

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE
First Reader

Senate Bill 563

(Senator Madaleno, *et al.*)

Budget and Taxation

Transportation - Highway User Revenues - Distribution to Municipalities

This bill alters provisions relating to the distributions to Baltimore City and municipalities from the Gasoline and Motor Vehicle Revenue Account (GMVRA). Specifically, the bill requires (1) the Maryland Department of Transportation (MDOT) to make additional distributions to Baltimore City from GMVRA of \$10 million in fiscal 2019 and \$20 million annually thereafter and (2) requires additional distributions to be made to municipalities from GMVRA, if necessary, to ensure that the *total* distributions, including any capital transportation grants, are at least \$40 million in fiscal 2019 and at least \$50 million annually thereafter. The additional distributions to municipalities must be allocated using the GMVRA formula.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues available to MDOT decrease by an estimated \$42.6 million in FY 2019, \$62.5 million in FY 2020, \$62.4 million in FY 2021, and \$62.3 million in FY 2022. Combined with a reduction in bond issuances and corresponding debt service savings, TTF revenues available to MDOT decrease by approximately \$502.0 million over the five-year period beginning in FY 2018. To the extent that unallocated funds in the *Consolidated Transportation Program* (CTP) are used for capital transportation grants to municipalities, MDOT retains a greater share of GMVRA revenues.

Local Effect: The bill increases local highway user revenues by an estimated \$42.6 million in FY 2019, \$62.5 million in FY 2020, \$62.4 million in FY 2021, and \$62.3 million in FY 2022.

Small Business Effect: None.

Analysis

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. 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.

Debt Service Requirements and Practices

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.

Highway User Revenues

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.

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

To restore highway user revenues to local governments, the CTP for fiscal 2017 through 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. The CTP does not specify how the amounts in the out-years are to be distributed; budget bill language specifies that the grants be distributed to the counties and municipalities using the highway user formula, but that language applies only to the current fiscal year.

State Fiscal Effect: The bill requires (1) MDOT to make additional distributions to Baltimore City from MDOT's share of GMVRA revenues of \$10 million in fiscal 2019 and \$20 million annually thereafter and (2) the total distribution of State transportation aid to municipalities through GMVRA, including any capital transportation grants, to be at least \$40 million in fiscal 2019 and \$50 million annually thereafter. As the amounts set aside in the CTP for capital grants to local governments are unallocated, this analysis does not factor in any local capital grants for fiscal 2019 and beyond. Therefore, TTF revenues available to MDOT decrease by an estimated \$42.6 million in fiscal 2019, \$62.5 million in fiscal 2020, \$62.4 million in fiscal 2021, and \$62.3 million in fiscal 2022, totaling \$229.8 million over the four-year period. To the extent portions of the unallocated amounts in the CTP are paid to municipalities beginning in fiscal 2019, MDOT retains a greater share of GMVRA revenues.

The TTF revenue loss limits MDOT's ability to issue CTBs in support of its capital program in that five-year period beginning in fiscal 2018. MDOT advises that, under the bill, the \$229.8 million reduction in highway user revenues is partially offset because it has reserved about \$747.0 million in revenues over the next five fiscal years for the restoration of local highway user revenues pending gubernatorial or legislative action. Therefore, MDOT advises that after taking into account a reduction in bond issuances to meet bond coverage ratios, it must reduce its capital budget by approximately \$450 million over the five-year period.

The Department of Legislative Services estimates that the \$229.8 million reduction in highway user revenues available to MDOT over the five-year period requires MDOT to reduce its bond issuances by approximately \$324.0 million, resulting in an initial reduction of \$553.8 million in revenues available to MDOT. As MDOT issues less debt under the bill, it experiences a corresponding reduction in debt service payments. When debt service savings of \$52.0 million are taken into account, the net decrease in MDOT's capital budget over the five-year period is approximately \$502.0 million. This estimate reflects MDOT's

reserved \$747.0 million for the restoration of highway user revenues through the capital program because the Governor’s current proposal plans to distribute those revenues through MDOT’s capital budget as capital transportation grants.

Local Fiscal Effect: Requiring additional transportation aid to be distributed to Baltimore City and municipalities increases local revenues by an estimated \$42.6 million in fiscal 2019, \$62.5 million in fiscal 2020, \$62.4 million in fiscal 2021, and \$62.3 million in fiscal 2022. The distribution of the increase among Baltimore City and municipalities is shown in **Exhibit 2**.

Exhibit 2
Projected Increase in Local Distribution of Highway User Revenues
Fiscal 2018-2022
(\$ in Millions)

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
Baltimore City	\$0	\$10.0	\$20.0	\$20.0	\$20.0
Municipalities	0	32.6	42.5	42.4	42.3
Total	\$0	\$42.6	\$62.5	\$62.4	\$62.3

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

Exhibit 3 shows the increase in highway user revenues distributed to Baltimore City and municipalities and the total amount of highway user revenues distributed to localities and municipalities from fiscal 2018 through 2022 under the bill (by county). (The total highway user revenues in this exhibit do not reflect the fiscal 2018 capital transportation grants for counties, municipalities, and Baltimore City.)

Exhibit 3
Local Government Increase and Total – Highway User Revenues
Fiscal 2018-2022
(\$ in Millions)

	FY 2018		FY 2019		FY 2020		FY 2021		FY 2022	
	<u>Increase</u>	<u>Total</u>	<u>Increase</u>	<u>Total</u>	<u>Increase</u>	<u>Total</u>	<u>Increase</u>	<u>Total</u>	<u>Increase</u>	<u>Total</u>
Allegany	\$0.0	\$0.8	\$1.6	\$2.5	\$2.1	\$2.9	\$2.1	\$3.0	\$2.1	\$3.0
Anne Arundel	0.0	3.2	1.4	4.7	1.8	5.1	1.8	5.1	1.8	5.2
Baltimore City	0.0	140.8	10.0	153.0	20.0	164.1	20.0	166.4	20.0	168.1
Baltimore	0.0	4.1	0.0	4.2	0.0	4.2	0.0	4.3	0.0	4.3
Calvert	0.0	0.7	0.4	1.2	0.5	1.3	0.5	1.3	0.5	1.3
Caroline	0.0	0.5	0.6	1.1	0.8	1.3	0.8	1.3	0.8	1.3
Carroll	0.0	1.5	1.9	3.5	2.5	4.1	2.5	4.1	2.5	4.1
Cecil	0.0	0.9	0.9	1.8	1.2	2.1	1.2	2.1	1.2	2.1
Charles	0.0	1.1	0.5	1.6	0.7	1.8	0.7	1.8	0.7	1.8
Dorchester	0.0	0.6	0.7	1.3	0.9	1.5	0.9	1.5	0.9	1.5
Frederick	0.0	2.2	3.6	5.8	4.7	6.9	4.7	7.0	4.7	7.0
Garrett	0.0	0.6	0.5	1.2	0.7	1.4	0.7	1.4	0.7	1.4
Harford	0.0	1.8	1.7	3.4	2.2	4.0	2.2	4.0	2.1	4.0
Howard	0.0	1.6	0.0	1.6	0.0	1.6	0.0	1.7	0.0	1.7
Kent	0.0	0.3	0.3	0.7	0.5	0.8	0.5	0.8	0.5	0.8
Montgomery	0.0	4.9	5.2	10.2	6.8	11.8	6.8	11.9	6.8	11.9
Prince George's	0.0	4.5	6.7	11.2	8.7	13.3	8.7	13.3	8.7	13.4
Queen Anne's	0.0	0.6	0.2	0.8	0.3	0.9	0.3	0.9	0.3	0.9
Somerset	0.0	0.3	0.2	0.6	0.3	0.7	0.3	0.7	0.3	0.7
St. Mary's	0.0	0.8	0.1	1.0	0.2	1.0	0.2	1.0	0.2	1.0
Talbot	0.0	0.5	0.9	1.5	1.2	1.8	1.2	1.8	1.2	1.8
Washington	0.0	1.3	2.1	3.5	2.7	4.1	2.7	4.1	2.7	4.1
Wicomico	0.0	1.1	1.8	2.9	2.4	3.4	2.4	3.5	2.4	3.5
Worcester	0.0	0.7	1.1	1.8	1.4	2.1	1.4	2.1	1.4	2.2
Total	\$0.0	\$175.5	\$42.6	\$220.9	\$62.5	\$242.2	\$62.4	\$244.9	\$62.3	\$247.0

Notes: Totals may not sum due to rounding.

Highway user revenue increases for municipalities are shown by county. Other than Baltimore City, counties do not receive additional revenues under the bill.

Estimate assumes that highway road miles and vehicle registrations in fiscal 2018 remain constant through fiscal 2022.

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: HB 946 (Delegate Anderton, *et al.*) - Environment and Transportation.

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

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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	
	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>
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.