

Department of Legislative Services  
Maryland General Assembly  
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 629

(Senator Madaleno)

Budget and Taxation

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Counties and Municipalities - Vehicle Registration Fee Surcharge

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This bill authorizes a county or municipal corporation to impose an annual vehicle registration fee surcharge of \$5, \$10, \$15, or \$20, which is to be collected by the Motor Vehicle Administration (MVA) upon registration of a classified vehicle. The Comptroller must remit the surcharges to the county or municipal corporation as well as an equivalent amount in matching funds from the Transportation Trust Fund (TTF). A municipal corporation may only impose a surcharge of up to the difference between \$20 and the surcharge established by the county in which the municipal corporation is located; if county and municipal surcharges together are greater than \$20, the municipal surcharge must be reduced. A jurisdiction must notify MVA and the Comptroller of the amount and effective date of a new or altered surcharge. Surcharge and State matching fund revenues distributed to a county or municipal corporation under the bill must be used in the same manner as highway user revenues under current law. Finally, the bill specifies that the surcharge is not to be considered a “miscellaneous fee” subject to annual adjustments by MVA under its cost-recovery formula.

The bill takes effect June 1, 2014.

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Fiscal Summary

**State Effect:** TTF revenues may decrease in FY 2014 (accounting for the bill’s effective date) and likely decrease significantly – by as much as \$96.3 million – in FY 2015 for the State to provide funds, which would otherwise be credited to TTF, to match the annual vehicle registration surcharges established by counties and municipal corporations. TTF expenditures increase by \$2.5 million in FY 2014, by about \$434,300 in FY 2015, and by more than \$338,500 annually thereafter for MVA for reprogramming of external systems and to process and account for the surcharge fees and matching fund grants. The Comptroller can implement the bill with existing budgeted resources.

| (in dollars)   | FY 2014     | FY 2015   | FY 2016   | FY 2017   | FY 2018   |
|----------------|-------------|-----------|-----------|-----------|-----------|
| SF Revenue     | -           | -         | -         | -         | -         |
| SF Expenditure | \$2,542,900 | \$434,300 | \$338,500 | \$354,500 | \$371,300 |
| Net Effect     | (-)         | (-)       | (-)       | (-)       | (-)       |

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

**Local Effect:** Local revenues may increase beginning in FY 2014 and likely increase significantly – by as much as \$192.5 million statewide – in FY 2015 and future years from the collection of annual vehicle registration surcharges and additional matching funds provided to local governments. Local expenditures may increase, to a lesser extent, to account for and process the surcharge and matching fund revenues.

**Small Business Effect:** Potential meaningful.

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## Analysis

**Current Law/Background:** TTF is a nonlapsing special fund that provides funding for transportation projects. It consists of tax and fee revenues, operating revenues, bond proceeds, and fund transfers. The Maryland Department of Transportation (MDOT) issues bonds backed by TTF revenues and invests the TTF fund balance to generate investment income. The Maryland Transit Administration, MVA, Maryland Port Administration, and Maryland Aviation Administration generate operating revenues that cover a portion of their operating expenditures. **Exhibit 1** shows that TTF’s fiscal 2013 end-of-year fund balance totaled \$218 million.

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. The Transportation Infrastructure Investment Act of 2013 (Chapter 429) prohibited the transfer or diversion of funds from TTF to the general fund or a special fund unless the transfer or diversion is approved through legislation passed by a three-fifths majority of specified full standing committees in each of the two houses of the General Assembly and then enacted into law. Chapter 429 also created exceptions to the prohibition on TTF transfers but only for defense or relief purposes and if (1) the State is invaded or a major catastrophe occurs and (2) the Governor proclaims a state of emergency and declares that TTF funds are necessary for the immediate preservation of public health or safety. Finally, the Act established several additional procedural requirements to the extent that TTF funds are diverted in the future.

Chapter 429 also required the establishment of a Local and Regional Transportation Funding Task Force, which was required to submit a report of its findings and recommendations by December 31, 2013. The task force made several

recommendations, including consideration of “local option” revenues sources, such as the local vehicle registration fee established by this bill.

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**Exhibit 1**  
**Transportation Trust Fund Revenues and Expenditures**  
**Fiscal 2013**  
**(\$ in Millions)**

|   | <u><b>Actual FY 2013</b></u> |
|---|------------------------------|
| <b>Starting Fund Balance</b>                        | <b>\$187</b>                 |
| <b>Revenues</b>                                     |                              |
| Titling Taxes                                       | \$685                        |
| Motor Fuel Taxes                                    | 746                          |
| Sales Tax   | 25                           |
| Corporate Income, Registrations, and Misc. MVA Fees | 711                          |
| Other Receipts and Adjustments                      | 572                          |
| Bond Proceeds and Premiums                          | 180                          |
| <b>Total Revenues</b>                               | <b>\$2,919</b>               |
| <b>Uses of Funds</b>                                |                              |
| MDOT Operating Expenditures                         | \$1,638                      |
| MDOT Capital Expenditures                           | 863                          |
| MDOT Debt Service                                   | 174                          |
| Highway User Revenues                               | 161                          |
| Other Expenditures                                  | 52                           |
| <b>Total Expenditures</b>                           | <b>\$2,888</b>               |
| <b>Final Ending Fund Balance</b>                    | <b>\$218</b>                 |

Source: Maryland Department of Transportation, January 2014

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Revenue from TTF’s Gasoline and Motor Vehicle Revenue Account (GMVRA) (commonly known as highway user revenue) must be distributed to MDOT and local jurisdictions as follows:

- 90.4% in fiscal 2014 and future years to MDOT; and
- the balance to counties, municipalities, and Baltimore City.

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. Local governments use highway user revenues to help develop and

maintain local transportation projects. In fiscal 2014, highway user revenues are projected to be distributed as follows: \$1,543.3 million (90.4%) to MDOT, \$131.5 million (7.7%) to Baltimore City, \$25.6 million (1.5%) to the counties, and \$6.8 million (0.4%) to municipalities.

Local highway user grants have declined significantly due to several legislative changes enacted following the 2007 special session and the 2008, 2010, and 2011 legislative sessions. As shown in **Exhibit 2** highway user grants have decreased from \$554.1 million in fiscal 2007 to \$160.4 million in fiscal 2013.

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**Exhibit 2**  
**Local Highway User Revenues**  
**Fiscal 2007 – 2013**  
**(\$ in Millions)**

|                 | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Revenues</b> | \$554.1     | \$529.4     | \$465.1     | \$145.3     | \$157.5     | \$147.1     | \$160.4     |
| <b>% Change</b> |             | (4.5%)      | (12.1%)     | (68.8%)     | 8.4%        | (6.6%)      | 9.0%        |

Source: Department of Legislative Services

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Chapter 429 of 2013 increased the annual vehicle registration fee surcharge (collected biennially) from \$13.50 to \$17.00, with the additional fees credited to the Maryland Emergency Medical System Operations Fund (MEMSOF). MEMSOF is used to fund several components of Maryland’s emergency medical services system, including (1) Maryland State Police Aviation Command; (2) the Maryland Institute for Emergency Medical Services Systems; (3) the R. Adams Cowley Shock Trauma Center; (4) the Maryland Fire and Rescue Institute; (5) local grants under the Senator William H. Amoss Fire, Rescue, and Ambulance Fund; and (6) the Volunteer Company Assistance Fund.

MVA collects vehicle registration fees for numerous vehicle registration classifications established under the Maryland Vehicle Law on an annual or biennial basis. The registration fees for several common classes of vehicles are as follows:

- Class A passenger vehicle of up to 3,700 pounds – \$101;
- Class A passenger vehicle over 3,700 pounds – \$153;
- Class D motorcycle – \$70;
- Class E truck of three-quarter tons rated capacity or up to 7,000 pounds – \$127.50;
- Class M multipurpose vehicle of up to 3,700 pounds – \$101; and
- Class M multipurpose vehicle over 3,700 pounds – \$153.

## **State Fiscal Effect:**

### *TTF Matching Funds*

TTF revenues may decrease beginning in fiscal 2014, which reflects the bill's June 1, 2014 effective date, and likely decrease significantly on an annual basis beginning in fiscal 2015, as the bill requires matching funds that would otherwise be distributed to TTF to be distributed to jurisdictions that establish a vehicle registration surcharge. *For illustrative purposes only*, TTF revenues decrease by about \$65.0 million in fiscal 2015, which reflects the following information and assumptions:

- each county and Baltimore City impose a surcharge of \$15 per vehicle registered within the jurisdiction;
- each municipal corporation (except for Baltimore City) imposes a surcharge of \$5 per vehicle registered within the municipal corporation;
- the number of vehicles registered by county in fiscal 2015 remains constant at fiscal 2013 levels; and
- the percentage of vehicles within each county that are registered in a municipal corporation in fiscal 2015, as reported by MVA data, remains constant at fiscal 2013 levels.

While it is very unlikely that every county (and Baltimore City) imposes a surcharge of exactly \$15 and every municipal corporation imposes a surcharge of exactly \$5 in fiscal 2015, this illustration provides one example of the potential liability to TTF of the bill's surcharge. The maximum potential decrease in TTF revenues under the bill and the information described above is about \$96.3 million in fiscal 2015 and represents the unlikely scenario in which each county imposes a fee of \$20 per vehicle, but no municipal corporation is able to establish a fee. The actual decrease in TTF revenues is likely to be significantly less than the \$96.3 million, and may be less than the \$65.0 million described in the illustrative example as many jurisdictions opt not to establish a local surcharge.

MDOT advises that, assuming the bill results in a significant decrease in TTF revenues to provide required matching funds to local governments, the reduction in available TTF funds is likely to affect the capital program.

### *MVA and Comptroller Administrative Expenditures*

TTF expenditures increase by about \$2.54 million in fiscal 2014, which reflects the effective date for the bill of June 1, 2014, and assumes that funding to support the extensive contractual reprogramming of external MVA data systems is *encumbered* in

fiscal 2014. It should be noted, however, that MVA advises that the roughly 16,640 hours of programming needed to implement the bill cannot likely be accomplished by the June 1, 2014 effective date.

This estimate reflects the cost of adding two MVA customer agents to MVA’s Vehicle Services Division (to read, respond, and process the anticipated increase in email inquiries) and adding three accountants to MVA’s Accounting and Financial Systems Division (to oversee the collection, remittance, and reconciliation of the additional surcharge payments). In fiscal 2015 only, MVA advises that three additional temporary contractual accountants are needed to assist in the development and testing of revenue codes. The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

|                                    | <u>FY 2014</u>     | <u>FY 2015</u>   |
|------------------------------------|--------------------|------------------|
| Positions                          | 5                  |                  |
| Contractual Positions              |                    | 3                |
| Contractual Computer Reprogramming | \$2,496,000        | \$0              |
| Salaries and Fringe Benefits       | 24,865             | 320,303          |
| Contractual Salaries and Benefits  |                    | 96,165           |
| Operating Expenses                 | <u>22,082</u>      | <u>17,796</u>    |
| <b>Total State Expenditures</b>    | <b>\$2,542,947</b> | <b>\$434,264</b> |

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

The Comptroller’s Office advises it can handle the distribution with existing resources.

**Local Revenues:** Local revenues increase significantly in fiscal 2014 and by as much as \$192.5 million in fiscal 2015, the first full year of implementation under the bill, from the collection of the new surcharges and matching TTF funds. For comparison, this amount is greater than total highway user revenues of \$160.4 million in fiscal 2013. It should be noted that the bill does not affect the highway user revenue formula.

As noted above, the actual increase in local revenues generated by the bill is likely to be significantly less than \$192.5 million as it is unlikely that each county establishes a surcharge and that each surcharge is established at the maximum of \$20 (precluding the establishment of a surcharge by municipal corporations). Under the assumptions discussed in the illustrative example above, in which each county establishes a \$15 surcharge and each municipal corporation establishes a \$5 surcharge, local revenues increase by \$130.0 million for statewide distribution.

**Small Business Effect:** The bill may result in a meaningful increase in demand for the services of transportation engineers and contractors due to the additional local highway projects that may be funded.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Baltimore, Charles, Frederick, and Montgomery counties; Comptroller's Office; Maryland Association of Counties; Maryland Municipal League; Maryland Department of Transportation; Department of Legislative Services

**Fiscal Note History:** First Reader - February 18, 2014  
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