SB 765

Department of Legislative Services

Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 765 (Senator Colburn)
Budget and Taxation

Transportation - Motor Fuel Tax and Highway User Revenue - Increased Local Share

This bill alters the distribution of funds in the Gasoline and Motor Vehicle Revenue Account (GMVRA) to provide 70% to the Maryland Department of Transportation (MDOT) and 30% to local jurisdictions distributed as follows: Baltimore City (12.1%), counties (15.3%), and municipalities (2.6%). In addition, the bill alters the distribution of motor fuel tax revenues by requiring revenue generated from the indexing of motor fuel tax revenues and sales and use equivalent tax rate be transferred to GMVRA.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues available to MDOT decrease by an estimated $410.9 million in FY 2015, $472.0 million in FY 2016, $489.1 million in FY 2017, $504.7 million in FY 2018, and $523.0 million in FY 2019. A reduction of this magnitude requires MDOT to reduce its 2015-2020 planned operating and capital budget by about $3.6 billion.

Local Effect: The bill alters the distribution and source of GMVRA revenues, thereby increasing local highway user revenues by $410.9 million in FY 2015, $472.0 million in FY 2016, $489.1 million in FY 2017, $504.7 million in FY 2018, and $523.0 million in FY 2019.

Small Business Effect: None.

Analysis

Bill Summary/Current Law: 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.

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. Under current law, TTF's GMVRA revenue (commonly known as highway user revenue) must be distributed to MDOT and local jurisdictions as follows:

- 90.4% to MDOT;
- 7.7% to Baltimore City;
- 1.5% to counties; and
- 0.4% to municipalities.

Beginning July 1, 2013, motor fuel tax rates are indexed for all fuels, except for aviation or turbine fuel, to the annual change in the Consumer Price Index (CPI). Motor fuel tax rates increase annually if the Comptroller's Office determines that the CPI has increased over a specified 12-month period.

A sales and use tax equivalent rate is imposed on motor fuel based on the retail price of regular unleaded gasoline, excluding federal and State taxes, as determined by the Comptroller's Office. The tax is determined by multiplying the applicable percentage rate times the annual average retail price, less federal and State taxes, rounded to the nearest tenth of a cent. The Comptroller's Office is required to calculate the average retail price of regular gasoline (excluding federal and State taxes) over a specified 12-month period and determine the tax to be imposed.

The rate is equal to (1) 1% beginning July 1, 2013; (2) 2% beginning January 1, 2015; and (3) 3% beginning in fiscal 2016. Unless federal legislation is enacted by December 1, 2015, authorizing the State to require the collection of the sales and use tax on sales made by out-of-state sellers to Maryland consumers, the rate increases from 3% to 4% beginning January 1, 2016, and increases to 5% beginning in fiscal 2017.

If federal legislation on sales tax collection is enacted and takes effect before December 1, 2015, the sales and use tax equivalent rate remains at 3% and the Comptroller is then required to distribute 4% of State sales and use tax revenues to TTF.

The revenue generated as a result of the motor fuel rate indexing and sales and use equivalent tax is distributed to TTF and retained by MDOT. The bill alters this distribution by requiring the revenue from these taxes be transferred to GMVRA.

Background:

Highway User Revenues

A portion of TTF revenues is credited to GMVRA and is distributed to local jurisdictions and MDOT. The funds retained by TTF support MDOT's capital program, debt service, and operating costs. In addition, MDOT leverages TTF revenues to issue 15-year consolidated transportation bonds. Local governments use highway user revenues to help develop and maintain local transportation projects.

Previously, the statutory distribution formula allocated 70.0% of highway user revenue to MDOT and 30.0% to local jurisdictions. As noted above, MDOT currently receives 90.4% of highway user revenue and local jurisdictions receive 9.6%.

Transportation Funding

The Transportation Infrastructure Investment Act of 2013 (Chapter 429) was enacted to substantially increase the amount of transportation revenues by increasing motor fuel taxes and requiring MTA to increase base fare prices beginning in fiscal 2015.

Specifically, Chapter 429 alters motor fuel taxes by:

- indexing motor fuel tax rates, except for aviation and turbine fuel, to inflation beginning in fiscal 2014;

- imposing a 1% sales and use tax equivalent rate on all motor fuel, except for aviation and turbine fuel, beginning in fiscal 2014, increasing to 2% beginning on January 1, 2015, and to 3% beginning in fiscal 2016;

- unless federal remote sales tax legislation is enacted by December 1, 2015, the sales and use tax equivalent rate increases from 3% to 4% beginning January 1, 2016, and then increases to 5% beginning in fiscal 2017; and

- if federal remote sales tax legislation is enacted and takes effect by December 1, 2015, the sales and use tax equivalent rate remains at 3% and the Comptroller is then required to distribute 4% of total State sales and use tax revenues to TTF.

Exhibit 1 shows the estimated increases in transportation revenues resulting from Chapter 429 from fiscal 2014 through 2018.

Exhibit 1
Transportation Revenues Resulting from Chapter 429 of 2013
($ in Millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Rate Increase*					
Gasoline	3.5¢	6.8¢	10.6¢	11.6¢	12.5¢
Special Fuel	3.5¢	6.8¢	10.6¢	11.7¢	12.6¢
Revenues					
Sales and Use Tax Equivalent Rate	$97	$146	$303	$323	$336
Remote Sales Tax Legislation*	0	0	52	191	199
CPI Indexing	13	22	39	56	76
Farebox Recovery	0	10	22	23	32
Total Increase – MDOT	**$110**	**$178**	**$416**	**$593**	**$643**
WIP – G.O. Bonds	**$0**	**$45**	**$65**	**$85**	**$100**
Total Transportation Funding	**$110**	**$223**	**$481**	**$678**	**$743**

***** Assumes federal remote sales tax legislation is enacted as specified by the Act. Unless this legislation is enacted by December 1, 2015, the sales and use tax equivalent rate increases from 3% to 4% beginning January 1, 2016, and increases to 5% beginning in fiscal 2017.

WIP: Watershed Implementation Plan

Source: Maryland Department of Transportation

Chapter 429 also prohibits transfers from TTF unless legislation is approved by a three-fifths vote of the appropriate standing committees of the General Assembly and is enacted into law, or the Governor declares a state of emergency and declares that revenues are needed for defense or relief purposes. Any transfer must be repaid within five years.

In addition, Chapter 422 of 2013 proposes to amend the Maryland Constitution to (1) require TTF funds to be used only to pay the principal of and interest on transportation bonds and for any lawful purpose related to construction and maintenance of an adequate highway system or any other transportation-related purpose and (2) prevent TTF funds from being transferred to the general fund or a special fund. An exception to the prohibition on TTF transfers is authorized only if the Governor, by executive order, declares that a fiscal emergency exists and the General Assembly, by a three-fifths vote of both houses, approves legislation concurring with the use or transfer of the funds. The allocation of highway user funds to local governments and the allocation of TTF funds to the Maryland Transportation Authority are not affected. The proposed constitutional amendment must be submitted for a statewide vote at the November 2014 general election.

State Fiscal Effect: The bill requires (1) GMVRA revenues to be distributed: 70% to MDOT and 30% to local jurisdictions and (2) motor fuel indexing and sales and use tax equivalent rate revenues to be transferred to GMVRA. Under current law, MDOT retains 90.4% of GMVRA revenues and all of the revenue generated by the indexing of motor fuel and sales and use equivalent rate.

Thus, altering the distribution formula decreases TTF revenues available to MDOT by $410.9 million in fiscal 2015, $472.0 million in fiscal 2016, $489.1 million in fiscal 2017, $504.7 million in fiscal 2018, and $523.0 million in fiscal 2019, totaling $2.4 billion over the five-year period.

In addition, the TTF revenue loss limits MDOT's ability to issue consolidated transportation bonds, net of debt service savings, in support of its capital program. MDOT advises that it would be required to reduce its 2015-2020 capital budget by about $3.6 billion to meet required bond coverage ratios. The $3.6 billion equates to about 80% of the additional capital spending resulting from Chapter 429 of 2013.

Local Fiscal Effect: Altering the GMVRA distribution formula and requiring the distribution of specified motor fuel revenues to GMVRA increases local jurisdictions' highway user revenues by $410.9 million in fiscal 2015, $472.0 million in fiscal 2016, $489.1 million in fiscal 2017, $504.7 million in fiscal 2018, and $523.0 million in fiscal 2019. The distribution of the increase among Baltimore City, the counties, and municipalities is shown in **Exhibit 2**.

Exhibit 2
Projected Increase in Local Distribution of Highway User Revenues
Fiscal 2015-2019
($ in Millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Baltimore City	$98.1	$121.1	$126.8	$132.0	$137.9
Counties	269.6	302.2	311.9	320.8	331.5
Municipalities	43.2	48.7	50.3	51.8	53.6
Total	**$410.9**	**$472.0**	**$489.1**	**$504.7**	**$523.0**

Note: Totals may not sum due to rounding.

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: HB 1331 (Delegate Parrott, *et al.*) - Appropriations.

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

Fiscal Note History: First Reader - March 2, 2014
ncs/lgc

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