
March 15, 2022

The Honorable Guy Guzzone
Chairman, Senate Budget and Taxation Committee
3 West Miller Senate Office Building
Annapolis, MD 21401

Re: Letter of Information – Senate Bill 946 – Transportation – Highway User Revenues – Distribution

Dear Chairman Guzzone and Committee Members:

The Maryland Department of Transportation (MDOT) takes no position on Senate Bill 946 but offers the following information for the Committee's consideration.

Senate Bill 946 modifies the definition of highway user revenues (HUR), increases required HUR payments to local jurisdictions, and modifies the allowed uses of county transportation bonds.

Senate Bill 946 would have a devastating impact on the MDOT, resulting in: (1) a revenue loss of \$2.6 billion during the six-year financial plan, (2) a breach of the MDOT's debt coverage ratios, preventing the issuance of additional bonds, (3) a likely credit rating downgrade for the MDOT and potentially for the State; and (4) a reduction of \$2.5 billion in the MDOT's capital program.

The impact of the change in distribution of the HUR formula is significantly exacerbated by the change in definition of HUR, which was modified in 2018 to change from a revenue distribution to a capital grant. Senate Bill 946 would return the definition of HUR to a revenue distribution, which would have a tremendous negative impact on MDOT's capital projects, bonding program, and creditworthiness. The MDOT is not aware of any concerns from local jurisdictions or others that would prompt a return to the previous definition.

Senate Bill 946 does not just reduce funding for MDOT, even when accounting for the increase in funding for local jurisdictions, this bill reduces total transportation funding in Maryland. By increasing transportation funding for local jurisdictions by \$1.2 billion in FY 2024 through FY 2027 and decreasing transportation funding to the MDOT by \$2.5 billion, there would be a net loss of statewide transportation funding at the State and local level of \$1.3 billion. Unlike other proposed legislation regarding HUR's this session, Senate Bill 946's revision of the definition of HUR significantly impairs MDOT's bonding capacity, further reducing the MDOT's ability to fund its capital program and resulting in a net loss of statewide transportation funding at the State and local level of another \$1.3 billion.

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A reduction of \$2.5 billion to MDOT's capital program will have significant impacts on the MDOT's ability to maintain the statewide multi-modal transportation network. This loss of funding will also reduce MDOT's ability to provide required matching funds for federal funding, which may lead to a further decline in the capital program if MDOT has to return federal funds due to lack of required matching funds. This would affect current federal formula and grant funding, as well as additional funding available under the Infrastructure Investment and Jobs Act (IIJA). It is important to note that although IIJA brings additional transportation funding to Maryland, it cannot wholly replace the funding loss to MDOT from increasing HUR funding to the local jurisdictions because federal funds require State matches and many of the critical projects that MDOT invests in are not eligible for federal funding.

In 2011, the General Assembly permanently provided the MDOT a greater share of HUR funding to compensate for the revenue loss created by redirecting a portion of the State's sales tax and corporate income tax from the Transportation Trust Fund to the State's General Fund. The change in HUR funding was to keep MDOT whole from this revenue loss; therefore, Senate Bill 946 results in a retraction of the General Assembly's commitment to investing in the State's multi-modal transportation network. Second, the modification to the definition of HUR that occurred in 2018 was made to reduce the impact of the additional HUR funding for local jurisdictions that was also agreed to in 2018. By changing the definition of HUR from a revenue deduction to a capital grant, MDOT's bonding capacity increased, which allowed it to mitigate the impacts of the additional funding to the local jurisdictions. Reversing these previous legislative actions result in a reduced investment in Maryland's transportation network, despite the many needs across the system to maintain the State's transit, highway, port and airport facilities in a state of good repair.

The Maryland Department of Transportation respectfully requests the Committee consider this information when deliberating Senate Bill 946.

Respectfully submitted,

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