

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

Senate Bill 1013 (Senators Pipkin and Brinkley)
Budget and Taxation

Transportation Trust Fund - Use of Funds - Transit Financing

This bill authorizes any county in which the Maryland Transit Administration or the Washington Metropolitan Area Transit Authority provides any service to impose a (1) county transportation property tax and (2) per gallon tax on motor fuel. Revenue generated by a tax authorized by the bill is (1) distributed to a Mass Transit Account in the Transportation Trust Fund (TTF) created by the bill and (2) used to pay for the cost of transit facilities and transit service in those jurisdictions. The bill also requires that the revenue attributable to any increase in transit fare charges above the amount in effect on July 1, 2013 be distributed to the Mass Transit Account.

Of the funds in TTF that are not credited to the Mass Transit Account or distributed to local jurisdictions as local highway user revenues, the Maryland Department of Transportation (MDOT) may not budget transit and highway costs in excess of the specified amounts beginning in fiscal 2014. The Comptroller's Office is required to adopt regulations to implement the bill.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: Potential significant increase in TTF revenues beginning in FY 2014 to the extent eligible counties opt to levy a transportation property tax and/or impose a motor fuel tax. Potential significant increase in special fund expenditures beginning in FY 2014 at the Comptroller's Office due to implementation costs.

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Current Law/Background:

Motor Fuel Tax and State Transportation Planning

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. Local governments in Maryland are not authorized to impose a motor fuel tax or county transportation property tax.

After meeting debt service requirements, MDOT may use funds in TTF for any lawful purpose related to the exercise of its rights, powers, duties, and obligations. TTF funds may not be transferred or diverted to the general fund unless legislation is enacted prior to the diversion that repays the funds within five years. Also, no part of TTF may revert or be credited to the general fund or to a special fund unless the transfer is approved by the Legislative Policy Committee. If the committee fails to reject the transfer within 15 days after the transfer is presented, it is deemed to be approved.

TTF's Gasoline and Motor Vehicle Revenue Account revenue (commonly known as highway user revenue) must be distributed to 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.

MDOT is responsible for statewide transportation planning and the development, operation, and maintenance of key elements of the transportation system. MDOT is organized into several administrations – State highway, motor vehicle, aviation, port, and transit. Other departmental components include the Office of the Secretary and certain advisory and zoning boards. A separate Maryland Transportation Authority operates revenue-generating transportation facilities. Consequently, MDOT is involved in all modes of transportation within the State, including the construction and maintenance of State roads, regulation and licensing of drivers and vehicles, and operation of bus and rail transit services. In addition, MDOT owns and operates Martin State Airport, Baltimore/Washington International Thurgood Marshall Airport, and terminals in the Helen Delich Bentley Port of Baltimore.

The *Consolidated Transportation Plan* (CTP) is MDOT's six-year budget for the construction, development, and evaluation of transportation capital projects. It is revised annually to reflect updated information and changing priorities. It contains a list of current and anticipated major and minor capital projects for the fiscal year it is issued and

for the next five fiscal years, including an expanded description of major capital projects; a detailed breakdown of the costs of a project, project expenditures to date, expected expenditures for the current fiscal year, projected annual expenditures for the next five years, and total project costs; and MDOT's estimates of the source (*i.e.*, federal funds, special funds, etc.) and amount of revenues required to fund projects in the CTP. The CTP also must contain updates on subjects such as bicycle and pedestrian transportation and technology spending.

County Property Tax

The property tax is one of the three major revenue sources for county and municipal governments in Maryland. State law provides that the owners of the following types of property are generally subject to a property tax:

- real property;
- tangible personal property owned by businesses;
- operating property of railroads;
- operating property of public utilities;
- stock in trade of manufacturing or commercial businesses; and
- certain leaseholds.

A well-defined statutory relationship exists between the State and local governments in the administration of the property tax system. While property tax revenues are a relatively minor revenue source to the State, the State has assumed responsibility for the valuation and assessment of property. Local governments, on the other hand, levy and collect property taxes. The State takeover of the valuation and assessment function was implemented to provide uniform and equitable assessments of property throughout the State, in compliance with the "uniformity clause" of the Maryland State Constitution.

State Fiscal Effect: The bill authorizes eligible counties to impose a county motor fuel tax and a county transportation property tax. The Comptroller's Office will incur expenditures to administer motor fuel tax rate changes, including procurement of a new motor fuel tax system. As a result, special fund expenditures may increase by a significant amount in fiscal 2014.

TTF revenues could increase by a potentially significant amount beginning in fiscal 2014 to the extent eligible counties opt to levy a transportation property tax and/or impose a motor fuel tax. Given that the bill does not specify the amount of tax or maximum tax that an eligible county may impose, the amount of potential revenue gain cannot be reliably estimated.

In addition, the bill limits the amount of specified TTF funds that may be spent on highway and transit expenditures. This provision is not expected to impact overall TTF expenditures, but will impact the amount that can be spent on mass transit, highways, and other functions. Based on the current CTP and amounts specified by the bill, MDOT estimates that mass transit spending may decrease by as much as \$200 million in fiscal 2018 with a corresponding increase in highway and other agency spending.

Small Business Effect: Small businesses for which motor fuel constitutes a significant portion of their costs (transportation firms, delivery companies, taxicabs, etc.) would 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. Small businesses will also be meaningfully impacted to the extent a county imposes an additional county transportation property tax.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 18, 2013
mm/jrb

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510