Chipping Away at Transportation Revenue Would Make Marylanders' Lives Harder

Position Statement in Opposition to Senate Bill 737

Given before the Senate Budget and Taxation Committee

Motor fuel taxes are a common-sense way to ensure that the people who drive on Maryland roads pay their fair share to keep those roads in good condition, just as public transit users pay bus and rail fares to help maintain those services. Fuel tax rates increase modestly each year to keep up with inflation so that we have the revenue necessary to maintain our transportation networks as the cost of this maintenance rises. Suspending the inflation adjustment would permanently reduce transportation funding, making it harder to maintain the effective transportation system our economy relies on. Ultimately, working families would pay the price in the form of longer commutes and higher costs to repair neglected infrastructure. **For these reasons, the Maryland Center on Economic Policy opposes Senate Bill 737.**

Fuel tax revenues are projected to total $1.2 billion in fiscal year 2023, supplying more than one-fifth of the funding for Maryland's Transportation Trust Fund.[i] Most of this money goes to the Maryland Department of Transportation, where it supports highway repairs, public transit, the Motor Vehicles Administration, and the department's headquarters. This revenue is essential, because the Department of Transportation does not receive any revenue from the state's general fund. A small portion of the Transportation Trust Fund also supports transportation investments by local governments.

Our investments in transportation are vital for Maryland's economy. Well-maintained transportation networks enable people and goods to move efficiently through Maryland, which is why highways are business executives' second-highest priority when choosing where to locate a new facility – outranking taxes, labor costs, and subsidies.[ii] Our public investments in transportation also support thousands of jobs throughout Maryland.

Senate Bill 737 would *permanently* reduce Maryland's capacity to invest in transportation. Because fuel taxes are applied on a per-gallon basis rather than as a percentage of sales, annual inflation adjustment is necessary to ensure that revenue keeps up with the cost of maintenance. And because inflation builds on itself from each year to the next, even temporarily suspending inflation adjustments would eat into transportation funding forever. The result will be less upkeep for Maryland roads, bridges, transit, and other transportation infrastructure – which would ultimately harm commuters across Maryland.

State analysts project that **Senate Bill 737 would cost more than $270 million over five years**. To put the bill's $37.5 million cost in FY 2023 in context:

- Maintenance of state roads including winter operations, Eastern Shore total: $35.8 million

- Maintenance of state roads including winter operations, Western Maryland total: $31.1 million
- Maryland Highway Safety Office: $15.9 million

Weakening our ability to invest in Maryland's transportation systems would likely worsen existing transportation inequities. As a result of our past choices about where and how to invest in our transportation system, Black Marylanders have longer average commutes to work than their white counterparts. The difference is widest in areas of our state where workers of color live in the highest numbers. In some areas, Black workers commute up to 55 hours more each year than their white neighbors.[iii]

There are far better ways than Senate Bill 737 to strengthen working families' finances. More effective tax policies include strengthening the state Earned Income Tax Credit and Child Tax Credit – refundable income tax credits for low-income families that can help offset gas and sales taxes. More effective transportation policy choices include strengthening investments in public transportation, which is especially important for Marylanders living on low incomes as well as many Marylanders of color.

Finally, reducing fuel taxes would further entrench Maryland's reliance on fossil fuels at a time when a shift in the opposite direction is urgently needed to reduce the damage caused by climate change. The climate crisis has already caused "irreversible impacts as natural and human systems are pushed beyond their ability to adapt" and "impacts and risks are becoming increasingly complex and more difficult to manage," according to a 2022 report by the Intergovernmental Panel on Climate Change.[iv] We should be taking bold steps to reduce our reliance on fossil fuels – instead, Senate Bill 737 would double down.

For these reasons, the Maryland Center on Economic Policy respectfully asks that the Budget and Taxation Committee make an unfavorable report on Senate Bill 737.

Equity Impact Analysis: Senate Bill 737

Bill summary

Senate Bill 737 would suspend annual inflation adjustment to fuel tax rates for 2022 and 2023.

Background

Fuel tax revenues are projected to total $1.2 billion in fiscal year 2023, supplying more than one-fifth of the funding for Maryland's Transportation Trust Fund.

As of July 1, 2021, the per gallon motor fuel tax rate is equal to 36.1 cents (gasoline and clean-burning fuel), 36.85 cents (special fuel/diesel), and 7.0 cents (aviation and turbine fuel).

Over several years, surveys of business executives' site selection priorities have consistently found that highway access is business leaders' second-highest priority when choosing where to locate a new facility, outranking taxes, labor costs, and subsidies.[v]

Equity Implications

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Impact

Senate Bill 737 would likely **worsen racial and economic equity** in Maryland.

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[i] FY 2023 Maryland budget data.

[ii] Geraldine Gambale, "35th Annual Corporate Survey: Effects of Global Pandemic Reflected in Executives' Site and Facility Plans," *Area Development*, 2021, https://www.areadevelopment.com/Corporate-Consultants-Survey-Results/Q1-2021/35th-annual-corporate-survey.shtml

[iii] Christopher Meyer, "Budgeting for Opportunity: How Our Fiscal Policy Choices Can Remove Barriers Facing Marylanders of Color and Advance Shared Prosperity," Maryland Center on Economic Policy, 2018, http://www.mdeconomy.org/budgeting-for-opportunity-health-education-transportation/

[iv] "Climate Change 2022 Impacts, Adaptation, and Vulnerability: Summary for Policymakers," Intergovernmental Panel on Climate Change, 2022, https://report.ipcc.ch/ar6wg2/pdf/IPCC_AR6_WGII_SummaryForPolicymakers.pdf

[v] Geraldine Gambale, "35th Annual Corporate Survey: Effects of Global Pandemic Reflected in Executives' Site and Facility Plans," *Area Development*, 2021, https://www.areadevelopment.com/Corporate-Consultants-Survey-Results/Q1-2021/35th-annual-corporate-survey.shtml

[vi] Christopher Meyer, "Budgeting for Opportunity: How Our Fiscal Policy Choices Can Remove Barriers Facing Marylanders of Color and Advance Shared Prosperity," Maryland Center on Economic Policy, 2018, http://www.mdeconomy.org/budgeting-for-opportunity-health-education-transportation/