

Department of Legislative Services
Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 400

(The President, *et al.*) (By Request - Administration)

Budget and Taxation

Transportation – Highway User Revenue – Distribution

This Administration bill increases the share of funds from the Gasoline and Motor Vehicle Revenue Account (GMVRA) that the Maryland Department of Transportation (MDOT) must annually provide to local governments through capital transportation grants beginning in fiscal 2025 by making permanent the distribution in effect for fiscal 2020 through 2024. Additionally, by July 1 each year, each local government that received funding through GMVRA in the preceding fiscal year must submit an accounting report to the State Highway Administration (SHA). SHA may not disburse any GMVRA funding to a jurisdiction that has not submitted the required report. **The bill takes effect July 1, 2022.**

Fiscal Summary

State Effect: Overall Transportation Trust Fund (TTF) expenditures are not affected. However, over the five-year period addressed in this fiscal and policy note, relative to current law, the bill directs an additional \$82.4 million in FY 2025, \$83.4 million in FY 2026, and \$84.5 million in FY 2027 to local governments. The *Consolidated Transportation Program* (CTP) for FY 2022 through 2027 reflects the bill's changes, as discussed below. Revenues are not affected.

Local Effect: Over the five-year period addressed in this fiscal and policy note, relative to current law, local government revenues increase by an estimated \$82.4 million in FY 2025, \$83.4 million in FY 2026, and \$84.5 million in FY 2027. The CTP for FY 2022 through 2027 reflects the bill's changes, as discussed below. Local governments can prepare and provide the required reports using existing resources.

Small Business Effect: The Administration has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services disagrees with this assessment as discussed below.

Analysis

Bill Summary: **Exhibit 1** illustrates the bill's effect on the percentage of GMVRA revenues annually distributed to local governments beginning in fiscal 2025.

Exhibit 1 Local Share of Highway User Revenues Fiscal 2025 and Future Fiscal Years

<u>Current Law</u>	<u>Under the Bill</u>
MDOT	90.4%
Baltimore City	7.7%
Counties	1.5%
Municipalities	0.4%
MDOT	86.5%
Baltimore City	8.3%
Counties	3.2%
Municipalities	2.0%

MDOT: Maryland Department of Transportation

Source: Department of Legislative Services

By July 1 each year, Baltimore City, each county, and each eligible municipality that received GMVRA funding in the preceding fiscal year must submit to SHA an accounting report that, to the extent practicable:

- shows the actual costs for the first six months of the preceding fiscal year;
- shows the expenditure budget of the current fiscal year;
- for these costs and budgets, accurately identifies the costs for specific projects that are eligible uses of GMVRA funding;
- shows the amount of funds diverted from the county or municipal general fund to pay for the eligible projects during the first six months of the preceding fiscal year; and
- lists the eligible projects that have been delayed due to a lack of funding.

Requirements that apply to an existing accounting report that must be submitted to SHA by a local government that receives GMVRA funding also apply to the accounting report required by the bill.

Current Law/Background:

Highway User Revenues – History

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 MDOT and a consolidated TTF. As provided by that legislation, the State shares with the counties, Baltimore City, and municipalities those revenues credited to the GMVRA 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.

Distribution of Highway User Revenues

Chapters 330 and 331 of 2018 altered the manner in which GMVRA revenues are shared with local governments, beginning in fiscal 2020. Instead of directly sharing the revenue with local governments, the Acts require 100% of the funds in GMVRA to be retained by TTF and distributed to local governments through capital transportation grants. This change allows MDOT to issue bonds backed by the GMVRA revenues that are ultimately issued to local governments; MDOT was unable to do so prior to the enactment of Chapters 330 and 331.

Chapters 330 and 331 also increased the local government share of GMVRA revenues from fiscal 2020 through 2024. **Exhibit 2** shows the effect of Chapters 330 and 331 on the local share of GMVRA revenues beginning in fiscal 2020. Beginning in fiscal 2025, the percentage of revenues provided to local governments is set to revert back to the totals in place before the enactment of Chapters 330 and 331; however, the revenues must continue to be distributed as capital transportation grants.

Exhibit 2
Distribution of Highway User Revenues
Effect of Chapters 330 and 331 of 2018

	<u>Prior to FY 2020</u>	<u>FY 2020-2024</u>	<u>Beginning in FY 2025</u>
MDOT	90.4%	86.5%	90.4%
Baltimore City	7.7%	8.3%	7.7%
Counties	1.5%	3.2%	1.5%
Municipalities	0.4%	2.0%	0.4%

MDOT: Maryland Department of Transportation

Source: Department of Legislative Services

Permitted Uses of Highway User Revenues

Local governments are only permitted to use GMVRA funding for purposes authorized by State law. Generally, the funding must be used to pay the cost of transportation facilities and to construct, reconstruct, or maintain locally owned roads. A local government may, however, spend a reasonable part of its funding for the purposes of establishing and maintaining footpaths, bridle paths or horse trails, or bicycle trails, under specified circumstances.

Additionally, other uses of GMVRA funds are authorized for specified local entities. For example, Baltimore City and Kent County are authorized to use the funding for street cleaning, and Kent County is authorized to use the funding to maintain county-owned boat landings.

Required Accounting Reports

By January 1 of each year, Baltimore City, each county, and each eligible municipality that received GMVRA funding in the preceding fiscal year must submit to SHA an accounting report that:

- shows the actual costs for the preceding fiscal year;
- shows the expenditure budget of the current fiscal year;
- for these costs and budgets, accurately identifies the costs for specific projects that are eligible uses of GMVRA funding;

- shows the amount of funds diverted from the county or municipal general fund to pay for the eligible projects during the preceding fiscal year; and
- lists the eligible projects that have been delayed due to a lack of funding.

SHA must (1) provide an accounting report form to local governments to submit the required information by December 1 of each year and (2) compile, summarize, and analyze the information reported by local governments into a single report and submit it to the Governor and specified committees of the General Assembly by February 1 each year. SHA may not disburse any GMVRA funding to a jurisdiction that has not submitted the required report.

State Fiscal Effect: Altering the GMVRA distribution formula beginning in fiscal 2025 decreases MDOT's share of highway user revenues and increases the local jurisdictions' share of highway user revenues. (As noted above, MDOT must provide the local share of highway user revenues to local governments through capital transportation grants.)

Relative to current law and based on the estimated funds credited to GMVRA, the bill requires MDOT to direct an additional \$82.4 million in fiscal 2025, \$83.4 million in fiscal 2026, and \$84.5 million in fiscal 2027 (totaling \$250.2 million over the five-year period addressed in this fiscal and policy note) to local governments.

However, the CTP for fiscal 2022 through 2027 already assumes increased capital grants for local governments beginning in fiscal 2025 that are consistent with the bill's changes. As such, MDOT has already modified its capital program in such a way that the bill does not necessitate any further alteration to the capital program.

Local Fiscal Effect: Over the five-year period addressed in this fiscal and policy note, relative to current law, local jurisdictions' highway user revenues increase by an estimated \$82.4 million in fiscal 2025, \$83.4 million in fiscal 2026, and \$84.5 million in fiscal 2027. The distribution of the increase among Baltimore City, the counties, and municipalities is shown in **Exhibit 3**.

Exhibit 3
Projected Increase in Local Distribution of Highway User Revenues
Fiscal 2025 through 2027
(\$ in Millions)

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
Baltimore City	\$12.7	\$12.8	\$13.0
Counties	35.9	36.3	36.8
Municipalities	33.8	34.2	34.6
Total	\$82.4	\$83.4	\$84.5

Note: Totals may not sum due to rounding.

Source: Department of Legislative Services

Exhibit 4 shows the *increase* in highway user revenues distributed to localities and the *total* amount of highway user revenues distributed to localities for fiscal 2023 through 2027 under the bill (by county), relative to current law.

As noted above, however, the CTP for fiscal 2022 through 2027 already reflects the bill's changes.

Exhibit 4
Local Government Increase and Total – Highway User Revenues
Fiscal 2023-2027
(\$ in Millions)

	FY 2023		FY 2024		FY 2025		FY 2026		FY 2027	
	<u>Increase</u>	<u>Total</u>								
Allegany	\$0.0	\$3.0	\$0.0	\$3.1	\$2.2	\$3.1	\$2.2	\$3.1	\$2.2	\$3.2
Anne Arundel	0.0	8.7	0.0	8.9	5.3	9.0	5.3	9.1	5.4	9.2
Baltimore City	0.0	170.0	0.0	173.5	12.7	175.3	12.8	177.5	13.0	179.7
Baltimore	0.0	9.6	0.0	9.8	5.3	9.9	5.3	10.0	5.4	10.2
Calvert	0.0	2.0	0.0	2.1	1.3	2.1	1.3	2.1	1.3	2.2
Caroline	0.0	1.7	0.0	1.7	1.1	1.8	1.2	1.8	1.2	1.8
Carroll	0.0	5.0	0.0	5.1	3.4	5.2	3.5	5.2	3.5	5.3
Cecil	0.0	2.7	0.0	2.8	1.8	2.8	1.8	2.8	1.9	2.9
Charles	0.0	3.0	0.0	3.1	1.9	3.1	1.9	3.2	1.9	3.2
Dorchester	0.0	1.9	0.0	2.0	1.3	2.0	1.3	2.0	1.4	2.1
Frederick	0.0	8.1	0.0	8.3	5.8	8.4	5.8	8.5	5.9	8.6
Garrett	0.0	1.9	0.0	1.9	1.2	1.9	1.2	1.9	1.2	2.0
Harford	0.0	5.2	0.0	5.4	3.4	5.4	3.5	5.5	3.5	5.5
Howard	0.0	3.9	0.0	4.0	2.1	4.0	2.1	4.0	2.2	4.1
Kent	0.0	1.0	0.0	1.0	0.6	1.0	0.7	1.0	0.7	1.0
Montgomery	0.0	15.3	0.0	15.6	10.2	15.8	10.3	16.0	10.5	16.2
Prince George's	0.0	15.7	0.0	16.0	10.9	16.2	11.1	16.4	11.2	16.6
Queen Anne's	0.0	1.6	0.0	1.6	1.0	1.6	1.0	1.7	1.0	1.7
Somerset	0.0	1.0	0.0	1.0	0.6	1.0	0.6	1.0	0.6	1.0
St. Mary's	0.0	2.1	0.0	2.2	1.2	2.2	1.2	2.2	1.3	2.2
Talbot	0.0	1.9	0.0	2.0	1.4	2.0	1.4	2.0	1.4	2.0
Washington	0.0	4.6	0.0	4.7	3.2	4.8	3.3	4.8	3.3	4.9
Wicomico	0.0	3.8	0.0	3.9	2.7	3.9	2.8	4.0	2.8	4.0
Worcester	0.0	2.5	0.0	2.6	1.8	2.6	1.8	2.7	1.8	2.7
Total	\$0.0	\$276.5	\$0.0	\$282.2	\$82.4	\$285.1	\$83.4	\$288.6	\$84.5	\$292.3

Notes: Totals may not sum due to rounding. Estimate assumes that highway road miles and vehicle registrations in fiscal 2023 remain constant through fiscal 2027.

Source: Department of Legislative Services

Small Business Effect: Although the bill redirects funding from the State to local governments, the total amount of funding available for transportation projects statewide is unchanged. Accordingly, while the mix of transportation projects may change, overall, the bill has minimal or no impact on small businesses in the State.

Additional Information

Prior Introductions: SB 362 of 2021, a similar bill, passed the Senate with amendments and was referred to the House Environment and Transportation Committee, but no further action was taken. Its cross file, HB 649, received a hearing in the House Environment and Transportation Committee, but no further action was taken.

Designated Cross File: HB 410 (The Speaker, *et al.*) (By Request - Administration) - Environment and Transportation.

Information Source(s): Maryland Department of Transportation; Maryland Association of Counties; Maryland Municipal League; Department of Legislative Services

Fiscal Note History: First Reader - February 4, 2022
rh/lgc

Analysis by: Richard L. Duncan

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Transportation – Highway User Revenue – Distribution

BILL NUMBER: SB 400

PREPARED BY: A. Cassilly

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

— WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

x WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

Passage of this bill will eliminate the sunset on the existing program and continue HUR funding to local jurisdictions. This will allow for local districts to continue contracting with local businesses to facilitate these projects. While it is not possible to quantify the impact of this bill on small businesses, we believe it will have a significant positive impact.