

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

House Bill 1405 (Delegate Beitzel, *et al.*)
Environment and Transportation

Transportation – Highway User Revenues – Phased Restoration of County Share

This bill alters the distribution of funds in the Gasoline and Motor Vehicle Revenue Account (GMVRA) of the Transportation Trust Fund (TTF) over eight years to provide 76.7% to the Maryland Department of Transportation (MDOT) and 23.3% to local jurisdictions distributed as follows: Baltimore City (7.7%); counties (15.2%); and municipalities (0.4%). The Baltimore City distribution (7.7%) and the municipal distribution (0.4%) are not altered by the bill. **The bill takes effect July 1, 2018.**

Fiscal Summary

State Effect: TTF revenues available to MDOT decrease by an estimated \$31.5 million in FY 2019, \$63.3 million in FY 2020, \$96.4 million in FY 2021, \$132.5 million in FY 2022, and \$168.6 million in FY 2023. Combined with a reduction in bond issuances and corresponding debt service savings, TTF revenues available to MDOT decrease by approximately \$921.3 million over the five-year period.

Local Effect: The bill alters the distribution of GMVRA revenues, thereby increasing local highway user revenues for counties by an estimated \$31.5 million in FY 2019, \$63.3 million in FY 2020, \$96.4 million in FY 2021, \$132.5 million in FY 2022, and \$168.6 million in FY 2023.

Small Business Effect: None.

Analysis

Bill Summary: Exhibit 1 summarizes the bill’s proposed distribution of highway user revenues in fiscal 2019 through 2026.

Exhibit 1
Proposed Highway User Revenue Distribution
Fiscal 2019-2026
(\$ in Millions)

| | <u>FY 2019</u> | <u>FY 2020</u> | <u>FY 2021</u> | <u>FY 2022</u> |
|----------------|-----------------------|-----------------------|-----------------------|-----------------------|
| MDOT | 88.7% | 87.0% | 85.3% | 83.5% |
| Baltimore City | 7.7% | 7.7% | 7.7% | 7.7% |
| Counties | 3.2% | 4.9% | 6.6% | 8.4% |
| Municipalities | 0.4% | 0.4% | 0.4% | 0.4% |
| | <u>FY 2023</u> | <u>FY 2024</u> | <u>FY 2025</u> | <u>FY 2026</u> |
| MDOT | 81.8% | 80.1% | 78.4% | 76.7% |
| Baltimore City | 7.7% | 7.7% | 7.7% | 7.7% |
| Counties | 10.1% | 11.8% | 13.5% | 15.2% |
| Municipalities | 0.4% | 0.4% | 0.4% | 0.4% |

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

Current Law:

Transportation Trust Fund – Generally

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. This includes issuing Consolidated Transportation Bonds (CTBs).

Debt Service Requirements and Practices

State law and agency debt practices limit 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 future annual 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 – Distributions and Authorized Purposes

TTF's GMVRA revenues (commonly known as highway user revenues) 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 highway user revenues, please see the **Appendix – Highway User Revenues**.

The *Consolidated Transportation Program* for fiscal 2019 through 2023 has set aside approximately \$53.8 million in fiscal 2019 to be distributed to local governments as capital transportation grants. Of this total, \$27.8 million goes to counties, \$5.6 million goes to Baltimore City, and \$20.4 million goes to municipalities. Budget bill language specifies that the grants be distributed to the counties and municipalities using the GMVRA distribution formula.

State Fiscal Effect: Altering the distribution formula in the manner required by the bill decreases TTF revenues available to MDOT by an estimated \$31.5 million in fiscal 2019, \$63.3 million in fiscal 2020, \$96.4 million in fiscal 2021, \$132.5 million in fiscal 2022, and \$168.6 million in fiscal 2023, totaling \$492.3 million over the five-year period.

The \$492.3 million reduction in highway user revenues available to MDOT over the five-year period requires MDOT to reduce its bond issuances by approximately

\$510.0 million, resulting in an initial reduction of \$1.0 billion 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 \$81.0 million are taken into account, the net decrease in MDOT's capital budget is \$921.3 million.

Local Fiscal Effect: Altering the GMVRA distribution formula increases county highway user revenues by an estimated \$31.5 million in fiscal 2019, \$63.3 million in fiscal 2020, \$96.4 million in fiscal 2021, \$132.5 million in fiscal 2022, and \$168.6 million in fiscal 2023. The distributions to Baltimore City and municipalities are not altered by the bill.

Exhibit 2 shows, for fiscal 2019 through 2023, the increase in highway user revenues distributed to the counties and the total highway user revenues distributed to local governments under the bill (by county). (The total highway user revenues in this exhibit do not reflect the fiscal 2019 capital transportation grants for counties, municipalities, and Baltimore City.)

Exhibit 2
Local Government Increase and Total – Highway User Revenues
Fiscal 2019-2023
(\$ in Millions)

| | FY 2019 | | FY 2020 | | FY 2021 | | FY 2022 | | FY 2023 | |
|-----------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|-----------------|----------------|
| | <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 | \$0.5 | \$1.4 | \$1.1 | \$1.9 | \$1.7 | \$2.5 | \$2.3 | \$3.1 | \$2.9 | \$3.8 |
| Anne Arundel | 3.4 | 6.7 | 6.8 | 10.1 | 10.3 | 13.7 | 14.1 | 17.6 | 18.0 | 21.5 |
| Baltimore City | 0.0 | 142.9 | 0.0 | 143.5 | 0.0 | 145.6 | 0.0 | 147.8 | 0.0 | 151.0 |
| Baltimore | 4.7 | 8.8 | 9.4 | 13.6 | 14.4 | 18.6 | 19.7 | 24.0 | 25.1 | 29.5 |
| Calvert | 0.7 | 1.5 | 1.5 | 2.2 | 2.2 | 3.0 | 3.1 | 3.8 | 3.9 | 4.7 |
| Caroline | 0.5 | 1.0 | 0.9 | 1.4 | 1.4 | 1.9 | 1.9 | 2.5 | 2.4 | 3.0 |
| Carroll | 1.3 | 2.8 | 2.6 | 4.2 | 3.9 | 5.5 | 5.4 | 7.0 | 6.9 | 8.5 |
| Cecil | 0.7 | 1.6 | 1.5 | 2.4 | 2.3 | 3.1 | 3.1 | 4.0 | 4.0 | 4.9 |
| Charles | 1.1 | 2.2 | 2.2 | 3.3 | 3.4 | 4.5 | 4.7 | 5.8 | 5.9 | 7.1 |
| Dorchester | 0.5 | 1.1 | 1.0 | 1.6 | 1.6 | 2.2 | 2.1 | 2.8 | 2.7 | 3.4 |
| Frederick | 1.6 | 3.8 | 3.1 | 5.3 | 4.8 | 7.0 | 6.5 | 8.8 | 8.3 | 10.6 |
| Garrett | 0.6 | 1.3 | 1.2 | 1.9 | 1.9 | 2.5 | 2.5 | 3.2 | 3.2 | 3.9 |
| Harford | 1.6 | 3.3 | 3.2 | 4.9 | 4.8 | 6.6 | 6.7 | 8.5 | 8.5 | 10.3 |
| Howard | 1.8 | 3.5 | 3.7 | 5.3 | 5.6 | 7.3 | 7.7 | 9.4 | 9.8 | 11.5 |
| Kent | 0.3 | 0.6 | 0.5 | 0.8 | 0.8 | 1.1 | 1.1 | 1.4 | 1.4 | 1.7 |
| Montgomery | 4.3 | 9.2 | 8.6 | 13.6 | 13.0 | 18.1 | 17.9 | 23.1 | 22.8 | 28.1 |
| Prince George's | 3.5 | 8.0 | 6.9 | 11.5 | 10.6 | 15.2 | 14.5 | 19.2 | 18.5 | 23.3 |
| Queen Anne's | 0.6 | 1.2 | 1.2 | 1.8 | 1.8 | 2.4 | 2.5 | 3.1 | 3.2 | 3.8 |
| St. Mary's | 0.3 | 0.7 | 0.6 | 1.0 | 1.0 | 1.3 | 1.4 | 1.7 | 1.7 | 2.1 |
| Somerset | 0.9 | 1.7 | 1.8 | 2.6 | 2.8 | 3.6 | 3.8 | 4.6 | 4.8 | 5.7 |
| Talbot | 0.4 | 0.9 | 0.7 | 1.3 | 1.1 | 1.7 | 1.6 | 2.1 | 2.0 | 2.6 |
| Washington | 1.0 | 2.4 | 2.0 | 3.4 | 3.1 | 4.5 | 4.2 | 5.6 | 5.4 | 6.8 |
| Wicomico | 0.7 | 1.8 | 1.5 | 2.6 | 2.3 | 3.4 | 3.1 | 4.2 | 4.0 | 5.1 |
| Worcester | 0.6 | 1.4 | 1.2 | 1.9 | 1.8 | 2.6 | 2.5 | 3.3 | 3.2 | 4.0 |
| Total | \$31.5 | \$209.7 | \$63.3 | \$242.2 | \$96.4 | \$278.0 | \$132.5 | \$316.8 | \$168.6 | \$356.9 |

Notes: Totals may not sum due to rounding.

Estimate assumes that highway road miles and vehicle registrations in fiscal 2019 remain constant through fiscal 2023.

The total column includes distributions to Baltimore City and municipalities within each county.

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: Although designated as a cross file, SB 605 (Senator Edwards, *et al.* - Budget and Taxation) is not identical.

Information Source(s): Maryland Department of Transportation; Maryland Association of Counties; Baltimore City; Anne Arundel, Baltimore, Frederick, and Montgomery counties; Department of Legislative Services

Fiscal Note History: First Reader - March 7, 2018
mm/lgc

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Appendix – Highway User Revenues

Transportation Aid to Local Governments

In fiscal 2018, local governments received \$175.5 million in State aid from highway user revenues and \$38.4 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 2018.

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 2018**

| County | Highway User Revenues | County Grants | Municipal Grants | Elderly/ Disabled | Paratransit | Per Capita Aid | Per Capita Rank |
|-----------------|------------------------------|----------------------|-------------------------|--------------------------|--------------------|-----------------------|------------------------|
| Allegany | \$832,087 | \$220,002 | \$991,798 | \$141,544 | - | \$30 | 8 |
| Anne Arundel | 3,221,498 | 1,358,907 | 851,278 | 245,966 | \$217,351 | 10 | 21 |
| Baltimore City | 140,766,857 | 5,484,423 | - | 379,335 | - | 239 | 1 |
| Baltimore | 4,127,744 | 1,926,280 | - | 395,836 | - | 8 | 24 |
| Calvert | 726,380 | 295,765 | 254,643 | 127,003 | 76,099 | 16 | 16 |
| Caroline | 527,472 | 184,008 | 366,216 | - | - | 33 | 6 |
| Carroll | 1,544,593 | 521,396 | 1,175,124 | 151,029 | - | 20 | 14 |
| Cecil | 853,921 | 300,969 | 574,716 | 134,073 | - | 18 | 15 |
| Charles | 1,079,426 | 448,309 | 326,598 | 137,609 | - | 13 | 19 |
| Dorchester | 595,741 | 207,513 | 415,488 | 122,724 | 50,000 | 43 | 4 |
| Frederick | 2,162,068 | 630,207 | 2,231,971 | 159,159 | - | 21 | 13 |
| Garrett | 647,220 | 246,388 | 327,922 | 119,664 | - | 46 | 2 |
| Harford | 1,753,040 | 644,754 | 1,021,418 | 170,371 | - | 14 | 17 |
| Howard | 1,589,922 | 741,964 | - | 162,520 | 430,000 | 9 | 23 |
| Kent | 303,393 | 105,117 | 214,892 | - | - | 32 | 7 |
| Montgomery | 4,873,972 | 1,727,668 | 3,222,520 | 379,107 | - | 10 | 22 |
| Prince George's | 4,484,948 | 1,395,053 | 4,112,763 | 332,819 | 450,000 | 12 | 20 |
| Queen Anne's | 579,271 | 245,078 | 148,792 | 122,064 | - | 22 | 11 |
| St. Mary's | 816,040 | 365,518 | 90,166 | 117,447 | 135,000 | 14 | 18 |
| Somerset | 335,208 | 130,865 | 150,657 | 131,054 | - | 29 | 9 |
| Talbot | 532,876 | 150,782 | 576,870 | 360,652 | 40,000 | 45 | 3 |
| Washington | 1,343,554 | 408,283 | 1,288,815 | 269,015 | - | 22 | 12 |
| Wicomico | 1,055,069 | 302,541 | 1,118,612 | 146,917 | - | 26 | 10 |
| Worcester | 749,231 | 239,621 | 648,334 | - | 110,000 | 34 | 5 |
| Total | \$175,501,531 | \$18,281,410 | \$20,109,551 | \$4,305,908 | \$1,508,450 | \$32 | |

Notes: Highway User Revenues column includes municipal aid. Per Capita estimates based off of 2016 Census population estimates.
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 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 from these grants in fiscal 2014, \$16 million in fiscal 2015, \$19 million in fiscal 2016, \$19 million in fiscal 2017, and \$20.1 million in fiscal 2018. In fiscal 2016, 2017, and 2018, the counties and Baltimore City were also awarded additional transportation aid through special grants. In fiscal 2016 and 2017, Baltimore City received \$2 million and the counties received a total of \$4 million; in fiscal 2018, Baltimore City received \$5.5 million and the counties received a total of \$12.8 million.

Although the municipal transportation grants and the special grants are supplemental to the amounts received from highway user revenues, the grants were 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.