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The Transportation Funding Act of 2024 (HB1215) Fact Sheet

What does the bill do?

The Transportation Funding Act of 2024 establishes two new sustainable sources of revenue for the state's transportation system.

The first is an e-commerce delivery charge that applies a $0.50 fee to every delivery from an online purchase that has at least one item subject to the state sales and use tax.

The second is a transportation network company (TNC) (*e.g.*, Uber; Lyft) charge that applies a $0.50 fee for all TNC trips in an internal combustion engine vehicle that originate in Maryland. A lower $0.25 fee is applied to all trips taken with an electric vehicle.

The revenue will be used to directly mitigate the impact of these activities and support our transportation programs through funding of the Maryland Transit Administration's State of Good Repair needs, local Highway User Revenues, and Locally Operated Transit System grants. The fees will be tied to inflation (with a cap) to ensure that revenue keeps pace with expenditures.

Why does the state transportation system need more revenue?

Over the past two decades, aggregate gasoline consumption has stagnated due to improvements in vehicle fuel efficiency and adoption of zero-emission vehicles. The impact of this is an erosion in motor fuel tax revenue. The motor fuel tax has historically made up the largest share of state transportation revenue. In 2022, it made up 38.4% nationally, down from 41.1% in 2018.[1] In Maryland, the Department of Transportation estimated that motor fuel taxes would constitute 23.1% of Transportation Trust Fund revenues between FY23 and FY28. Excluding federal funds, the share of motor fuel tax revenue in the TTF is 30%.[2]

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[1] NCSL Staff, "Road Worries: Sagging Gas Tax, Rising Traffic Safety Woes," National Conference of State Legislatures, April 21, 2023, https://www.ncsl.org/state-legislatures-news/details/road-worries-sagging-gas-tax-rising-traffic-safety-woes-2.
[2] Maryland Department of Legislative Services, *Maryland Department of Transportation Fiscal 2024 Budget Overview*, Annapolis, MD: Maryland General Assembly (2023), 9, https://mgaleg.maryland.gov/pubs/budgetfiscal/2024fy-budget-docs-operating-J00-Maryland-Department-of-Transportation-Overview.pdf.

Funding needs are only growing including Maryland's substantial operating commitment to two urban transit systems, the capital backlog across multiple modes, and the desire to embark on significant projects such as the Baltimore Red Line, MARC rail improvements, the Frederick Douglass Tunnel, roadway improvements and so on.

The legislature has looked to the General Fund in recent years to offset increasing transportation expenditures and declining revenues. In 2020, the legislature allocated $40 million from the General Fund to the Howard Street Tunnel Project.[3] In 2022, the legislature increased the portion of corporate income tax revenue that must be distributed to the Gasoline and Motor Vehicle Revenue Account[4] and allocated part of the revenue from the State Lottery Fund to the Department of Transportation for bus rapid transit system grants.[5] State support for the Washington Metropolitan Area Transit Authority (WMATA) has also come from General Funds and bond premiums.[6] In 2023, $100 million from the General Fund was allocated to fund certain transportation priorities.[7] Further reallocations from the General Fund are not a long-term or sustainable solution as they require a parallel decrease in other General Fund expenditures.

As a motor fuel tax increase and further General Fund reallocations are not viable options for a sustainable revenue stream that can meet Maryland's transportation investment needs, other revenue sources and financing mechanisms will have to leveraged.

Why is a fee being applied to e-commerce deliveries and transportation network company trips?

Maryland's revenue structure needs to be updated to parallel the modern economy. Over the last decade, the way that we interact with the transportation system has shifted dramatically.

Instead of driving to purchase items in-store, the use of online purchasing and delivery has grown exponentially. While convenient for many of us, the increased use of trucks for last-mile delivery causes greater wear and tear on local roads, more traffic and congestion, and greater CO_2 emissions. According to research from the World Economic

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[3] Maryland Department of Legislative Services, *Fiscal Briefing*, by Hiram L. Burch, et al., Annapolis, MD: Maryland General Assembly (2020), 30, https://mgaleg.maryland.gov/Pubs/BudgetFiscal/2020rs-operating-budget-fiscal-briefing.pdf.

[4] Maryland General Assembly, *Transportation – Highway User Revenues – Revenue and Distribution*, CH 240, 2022 Regular Session, https://mgaleg.maryland.gov/2022RS/Chapters_noln/CH_240_hb1187e.pdf.

[5] Maryland General Assembly, *Economic Development – Sports Entertainment Facilities and Events, Prince George's County Blue Line Corridor Facilities, and Racing Facilities*, CH 61, 2022 Regular Session, https://mgaleg.maryland.gov/2022RS/Chapters_noln/CH_61_hb0897t.pdf.

[6] Maryland Department of Legislative Services, *J00A104 – Maryland Department of Transportation – Washington Metropolitan Area Transit Authority Operating Budget Analysis*, Annapolis, MD: Maryland General Assembly (2023), 15, https://mgaleg.maryland.gov/Pubs/BudgetFiscal/2024fy-budget-docs-operating-J00A0104-MDOT-WMATA---Operating-Budget.pdf.

[7] Maryland General Assembly, *Budget Bill (Fiscal Year 2024)*, CH 101, 2023 Regular Session, https://mgaleg.maryland.gov/2023RS/Chapters_noln/CH_101_hb0200e.pdf.

Forum, the number of delivery vehicles on the roads in 2030 will be an estimated 36% higher than it was in January 2020, increasing related emissions by nearly one-third and adding an average of 11 minutes to passenger commutes.[8]

Transportation network companies, also known as digital dispatch or ride-hailing services, have marketed themselves as a tool to reduce traffic congestion through ridesharing and promote regional transit usage by serving as a first- and last-mile connection to transit and providing a convenient alternative to car ownership. However, TNCs also spend significant time on the road without any passengers before and after paid trips, referred to as "deadheading." Research found that out-of-service travel accounted for 50 percent of TNC vehicle miles traveled in New York and 20 percent in San Francisco. Evidence also demonstrates that between 43 and 61 percent of TNC trips substitute for transit, walk, or bike travel, or would not have been made at all. Multiple studies have also found that TNCs increase vehicle miles traveled in urban areas and increase overall congestion.[9] Other research has found that due to deadheading and the use of TNCs to replace lower-carbon modes of transportation, the average ride-hailing trip produces an estimated 69 percent more emissions than the trip it replaces.[10]

When does the e-commerce delivery fee apply? How will it be collected?

The e-commerce delivery fee of $0.50 will apply to any order placed online that includes at least one item subject to the state sales and use tax that the company or a designated subsidiary will deliver to a personal address. It will only apply once per transaction, regardless of the number of items or number of shipments. It does not apply to in-store pickups or curbside delivery. As clarified in amendments that will be presented to the Committee, it is remitted by the company making the transaction, whether the vendor creating the product or a marketplace facilitator.

The Comptroller's office will establish a process for fee collection. Companies have two options for collection of the fee: They can either charge the customer the $0.50 directly, which must be included as a separate line item on the receipt, or can choose to pay the fee on the customer's behalf.

When does the transportation network company fee apply? How will it be collected?

The TNC fee of $0.50 will apply to any transportation network company trip that originates in Maryland. Trips taken with an electric vehicle will be subject to a reduced

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[8] Madeleine Hillyer, "Urban Deliveries Expected to Add 11 Minutes to Daily Commute and Increase Carbon Emissions by 30% until 2030 without Effective Intervention," World Economic Forum, January 10, 2020, https://www.weforum.org/press/2020/01/urban-deliveries-expected-to-add-11-minutes-to-daily-commute-and-increase-carbon-emissions-by-30-until-2030-without-effective-intervention-e3141b32fa/.

[9] Gregory D. Erhardt, et al., "Do transportation network companies decrease or increase congestion?", *Science Advances* 5, no. 5, (May 2019), 1-11, https://doi.org/10.1126/sciadv.aau2670.

[10] Don Anair, et al., "Ride-Hailing's Climate Risks: Steering a Growing Industry Toward a Clean Transportation Future," Union of Concerned Scientists, February 25, 2020, https://www.ucsusa.org/resources/ride-hailing-climate-risks.

$0.25 fee because electric vehicle usage addresses concerns regarding CO_2 emissions but not congestion.

The Comptroller's office will establish a process for fee collection. Like the e-commerce delivery fee, companies can either charge the customer directly for the fee or elect to pay it on the customer's behalf.

How much revenue will the fees generate annually?

Estimates suggest that in their first year, the e-commerce delivery fee will generate $150 million and the TNC fee will generate $30 million. As the fees are tied to inflation, revenues are expected to increase annually. Because the Maryland Department of Transportation bonds off of its revenue, the value of these funds will ultimately be greater than the amount raised. Bond capacity is estimated to increase by $985 million over the first four years of fee collection.

Where else have these fees been implemented?

Currently, Colorado is the only state that has implemented an e-commerce delivery fee, serving as a test case for this revenue stream. Their implementation challenges provide a useful framework for how to structure the fee in a way that minimizes the burden for businesses while still addressing the effects of increased truck traffic on our roads. These modifications include the option for businesses to pay the fee on the customer's behalf rather than including it as a separate line item on the customer's bill, necessitating significant software upgrades for many companies. Aside from Colorado, Minnesota's $0.50 e-commerce delivery fee will go into effect on July 1, 2024. Additionally, a study of the fee is due to the Washington State Legislature in June[11], a bill is currently under consideration in the New York State Assembly[12], and the concept was recommended by North Carolina's transportation funding commission[13].

Many states and local jurisdictions around the country have implemented a TNC fee, including local jurisdictions here in Maryland. Currently, Annapolis, Baltimore City, Brunswick, the city of Frederick, Howard County, Montgomery County, Ocean City, and Prince George's County assess a $0.25 fee on transportation network company trips that originate in their jurisdiction.[14] Similar to New York and California, in local jurisdictions

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[11] Washington State Legislature, *An act relating to transportation funding and appropriations*, Chapter 472, 2023 Regular Session, 14, https://lawfilesext.leg.wa.gov/biennium/2023-24/Pdf/Bills/Session%20Laws/House/1125-S.SL.pdf?q=20240131071834.

[12] New York State Assembly, Senate, *An act to amend the state tax law and the state finance law, in relation to a surcharge on online delivery sales in the city of New York*, S 5895, 2023-2024 Regular Sessions, introduced in Senate March 22, 2023, https://nyassembly.gov/leg/?default_fld=&leg_video=&bn=S05895&term=&Summary=Y&Actions=Y.

[13] North Carolina Future Investment Resources for Sustainable Transportation (NC FIRST) Commission, *Final Commission Report*, by Nancy L. McFarlane, et al., Raleigh, NC: North Carolina Department of Transportation (2021), 134, https://www.ncdot.gov/about-us/how-we-operate/finance-budget/nc-first/Documents/2021-01-08-final-report.pdf.

[14] Comptroller of Maryland, *Transportation Network Service Rate* Chart, August 11, 2023, https://www.marylandtaxes.gov/forms/TNC_Assessments/Transportation_Network_Service_Rate_Chart.pdf.

with a TNC fee, both the state and local fee will be charged. TNCs increase wear and tear and congestion on both state and local roads. This fee structure ensures that both relevant authorities have the resources necessary to address the negative impact of TNCs on their roadways. Furthermore, the maximum total fee in Maryland – $0.75 – is much lower than the $3 charged in Chicago and $2.75 in New York City and likely lower than the average fee paid in jurisdictions such as Hawaii, Rhode Island, Washington, DC, and Wyoming, that charge rates of 4 to 7 percent.[15]

Where will the revenue go?

The money will be used to directly mitigate the effects of increased wear and tear on our local roadways. The revenue will be used for the Maryland Transit Administration's State of Good Repair needs and to support local government transportation funding through Highway User Revenues, the statutory increases for which are not fully funded under the budget for future years. Any remaining funds will be used to support Locally Operated Transit Systems.

When will businesses have to comply?

Requiring businesses to collect an additional fee will take time for businesses to implement and for the Comptroller's office to establish an administrative structure. In order to ensure that the Comptroller's office and businesses have sufficient time to understand and comply with this new law, as amended, the fees would not go into effect until July 1, 2027.

How do the amendments modify the bill?

The amendments that will be presented to the Committee were developed in collaboration with the Comptroller's office. They are largely technical in nature, adding clarifying language and refining the fee's collection, reporting, and administrative structure to align with other fees collected by the office. There are three substantive clarifications or modifications. The first adds language to accurately reflect the legislative intent that the e-commerce delivery fee not be included in the taxable price and that it be paid by a marketplace facilitator, such as Amazon or Etsy, and not by the marketplace seller, which is the company producing the good. The second is the removal of the minimum annual sales threshold for businesses for the e-commerce delivery fee. This change was implemented to align with the state sales and use tax and simplify the administration of the fee. Finally, the effective date was pushed back to July 1, 2027, to reflect the impact of the Comptroller's time-intensive software modernization effort and allow time for the personal income tax to be transitioned to the new system prior to the implementation of these fees.

[15] "TNC Fee Model Language Report," Transportation Investment Advocacy Center, American Road & Transportation Builders Association, December 2022, https://transportationinvestment.org/wp-content/uploads/2022/12/2022_TNC_-Fee_Model_Language-.pdf