February 1, 2022

The Honorable Vanessa Atterbeary
Chair, House Ways and Means Committee
131 House Office Building
Annapolis, MD 21401

RE: Letter of Information – House Bill 36 – Vehicle Excise Tax - Leased Vehicles - Alteration

Dear Chair Atterbeary and Committee Members:

The Maryland Department of Transportation (MDOT) takes no position on House Bill 36 but offers the following information for the Committee's consideration.

The MDOT Motor Vehicle Administration (MDOT MVA) administers the issuance of vehicle titles in Maryland. Over the past three fiscal years, the average number of new leased vehicles per year is just under 47,000, which generated an annual average of almost $78 million, with an average tax rate of 5.71%. House Bill 36 would alter the calculation of the vehicle excise (titling) tax imposed on leased vehicles from the total purchase price of the vehicle to the total value of lease payments. Based on an analysis of the past three fiscal years, the MDOT estimates this would result in an annual revenue reduction to the Transportation Trust Fund of $48.2 million. This will reduce the funds available to pay debt service, thereby impacting the affordability of MDOT's debt.

With the reduction of funds, the MDOT would not be able to issue the level of bonds needed to finance its current capital program. To maintain the current level of debt service coverage, the capital program would have to be reduced by approximately $474 million over five fiscal years. The MDOT uses a six-year working Operating/Capital Plan, so the reduction would need to begin in 2023 so as to prepare for House Bill 36's 2027 effective date. Additionally, a reduction in the State-funded capital program could result in a loss of federal funds if the MDOT is unable to provide the matching funds required to be eligible for federal aid.

Revenues from the titling tax are pledged to the repayment of MDOT's Consolidated Transportation Bonds, which is enumerated in Section 3-215 of the Transportation Article of the Annotated Code and in the MDOT's bond documents every time bonds are issued. The changes associated with House Bill 36 impair the position of bondholders. The revenue losses reduce the MDOT's debt service coverage ratios, which reduces MDOT's ability to issue bonds to support the capital program. The MDOT prides itself on its AAA credit rating from Standard & Poor's, Aa1 from Moody's, and AA+ from Fitch, and House Bill 36 could potentially result in a negative credit action from the credit rating agencies.

Approximately two-thirds of the titling tax, are credited to the Gasoline and Motor Vehicle Revenue Account (GMVRA) in the Transportation Trust Fund. Revenues in the GMVRA are used as the basis for calculating the amount of capital transportation grants to be distributed to local governments as Highway User Revenues (HUR). The provisions of House Bill 36 reduce the revenues that flow into the GMVRA, thus reducing funding available to local jurisdictions through HUR capital grants. The MDOT estimates a reduction of HUR capital grants of approximately $23 million over the next five fiscal years, or an average of approximately $4.6 million per year.

Finally, House Bill 36 would also require approximately $42,000 in programming changes to existing IT systems, as well as extensive training and new procedures and verification processes for MDOT MVA customer agents, car dealerships, and tag and title vendors.

The Maryland Department of Transportation respectfully requests the Committee consider this information when deliberating House Bill 36.

Respectfully submitted,

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