HB 837

Department of Legislative Services

Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 837 (Delegate Parrott, *et al.*)
Environment and Transportation

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

This bill alters the distribution of funds from 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 modifies the distribution of motor fuel tax revenue by requiring that the revenue attributable to increases in the motor fuel tax rate due to increases in the Consumer Price Index (CPI) and the revenue attributable to the sale and use tax equivalent rate applied to motor fuel be distributed to GMVRA rather than the Transportation Trust Fund (TTF).

The bill also proposes to amend the Maryland Constitution to require that the revenue sources credited to GMVRA and the distribution of GMVRA revenues must remain as provided under current law in effect on July 1, 2015.

The bill's provisions that alter the distribution of funds from GMVRA and the distribution of specified motor fuel tax revenues take effect July 1, 2015.

Fiscal Summary

State Effect: TTF revenues available to MDOT decrease by an estimated $464.6 million in FY 2016, $502.5 million in FY 2017, $526.5 million in FY 2018, $550.1 million in FY 2019, and $569.1 million in FY 2020. Combined with a reduction in bond issuances and corresponding debt service savings, TTF revenues available to MDOT decrease by $4.4 billion over the five-year period.

Local Effect: The bill alters the distribution and source of GMVRA revenues, thereby increasing local highway user revenues by an estimated $464.6 million in FY 2016,

$502.5 million in FY 2017, $526.5 million in FY 2018, $550.1 million in FY 2019, and $569.1 million in FY 2020.

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 (MTA), Motor Vehicle Administration, Maryland Port Administration, and Maryland Aviation Administration generate operating revenues that cover a portion of their operating expenditures. 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.

Chapter 422 of 2013 required a statewide vote at the November 2014 general election, proposing a constitutional amendment 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 passed and became Article III § 53 of the Maryland Constitution.

To address concerns that the State lacked adequate funding to build new transportation infrastructure, Chapter 429 of 2013 increased transportation funding by, among other things, increasing motor fuel taxes and requiring MTA to increase base fare prices beginning in fiscal 2015. 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 CPI. Motor fuel tax rates increase annually if the Comptroller's Office determines that the CPI has increased over a specified 12-month period.

Chapter 429 also imposed a sales and use tax equivalent rate 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.

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.

Furthermore, u*nder current law*, the revenue generated as a result of the motor fuel tax rate indexing and sales and use tax equivalent is distributed to TTF and retained by MDOT. However, *under the bill*, these revenues are first distributed to GMVRA, which is then distributed to TTF, Baltimore City, counties, and municipalities as follows:

- 70% to MDOT;
- 12.1% to Baltimore City;
- 15.3% to counties; and
- 2.6% to municipalities.

Exhibit 1 shows the estimated increases in motor fuel tax revenues as enacted by Chapter 429, all of which are redistributed by the bill.

Exhibit 1
Sales and Use and CPI Indexing Tax Revenue Estimates
Fiscal 2016-2020
($ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Sales and Use Tax Equivalent	$265.5	$248.9	$281.7	$309.4	$329.0
Contingent Rate*	44.3	166.0	187.8	206.2	219.3
CPI Indexing	39.7	51.9	67.3	82.9	98.5
Total	**$349.5**	**$466.8**	**$536.8**	**$598.5**	**$646.8**

* 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 increases to 5% beginning in fiscal 2017.
Note: Totals may not sum due to rounding.
Source: Department of Legislative Services

Background: For more information regarding transportation aid to local governments and the GMVRA, please see the **Appendix – Highway User Revenues.**

Supplemental Budget No.1 includes an additional $25.0 million for transportation grants to Baltimore City, counties, and municipalities for fiscal 2016 as follows: $2.0 million for Baltimore City, $4.0 million for counties, and $19.0 million for municipalities. The grants are to be allocated on the same basis as highway user revenues.

State Fiscal Effect:

Transportation Aid Redistribution

The bill requires (1) GMVRA revenues to be distributed 70% to MDOT and 30% to local jurisdictions and (2) motor fuel tax rate 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 the motor fuel tax rate and the sales and use tax equivalent rate. Thus, altering the distribution formula decreases TTF revenues available to MDOT by an estimated $464.6 million in fiscal 2016, $502.5 million in fiscal 2017, $526.5 million in fiscal 2018, $550.1 million in fiscal 2019, and $569.1 million in fiscal 2020, totaling $2.6 billion over the five-year period.

Additionally, the TTF revenue loss limits MDOT's ability to issue consolidated transportation bonds in support of its capital program in that five-year period. MDOT advises that, under the bill, highway user revenues available to MDOT decrease by $2.4 billion over the five-year period, and that MDOT must reduce future bond issuances by $1.4 billion to meet required bond coverage ratios. Therefore, MDOT advises that it must reduce its capital budget by $3.8 billion over the next five fiscal years. This estimate is based on MDOT's current projected revenues and does not take into account any debt service savings or the potential revenues contingent on federal remote sales tax legislation.

The Department of Legislative Services (DLS) estimates that highway user revenues available to MDOT decrease by $2.6 billion over the five-year period, which requires MDOT to reduce its bond issuances by approximately $2.2 billion. When corresponding debt service savings of $341.9 million are taken into account, the net decrease in MDOT's capital budget over the five-year period is $4.4 billion. This estimate is based on DLS's current motor fuel tax projections and the proposed distributions required by the bill. It also assumes that the federal government does not enact specified online sales tax legislation, which would require additional increases in the sales and use tax equivalent rate.

Constitutional Amendment

Assuming approval of the proposed constitutional amendment in the November 2016 general election, this bill prevents any change, absent another constitutional amendment, in the provisions in effect on July 1, 2015 that specify (1) which revenues are credited to GMVRA and (2) how GMVRA revenues are distributed to MDOT and local governments. While the proposed amendment does not have a direct fiscal impact, it prohibits the State from adding or removing any revenue source to GMVRA or modifying the distribution of the funds from GMVRA. This may limit the State's ability to reprioritize funding for State or local transportation projects in future years.

State costs of printing ballots may increase to the extent inclusion of the proposed constitutional amendment on the ballot at the next general election would result in a need for a larger ballot card size or an additional ballot card for a given ballot (the content of ballots varies across the State, depending on the offices, candidates, and questions being voted on). However, it is assumed that the potential for such increased costs will have been anticipated in the State Board of Elections' budget. Pursuant to Chapter 564 of 2001, the State Board of Elections shares the costs of printing paper ballots with the local boards of elections.

Local Fiscal Effect: Altering the GMVRA distribution formula and requiring the distribution of specified motor fuel tax revenues to GMVRA increases local jurisdictions' highway user revenues by an estimated $464.6 million in fiscal 2016, $502.5 million in fiscal 2017, $526.5 million in fiscal 2018, $550.1 million in fiscal 2019, and $569.1 million in fiscal 2020. 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 2016-2020
($ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Baltimore City	$119.9	$134.7	$143.8	$152.3	$159.1
Counties	296.8	316.6	329.4	342.2	352.6
Municipalities	47.9	51.2	53.4	55.5	57.3
Total	**$464.6**	**$502.5**	**$526.5**	**$550.1**	**$569.1**

Note: Totals may not sum due to rounding.
Source: Department of Legislative Services

Exhibit 3 shows the increase in highway user revenues and the total amount of highway user revenues distributed to localities and municipalities from fiscal 2016 through 2020 under the bill. (The total highway user revenues in this exhibit does not reflect the additional $25.0 million in local transportation aid for fiscal 2016 that is included in Supplemental Budget No.1.)

Local boards of elections' printing and mailing costs may increase to include information on the proposed constitutional amendment with specimen ballots mailed to voters prior to the next general election and to include the proposed amendment on ballots. It is assumed, however, that the potential for such increased costs will have been anticipated in local boards of elections' budgets.

Exhibit 3
Local Government Increase and Total – Highway User Revenues
Fiscal 2016-2020
($ in Millions)

	FY 2016		FY 2017		FY 2018		FY 2019		FY 2020	
	Increase	Total	Increase	Total	Increase	Total	Increase	Total	Increase	Total
Allegany	$7.6	$8.4	$8.1	$8.9	$8.4	$9.2	$8.7	$9.6	$9.0	$9.8
Anne Arundel	33.8	36.9	36.0	39.2	37.5	40.7	39.0	42.2	40.1	43.4
Baltimore City	119.9	255.7	134.7	271.5	143.8	281.7	152.3	292.2	159.1	300.7
Baltimore	44.7	48.7	47.7	51.7	49.6	53.7	51.6	55.7	53.2	57.3
Calvert	7.5	8.2	8.0	8.7	8.3	9.0	8.6	9.3	8.9	9.6
Caroline	5.2	5.7	5.5	6.1	5.8	6.3	6.0	6.5	6.2	6.7
Carroll	14.9	16.4	15.9	17.5	16.6	18.1	17.2	18.8	17.8	19.3
Cecil	8.4	9.2	9.0	9.8	9.3	10.2	9.7	10.5	10.0	10.8
Charles	11.1	12.1	11.8	12.8	12.3	13.3	12.8	13.8	13.1	14.2
Dorchester	5.8	6.3	6.2	6.7	6.4	7.0	6.7	7.3	6.9	7.5
Frederick	19.9	22.0	21.3	23.4	22.1	24.3	23.0	25.2	23.7	25.9
Garrett	6.5	7.1	7.0	7.6	7.2	7.9	7.5	8.2	7.8	8.4
Harford	17.4	19.1	18.6	20.2	19.3	21.0	20.1	21.8	20.7	22.4
Howard	17.2	18.7	18.3	19.9	19.1	20.6	19.8	21.4	20.4	22.0
Kent	3.0	3.3	3.2	3.5	3.3	3.6	3.4	3.7	3.5	3.8
Montgomery	47.9	52.6	51.1	55.9	53.2	58.0	55.3	60.2	57.0	61.9
Prince George’s	41.4	45.7	44.2	48.5	46.0	50.3	47.8	52.2	49.3	53.7
Queen Anne’s	6.1	6.6	6.5	7.0	6.7	7.3	7.0	7.6	7.2	7.8
St. Mary’s	8.6	9.4	9.2	10.0	9.6	10.4	10.0	10.8	10.3	11.1
Somerset	3.4	3.7	3.6	4.0	3.8	4.1	3.9	4.3	4.1	4.4
Talbot	4.9	5.4	5.2	5.7	5.4	6.0	5.6	6.2	5.8	6.4
Washington	12.6	13.9	13.5	14.8	14.0	15.4	14.6	15.9	15.0	16.4
Wicomico	9.7	10.8	10.4	11.4	10.8	11.8	11.2	12.3	11.6	12.6
Worcester	7.1	7.9	7.6	8.3	7.9	8.7	8.2	9.0	8.5	9.2
Total	**$464.6**	**$633.9**	**$502.5**	**$673.0**	**$526.5**	**$698.5**	**$550.1**	**$724.4**	**$569.1**	**$745.5**

Notes: Includes revenues provided to both counties and municipalities within the counties.
Estimate assumes that highway road miles and vehicle registrations in fiscal 2016 remain constant through fiscal 2020.
Total does not reflect the $25.0 million in grants for local transportation aid for fiscal 2016 in Supplemental Budget No.1.
Source: Department of Legislative Services

Additional Information

Prior Introductions: HB 1331 of 2014, a bill with similar provisions, received a hearing in the House Appropriations Committee, but no further action was taken.

Cross File: None.

Information Source(s): Maryland Department of Transportation, Department of Budget and Management, Comptroller's Office, Maryland Association of Counties, Maryland Municipal League, Department of Legislative Services

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Appendix – Highway User Revenues

Transportation Aid to Local Governments

In fiscal 2015, local governments received $169.7 million in State aid through highway user revenues and $16.0 million through municipal transportation grants for the construction and maintenance of local roads. Local governments also received $7.2 million for special transit grants. **Exhibit 1** illustrates how State aid to local governments for transportation purposes increased by 31.5% between fiscal 2011 and 2015. **Exhibit 2** shows the amount of State aid for local transportation programs in each county, including municipalities and Baltimore City, in fiscal 2015.

Exhibit 1
Transportation Aid Programs – Funding Trend
($ in Millions)

Aid Program	FY 2011	FY 2015	Difference	Percent Difference
Highway User Revenues	$139.3	$169.7	$30.3	21.8%
Municipal Transportation Grants	0.0	16.0	16.0	N/A
Elderly/Disabled Grants	4.4	4.3	-0.1	-2.5%
Paratransit Grants	3.0	2.9	-0.1	-2.2%
Total	**$146.8**	**$192.9**	**$46.2**	**31.5 %**

Source: Department of Legislative Services

Exhibit 2
Transportation Aid Programs
Fiscal 2015

County	Highway User Revenues	Municipal Grants	Elderly/ Disabled	Paratransit	Total Aid	Per Capita Aid	Per Capita Ranking
Allegany	$820,822	$809,832	$141,544	$68,400	$1,840,598	$25	9
Anne Arundel	3,148,028	698,158	245,996	416,000	4,508,182	8	21
Baltimore City	136,102,428	0	379,335	0	136,481,763	219	1
Baltimore	4,004,521	0	395,836	0	4,400,357	5	24
Calvert	701,291	198,831	127,003	76,099	1,103,224	12	16
Caroline	511,026	286,110	120,217	40,000	957,353	29	6
Carroll	1,496,445	925,146	151,029	0	2,572,620	15	14
Cecil	833,388	463,297	134,073	0	1,430,758	14	15
Charles	1,034,239	264,130	137,609	175,848	1,611,826	11	18
Dorchester	574,998	329,211	122,724	50,000	1,076,933	33	3
Frederick	2,087,612	1,764,578	159,159	460,000	4,471,349	19	11
Garrett	629,723	262,429	119,664	0	1,011,816	34	2
Harford	1,690,629	775,904	170,371	40,592	2,677,496	11	17
Howard	1,531,557	0	162,520	430,000	2,124,077	7	23
Kent	295,694	170,016	120,217	0	585,927	29	5
Montgomery	4,712,706	2,546,645	379,108	0	7,638,459	8	22
Prince George’s	4,257,842	3,276,302	332,819	446,663	8,313,626	9	20
Queen Anne’s	560,814	109,824	122,064	0	792,702	16	13
St. Mary’s	785,018	70,845	131,054	135,000	1,121,917	10	19
Somerset	327,969	122,127	117,447	96,667	664,210	25	8
Talbot	511,139	437,810	120,217	0	1,069,166	28	7
Washington	1,314,937	1,051,976	146,917	188,100	2,701,930	18	12
Wicomico	1,021,159	892,293	134,507	96,667	2,144,626	21	10
Worcester	732,161	544,537	134,508	206,666	1,617,872	31	4
Total	**$169,686,146**	**$16,000,001**	**$4,305,938**	**$2,926,702**	**$192,918,787**	**$33**	

Note: Highway User Revenues column includes Municipal Aid
Source: Department of Legislative Services

Highway User Revenues – Generally

Since the early 1900s, the State has shared motor vehicle-related revenues with the counties and Baltimore City. Initially these revenues consisted of vehicle registration fees. In 1927, when the gasoline tax increased from $0.02 to $0.04 cents per gallon, the State began sharing these taxes with local governments. In 1968, the General Assembly approved legislation that established a formula for apportioning the county and municipal shares of highway user revenues. The legislation also initiated the sharing of motor vehicle titling taxes with the subdivisions. Legislation enacted in 1970 created the Maryland Department of Transportation (MDOT) and a consolidated Transportation Trust Fund (TTF). As provided by that legislation, the State shares with the counties, Baltimore City, and municipalities those revenues credited to the Gasoline and Motor Vehicle Revenue Account in TTF, more commonly referred to as "highway user revenues." Currently, the revenues dedicated to the account include all or some portion of the motor vehicle fuel tax, vehicle titling tax, vehicle registration fees, short-term vehicle rental tax, and State corporate income tax.

Highway User Revenues – Distribution

Historically, highway user revenues have been distributed to TTF for MDOT's capital program, debt service, and operating costs and to the counties, Baltimore City, and municipalities to assist in the development and maintenance of local transportation projects. In fiscal 2009, prior to recent budget reconciliation legislation reducing the local share of highway user revenues to help balance the budget, the $1.6 billion in highway user revenues were distributed as follows:

- $1.1 billion (70%) to MDOT;
- $187.6 million (12.06%) to Baltimore City;
- $239.4 million (15.38%) to counties; and
- $39.8 million (2.56%) to municipalities.

In response to the ongoing budget crisis, the Budget Reconciliation and Financing Act of 2010 (Chapter 484) significantly reduced the share of highway user revenues distributed to the counties and municipalities, while increasing the portion going to the general fund. In accordance with Chapter 484, in fiscal 2011, the $1.6 billion in highway user revenues were distributed as follows:

- $1.1 billion (68.5%) to MDOT;
- $377.1 million (23.0%) to the general fund;
- $129.5 million (7.9%) to Baltimore City;
- $8.2 million (0.5%) to counties; and
- $1.6 million (0.1%) to municipalities.

The following year, the Budget Reconciliation and Financing Act of 2011 (Chapter 397) divorced the relationship between highway user revenues and the general fund, reducing the distribution of highway user revenues to the general fund in fiscal 2012 and ending the distribution to the general fund in fiscal 2013. **Exhibit 3** illustrates this transition and funding from fiscal 2012 through 2015.

Baltimore City has generally received a larger share of highway user revenues than other local jurisdictions because the State does not conduct highway maintenance or construction in Baltimore City (except for portions of I-95) as it does in the counties. The city's share of total highway user revenues is currently 7.7% each year, as shown in Exhibit 3.

Exhibit 3
Highway User Revenues – Distribution
Fiscal 2012-2015
($ in Millions)

	Fiscal 2012		**Fiscal 2013**		**Fiscal 2014**		**Fiscal 2015**	
	Percent	**Dollars**	**Percent**	**Dollars**	**Percent**	**Dollars**	**Percent**	**Dollars**
MDOT	79.8%	$1,318.6	90.0%	$1,445.4	90.4%	$1,543.40	90.4%	$1,597.90
General Fund	11.3%	186.7						
Baltimore City	7.5%	123.9	8.1%	130.1	7.7%	131.5	7.7%	136.1
Counties	0.8%	13.2	1.5%	24.1	1.5%	25.6	1.5%	26.5
Municipalities	0.6%	9.9	0.4%	6.4	0.4%	6.8	0.4%	7.1
Total	**100%**	**$1,652.3**	**100%**	**$1,606.0**	**100%**	**$1,707.3**	**100%**	**$1,767.6**

MDOT: Maryland Department of Transportation
Source: Department of Legislative Services