Restricting Transportation Funding Options Would Move Maryland in the Wrong Direction

Position Statement in Opposition to Senate Bill 841

Given before the Senate Budget and Taxation Committee

Modern, multimodal transportation infrastructure is one of the fundamental building blocks of Maryland's economy, but severe revenue shortfalls threaten to undermine our transportation systems for years to come. Senate Bill 841 would worsen this problem by chipping away at existing transportation revenue sources and prohibiting both state and local policymakers from pursuing new funding options. Furthermore, by either forcing fare increases or restricting transit funding, the bill both threatens economic growth and makes our transportation systems less equitable. **For these reasons, the Maryland Center on Economic Policy opposes Senate Bill 841.**

Senate Bill 841 makes three major changes to Maryland's transportation funding policies:

- Repeal inflation indexing of the motor fuel tax rate, eroding revenue over time and undermining the state's ability to maintain, repair, or expand transportation systems.
- Prohibit the state as well as local jurisdictions from enacting vehicle-miles-traveled or similar taxes, or even meaningfully studying the issue. Vehicle-miles-traveled taxes are an increasingly promising revenue option as the urgent shift to electric vehicles reduces gas tax revenues in future years.
- Require fares to cover at least 35% of transit operating and capital costs once fully phased in, which would force either major fare increases or deep cuts to transit investment. This would undermine economic growth and make our transportation systems more inequitable.

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. Fuel tax revenues are projected to total $1.4 billion in fiscal year 2025, supplying 23% of the funding for Maryland's Transportation Trust Fund. Because this tax is structured on a per-gallon rather than per-dollar basis, the tax rate must 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. In 2023, the Department of Legislative Services estimated that freezing motor fuel taxes at their current rate **would reduce transportation revenue by about $570 million over five years**.[i] This would substantially deepen Maryland's existing $3 billion multiyear transportation funding hole and weaken our economy for decades to come.

As we shift from internal combustion engines to electric vehicles – an urgent step to limit the harms of climate change, and one that is now well underway – the motor fuel tax will yield less revenue over time. Vehicle-miletraveled and similar taxes are a promising option for funding future transportation investments. While electric vehicles do not create the same environmental damage as gas-powered vehicles, they still cause wear and tear on roadways, requiring routine maintenance and periodic repairs. Senate Bill 841 would tie the hands of both state and local policymakers, preventing them from even considering this revenue source. This is a recipe for worse commutes for Maryland residents and weaker economic growth. Highway access has ranked among corporate leaders' top-five location considerations in four of the last five years.[ii]

Imposing rigid restrictions on the composition of public transit revenues would undermine Maryland's economy. Imposing a 35% farebox recovery rate would force either major fare increases, deep funding cuts, or a combination of the two. Funding cuts would directly worsen Maryland's transit infrastructure, while higher fares would likely reduce ridership, with the same ultimate effect.[iii] Research has linked the quality of transit service, urban population density, and productivity and economic growth, especially in the knowledge economy.[iv] Furthermore, the efficiency of public transportation as well as the density it facilitates contribute to more sustainable communities. In economic terms, transit investments generate significant positive externalities that justify funding these investments with general revenues.

The rigid transit funding restrictions in Senate Bill 841 would also hinder opportunity for Marylanders of color, based on a 2021 MDCEP analysis:[v]

- About one in six Black workers in Maryland take public transportation to get to work, compared to only one in 20 white workers. Workers in other racial and ethnic groups are about twice as likely to commute via transit as their white counterparts.
- On average, it takes transit commuters in Maryland just over 50 minutes to get to work each day, plus another 50 minutes to get back home. Average car commutes are a little over 30 minutes each way. Over the course of a year, this adds up to about a week of extra commuting time for a full-time worker.
- On average, workers in the Baltimore metro area can reach only 8% of jobs in the region by transit in one hour or less. By car, 100% of jobs in the Baltimore region are accessible within an hour. In fact, there are more jobs within a 20-minute drive of an average Baltimore-area worker than within an hourlong transit ride.
- In the Washington, DC, metro area (including portions outside Maryland), workers can on average reach 10% of the region's jobs in an hour via transit or 85% in an hour by car.

For a strong Maryland economy that offers opportunity for all, policymakers should strengthen transportation revenues, leave promising funding options open, maintain local revenue flexibility, and invest in sustainable, equitable transit infrastructure. Senate Bill 841 would do the opposite.

For these reasons, the Maryland Center on Economic Policy respectfully asks that the Budget and Taxation Committee make an unfavorable report on Senate Bill 841.

Equity Impact Analysis: Senate Bill 841

Bill summary

Senate Bill 841 would make three major changes to Maryland's transportation funding policies:

- Repeal inflation indexing of the motor fuel tax rate
- Prohibit the state as well as local jurisdictions from enacting vehicle-miles-traveled or similar taxes
- Require fares to cover at least 35% of transit operating and capital costs once fully phased in

Background

The motor fuel tax is the most prominent Maryland tax subject to inflation adjustment. Fuel tax revenues are projected to total $1.4 billion in fiscal year 2025, supplying 23% of the funding for Maryland's Transportation Trust Fund.

Between FY 2018 and FY 2022, average Maryland Transit Administration farebox recovery rates ranged from just over 10% (Light Rail) to just over 20% (Washington Commuter Bus).[vi]

Equity Implications

Weakening our overall ability to invest in Maryland's transportation systems – and especially undermining transit ridership and funding – would likely worsen existing transportation inequities:

- About one in six Black workers in Maryland take public transportation to get to work, compared to only one in 20 white workers. Workers in other racial and ethnic groups are about twice as likely to commute via transit as their white counterparts.
- On average, it takes transit commuters in Maryland just over 50 minutes to get to work each day, plus another 50 minutes to get back home. Average car commutes are a little over 30 minutes each way. Over the course of a year, this adds up to about a week of extra commuting time for a full-time worker.
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Impact

Senate Bill 841 would likely **worsen racial and economic equity** in Maryland.

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[i] House Bill 730 of 2023 Fiscal and Policy Note, https://mgaleg.maryland.gov/2023RS/fnotes/bil_0000/hb0730.pdf

[ii] MDCEP analysis of *Area Development* corporate surveys, 33rd to 37th editions.

[iii] Jared Brey, "Fare-Capping Policies May Increase Transit Ridership," *Governing*, November 7, 2023, https://www.governing.com/transportation/fare-capping-policies-may-increase-transit-ridership

[iv] See:
Avishai Ceder, "Urban Mobility and Public Transport: Future Perspectives and Review," *International Journal of Urban Sciences*, 2020, https://doi.org/10.1080/12265934.2020.1799846

Richard Knowles, Fiona Ferbrache, and Alexandros Nikitas, "Transport's Historical, Contemporary and Future Role in Shaping Urban Development: Re-Evaluating Transit Oriented Development," *Cities 99*, 2020, https://doi.org/10.1016/j.cities.2020.102607
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Jaison Abel, Ishita Dey, and Todd Gabe, "Productivity and the Density of Human Capital," *Journal of Regional Science 52*(4), 2011, https://doi.org/10.1111/j.1467-9787.2011.00742.x

[v] Christopher Meyer, "Budgeting for Opportunity: Maryland's Workforce Development Policy Can Be a Tool to Remove Barriers and Expand Opportunity," Maryland Center on Economic Policy, 2021, https://www.mdeconomy.org/budgeting-for-opportunity-workforce/

[vi] Department of Legislative Services FY 2024 budget analysis: MDOT Maryland Transit Administration