Improvement Fund (WIF) and establishes a maximum vessel excise tax amount of \$15,000 per vessel. DNR must submit a report to the Governor and the General Assembly by August 1 of 2014, 2015, and 2016 describing the effect of limiting the vessel excise tax on the number and type of vessels registered in the State and the health of the boating industry. The bill also establishes a Task Force to Study Enhancing Boating and the Boating Industry in Maryland to evaluate options and make recommendations for enhancing boating and growing the boating industry. The task force must submit a report of its findings and recommendations to the Governor and the General Assembly by September 1, 2015.

The bill takes effect July 1, 2013, and provisions establishing a maximum vessel excise tax amount and task force terminate June 30, 2016.

Fiscal Summary

State Effect: Special fund revenues decrease by \$424,100 in FY 2014, \$433,000 in FY 2015, and \$442,000 in FY 2016 due to establishing a maximum vessel excise tax amount. As a result of redistributing motor fuel tax revenue, DNR revenues increase by \$2.8 million in FY 2014, \$2.9 million in FY 2015, and by \$3.0 million annually in FY 2016 through 2018 and Transportation Trust Fund (TTF) revenues decrease correspondingly. DNR special fund expenditures increase by \$73,200 annually in FY 2014 and 2015 and by \$10,000 in FY 2016 for contractual costs associated with developing required reports and staffing the task force.

(in dollars)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
SF Revenue	(\$424,100)	(\$433,000)	(\$442,000)	\$0	\$0
SF Expenditure	\$73,200	\$73,200	\$10,000	\$0	\$0
Net Effect	(\$497,300)	(\$506,200)	(\$452,000)	\$0	\$0

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

Local Effect: As a result of the redistribution of specified motor fuel tax revenue from TTF to WIF, local transportation aid decreases by an estimated \$273,000 in FY 2014 and by an estimated \$289,000 by FY 2018. However, local grant revenues from WIF for waterway improvement projects may increase.

Small Business Effect: Meaningful.

Analysis

Bill Summary: DNR must provide staff for the task force. In addition to evaluating options and making recommendations for enhancing boating and growing the boating industry, the task force must consider (1) incentives to encourage boats to register in the State and use marinas and boat yards for recreation, repair, and outfitting in the State; (2) the impact of modifying the State vessel excise tax rate and boat registration fees; (3) the expenditure and use of WIF and its benefits to the general boating public and the State's boating industry; (4) the impact on the boating industry and the general boating public of decreased State and federal spending on boating access; (5) the costs and needs of maintaining and improving public boating infrastructure and boating safety; and (6) any other matter that will enhance boating in the State. Task force members may not receive compensation but are entitled to reimbursement for expenses under the standard State travel regulations.

Provisions of the bill altering the distribution of motor fuel tax revenue apply (1) when any Consolidated Transportation Bonds (CTBs) issued before July 1, 2013, no longer remain outstanding and unpaid and (2) in any fiscal year when funds are appropriated to pay the amount due and payable in that fiscal year for the principal of and interest on CTBs.

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.

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.

Except under specified conditions, an excise tax is levied at the rate of 5% of the fair market value of a vessel on (1) the issuance of every original certificate of title required for a vessel; (2) the issuance of every subsequent certificate of title for the sale, resale, or transfer of the vessel; (3) the sale within the State of every other vessel; and (4) the possession within the State of a vessel purchased outside the State to be used principally in the State. The fair market value is determined by means of a national publication of used vessel values (specifically, the *Used Boat Price Guide*), and there is a minimum value of \$100 that applies to all sales.

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 \$13.5 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 \$21.0 million. Additional State funds may be required for dredging to offset recent decreases in federal funding for shallow water dredging projects in the State.

By limiting vessel excise tax to a maximum of \$15,000, the bill effectively reduces the 5% vessel excise tax for individuals purchasing vessels in excess of \$300,000. For example, an individual buying a \$10,000 boat would pay a 5% vessel excise tax, whereas an individual buying a \$1.0 million boat would pay an effective tax rate of 1.5%. A University of Maryland analysis of actual vessel excise tax revenue collected over 10 years (2002 through 2011) found that a \$10,000 maximum tax would have resulted in an average annual revenue loss of \$1.7 million and an \$18,000 maximum tax would have resulted in an average annual revenue loss of \$389,005.

Some boating advocates suggest that capping the vessel excise tax will increase boat sales and prompt boaters to relocate vessels to Maryland, effectively increasing funding for public boating-related projects.

State Revenues:

Maximum Vessel Excise Tax

Special fund revenues into WIF decrease by an estimated \$424,114 in fiscal 2014, \$432,978 in fiscal 2015, and \$441,984 in fiscal 2016 as a result of establishing a maximum excise tax of \$15,000 per vessel. This estimate is based on the vessel excise tax revenue collected in fiscal 2012 that would not have been collected if a \$15,000 per vessel cap existed and is adjusted for inflation. DNR advises that in fiscal 2012, 107 boats had a purchase price of at least \$300,000, resulting in excise tax collections from those vessels exceeding \$15,000 per vessel. In that year, the excise tax from those boats totaled \$2.0 million; under this bill, DNR would have collected \$1.6 million (a revenue decrease of \$408,647, which equates to about \$424,114 in fiscal 2014). Fiscal 2015 and 2016 revenue estimates are further adjusted for inflation. However, the Department of Legislative Services advises that because boat sales vary from year to year and the bill may prompt more boat sales in the State, the impact on special fund revenues could vary significantly from the estimated amount.

Redistribution of Motor Fuel Tax Revenue

The bill redistributes motor fuel tax special fund revenue from TTF to WIF in fiscal 2014 and future years. Based on current motor fuel tax revenue estimates, WIF revenues increase by \$2.8 million in fiscal 2014, \$2.9 million in fiscal 2015, and by \$3.0 million annually in fiscal 2016 through fiscal 2018; TTF revenues decrease correspondingly.

State Expenditures: DNR special fund expenditures increase by \$73,200 annually in fiscal 2014 and 2015 and by \$10,000 in fiscal 2016 for contractual costs associated with developing required reports and staffing the task force. This estimate reflects (1) \$10,000 in annual contractual expenditures in fiscal 2014 through 2016 to develop reports on the vessel excise tax cap; (2) \$60,000 in annual contractual expenditures in fiscal 2014 and 2015 to staff the task force and develop the required report; and (3) other task force implementation expenditures. This estimate assumes that a contractor coordinates eight task force meetings over a two-year period.

Small Business Effect: Boat manufacturers and dealers benefit to the extent that the bill prompts the sale of additional high-end boats in the State. By capping the excise tax amount, the bill may also attract additional owners of high-end boats from other states to Maryland. In addition, an unknown number of small businesses are used by DNR and local governments to plan, design, and build waterway improvement projects. To the extent that the bill increases funding for such projects as a result of the redistribution of motor fuel tax revenue to WIF, those small businesses benefit.

Additional Information

Prior Introductions: None.

Cross File: HB 548 (Delegate George, *et al.*) - Ways and Means.

Information Source(s): Department of Natural Resources, University of Maryland, Department of Legislative Services

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