

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 161

(Senator Waugh)

Budget and Taxation

Transportation - Highway User Revenues - Allocation

This bill gradually redistributes funds from the Gasoline and Motor Vehicle Revenue Account (GMVRA) to local jurisdictions if the Transportation Trust Fund (TTF) revenue for a fiscal year exceeds the most recent estimate of the Board of Revenue Estimates (BRE) for that fiscal year. In a fiscal year where actual revenues exceed the BRE estimate, the distribution for local governments is increased for the following fiscal year, and the allocation for the Maryland Department of Transportation (MDOT) is decreased commensurately. After the seventh adjustment, GMVRA revenues are no longer redistributed and are allocated as follows: 70% to MDOT, 24% to Baltimore City, 4.8% to counties, and 1.2% to municipalities.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: Any reduction in TTF revenues available to MDOT depends wholly on whether actual TTF revenues in a fiscal year exceed the most recent BRE estimate for that year, and therefore, cannot be predicted. In any year where such an occurrence takes place, TTF revenues available to MDOT decrease significantly. Furthermore, any TTF revenue decrease likely requires MDOT to reduce bond issuances and related capital expenditures to ensure it maintains its legal debt service coverage ratio. *For illustrative purposes only*, if the bill's first redistribution takes place in FY 2019, TTF revenues available to MDOT would decrease by an estimated \$63.2 million in that year. This reduction alone would require MDOT to reduce its capital program to maintain its legal debt service coverage ratio in future years.

Local Effect: Any increase in local highway user revenues depends wholly on whether actual TTF revenues in a fiscal year exceed the most recent BRE estimate for that year, and therefore, cannot be predicted. In any year where such an occurrence takes place, local

highway user revenues increase significantly. *For illustrative purposes only*, if the bill's first redistribution takes place in FY 2019, local highway user revenues would increase by an estimated \$63.2 million in that year.

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.

State law and agency debt practices limit Consolidated Transportation Bond (CTB) issuances with three criteria: a debt outstanding limit and two coverage tests. The debt outstanding limit is set in statute at \$4.5 billion. The two coverage tests are established in the department's bond resolutions and require that annual net income and pledged taxes from the prior year each equal at least 2.0 times the maximum level of future debt service payments on all CTBs outstanding and to be issued. The department has adopted a management practice that requires minimum coverages of 2.5 times maximum future debt service. The net income coverage test is the ratio of all the prior year's income (excluding federal capital, bond proceeds, and third-party reimbursements) minus prior year operating expenses, debt service payments, deductions for nontransportation agencies, and local transportation aid to maximum annual future debt service and typically is the limiting coverage ratio. The pledged taxes coverage test measures annual net revenues from vehicle excise, motor fuel, rental car sales, and corporate income taxes (excluding refunds and all statutory deductions) as a ratio of maximum future annual debt service.

If either of these coverage ratios fall below the 2.0 times level, the department is prohibited under its bond covenants from issuing additional debt until the ratios are once again at the minimum 2.0 times level.

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.

Exhibit 1 summarizes the bill’s proposed distribution of highway user revenues. A permanent redistribution takes place in the fiscal year after any fiscal year when actual TTF revenue exceeds the BRE estimate for that fiscal year. After the seventh occurrence, highway user revenues are no longer redistributed.

Exhibit 1
Highway User Revenue Redistribution
When TTF Revenues Exceed BRE Estimates

	<u>MDOT</u>	<u>Baltimore City</u>	<u>Counties</u>	<u>Municipalities</u>
Current	90.4%	7.7%	1.5%	0.4%
First Occurrence	87.0%	10.4%	2.1%	0.5%
Second Occurrence	84.0%	12.8%	2.6%	0.6%
Third Occurrence	81.0%	15.2%	3.0%	0.8%
Fourth Occurrence	79.0%	16.8%	3.4%	0.8%
Fifth Occurrence	76.0%	19.2%	3.8%	1.0%
Sixth Occurrence	73.0%	21.6%	4.3%	1.1%
Seventh Occurrence	70.0%	24.0%	4.8%	1.2%

BRE: Board of Revenue Estimates
MDOT: Maryland Department of Transportation
TTF: Transportation Trust Fund

Source: Department of Legislative Services

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

To restore highway user revenues to local governments, the *Consolidated Transportation Program* (CTP) for fiscal 2017-2022 has set aside \$100 million in fiscal 2019, \$148 million in fiscal 2020, \$198 million in fiscal 2021, and \$248 million in fiscal 2022, for a total of \$694 million. The CTP also sets aside \$53 million in fiscal 2018; however, these funds are

being distributed to local governments as capital transportation grants, of which \$27.4 million goes to counties, \$5.5 million goes to Baltimore City, and \$20.1 million goes to municipalities. Budget bill language specifies that the grants be distributed to the counties and municipalities using the highway user formula.

State Fiscal Effect: The bill requires GMVRA revenues to be redistributed the year after any fiscal year when actual TTF revenue exceeds the most recent BRE estimate for that fiscal year. When a change to the distribution formula occurs, TTF revenues available to MDOT decrease significantly. In the last five fiscal years, actual TTF revenues have only exceeded the BRE estimate for that fiscal year once, in fiscal 2012; however, the year or years in which actual TTF revenue will exceed the estimate in future years cannot be reliably predicted.

For illustrative purposes only, if the bill's first redistribution takes place in fiscal 2019, TTF revenues available to MDOT would decrease by \$63.2 million in that year. Even after taking into account the funds reserved for highway user revenue restoration, the TTF revenue loss would still limit MDOT's ability to issue consolidated transportation bonds in support of its capital program in order to maintain its legal debt service coverage ratio in future years.

Local Fiscal Effect: *For illustrative purposes only*, if the bill's first redistribution takes place in fiscal 2019, the local share of highway user revenues would increase by \$63.2 million divided as follows: \$50.2 million for Baltimore City; \$11.1 million for counties; and \$1.9 million for municipalities. **Exhibit 2** shows the increase in highway user revenues and the total amount of highway user revenues that would be distributed to local governments in fiscal 2019 under the same scenario.

Exhibit 2
Highway User Revenues – Local Government Increase over Current Law and Total
Fiscal 2018 and 2019
(\$ in Millions)

	FY 2018		FY 2019	
	<u>Increase</u>	<u>Total</u>	<u>Increase</u>	<u>Total</u>
Allegany	\$0.0	\$0.8	\$0.3	\$1.1
Anne Arundel	0.0	3.2	1.3	4.5
Baltimore City	0.0	140.8	50.2	193.2
Baltimore	0.0	4.1	1.7	5.9
Calvert	0.0	0.7	0.3	1.0
Caroline	0.0	0.5	0.2	0.7
Carroll	0.0	1.5	0.6	2.1
Cecil	0.0	0.9	0.3	1.2
Charles	0.0	1.1	0.4	1.5
Dorchester	0.0	0.6	0.2	0.8
Frederick	0.0	2.2	0.8	3.0
Garrett	0.0	0.6	0.2	0.9
Harford	0.0	1.8	0.7	2.4
Howard	0.0	1.6	0.6	2.3
Kent	0.0	0.3	0.1	0.4
Montgomery	0.0	4.9	1.8	6.8
Prince George's	0.0	4.5	1.6	6.2
Queen Anne's	0.0	0.6	0.2	0.8
St. Mary's	0.0	0.8	0.3	1.2
Somerset	0.0	0.3	0.1	0.5
Talbot	0.0	0.5	0.2	0.7
Washington	0.0	1.3	0.5	1.8
Wicomico	0.0	1.1	0.4	1.4
Worcester	0.0	0.7	0.3	1.0
Total	\$0.0	\$175.5	\$63.2	\$241.5

Notes: Includes revenues provided to both counties and municipalities within the counties. Totals may not sum due to rounding. Estimate assumes Transportation Trust Fund revenues exceed the Board of Revenue Estimates estimate for fiscal 2018 and the bill's first redistribution takes place for fiscal 2019.

Source: Department of Legislative Services

Additional Comments: The Department of Legislative Services notes that the bill may be difficult to implement as introduced. Preliminary fiscal year closeout revenue figures, which are necessary to determine if projected TTF revenues are greater than or less than the BRE projections, are typically not available until late August, and the audit of the closeout is not completed until January. However, local and State budgets are formulated during the summer months, so neither MDOT nor local governments will have the necessary information to assemble their budgets for the coming fiscal year.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of Transportation; Baltimore City; Caroline County; Department of Legislative Services

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fn/mcr

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Appendix – Highway User Revenues

Transportation Aid to Local Governments

In fiscal 2017, local governments received \$177.4 million in State aid from highway user revenues and \$25.0 million for special transportation grants. **Exhibit 1** shows the amount of State aid for local transportation programs in each county, including municipalities and Baltimore City, in fiscal 2017.

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 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.

Exhibit 1
Transportation Aid Programs
Fiscal 2017

County	Highway User Revenues	County Grants	Municipal Grants	Elderly/ Disabled	Paratransit	Per Capita Aid	Per Capita Rank
Allegany	\$846,247	\$68,992	\$946,170	\$141,544	-	\$28	8
Anne Arundel	3,281,132	427,654	815,824	245,966	\$434,969	9	21
Baltimore City	142,300,081	2,000,000	-	379,335	-	233	1
Baltimore	4,179,019	603,016	-	395,836	-	6	24
Calvert	731,936	91,983	242,833	127,003	76,099	14	16
Caroline	537,372	58,112	346,075	120,217	13,333	33	6
Carroll	1,566,587	163,549	1,113,337	151,029	-	18	14
Cecil	866,118	94,409	544,504	134,073	-	16	15
Charles	1,086,188	139,396	308,803	137,609	-	11	19
Dorchester	600,433	64,322	397,539	122,724	50,000	38	3
Frederick	2,182,072	197,292	2,094,250	159,159	-	19	12
Garrett	655,843	77,295	308,881	119,664	-	39	2
Harford	1,761,565	201,844	932,354	170,371	-	12	17
Howard	1,605,565	231,677	-	162,520	430,000	8	23
Kent	307,200	33,022	201,383	120,217	13,333	34	4
Montgomery	4,937,050	539,991	3,070,971	379,107	-	9	22
Prince George's	4,487,929	430,215	3,871,992	332,819	450,000	11	20
Queen Anne's	586,661	77,181	133,094	122,064	-	19	13
St. Mary's	821,725	113,820	84,636	131,054	135,000	12	18
Somerset	337,151	40,729	141,077	117,447	-	25	9
Talbot	537,984	47,317	539,925	120,217	13,334	34	5
Washington	1,365,307	128,092	1,227,574	146,917	-	19	11
Wicomico	1,073,152	95,128	1,063,820	134,508	-	23	10
Worcester	758,771	74,964	614,960	134,508	110,000	33	7
Total	\$177,413,088	\$6,000,000	\$19,000,002	\$4,305,908	\$1,726,068	\$35	

Note: Highway User Revenues column includes municipal aid.
Source: Department of Legislative Services

Highway User Revenues – Distribution

Historically, highway user revenues have been distributed to (1) TTF for MDOT’s capital program, debt service, and operating costs and (2) 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 to allow a portion of the revenues to be allocated to the general fund for budget relief. 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 2** 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 2. The

allocations made to counties and municipalities are distributed based on road miles and vehicle registrations.

Exhibit 2
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%	\$1,543.4	90.4%	\$1,597.9
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

Municipal Transportation Grants and Special Grants for the Counties and Baltimore City

Since fiscal 2014, municipalities have received additional transportation aid in the form of municipal transportation grants; municipalities received \$15.4 million in such grants in fiscal 2014, \$16 million in fiscal 2015, \$19 million in fiscal 2016, and \$19 million in fiscal 2017. In fiscal 2016 and 2017, the counties and Baltimore City were also awarded additional transportation aid through special grants; in each of those years, Baltimore City received \$2 million, and the counties received a total of \$4 million. Although the municipal transportation grants and the special grants are supplemental to the amounts received from highway user revenues, the grants have been distributed using the highway user revenue formula. In addition, the counties and Baltimore City received \$10 million for pothole repairs in fiscal 2014, which was distributed on the basis of county road miles.