

Department of Legislative Services
 Maryland General Assembly
 2015 Session

FISCAL AND POLICY NOTE

Senate Bill 10 (Senator Brochin)
 Budget and Taxation

Motor Fuel Tax Rates - Consumer Price Index Adjustment - Repeal

This bill repeals the annual indexing to inflation of specified motor fuel tax rates. Under current law, motor fuel taxes are increased annually based on inflation, as measured by the Consumer Price Index (CPI). The bill repeals any future increases beginning in fiscal 2016.

The bill takes effect June 1, 2015.

Fiscal Summary

State Effect: Transportation Trust Fund (TTF) revenues decrease by \$15.3 million in FY 2016 due to repeal of the indexing of motor fuel tax rates. Future year estimates reflect projected fuel consumption and inflation. Expenditures are not directly affected.

(\$ in millions)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
SF Revenue	(\$15.3)	(\$27.5)	(\$42.8)	(\$58.3)	(\$73.9)
Expenditure	0	0	0	0	0
Net Effect	(\$15.3)	(\$27.5)	(\$42.8)	(\$58.3)	(\$73.9)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Beginning July 1, 2013, motor fuel tax rates are indexed for all fuels, except for aviation or turbine fuel, to the annual change in CPI. Motor fuel tax rates will increase annually if the Comptroller's Office determines that the CPI has increased over a specified 12-month period. The increase is equal to the percentage growth in the CPI multiplied by the motor fuel tax rates, rounded to the nearest one-tenth of 1 cent. Motor fuel tax rates will remain unchanged if there is no increase (or a decrease) in the CPI.

In addition, the tax rates may not increase by more than 8% of the tax rates imposed in the previous year. A floor tax is imposed on any person possessing tax-paid motor fuel for sale at the start of business on the date that the tax rate is increased. Individuals are required to compile and file an inventory held at the close of business on the date preceding an increase and remit within 30 days any additional tax that is due.

The revenue generated as a result of the motor fuel tax rate indexing is distributed to TTF and is retained by the Maryland Department of Transportation (MDOT). As of January 1, 2015, the per gallon motor fuel tax rate is equal to 30.3 cents (gasoline and clean-burning fuel), 31.05 cents (special fuel/diesel), and 7 cents (aviation and turbine fuel).

Background: The Transportation Infrastructure Investment Act of 2013 (Chapter 429) was enacted to substantially increase the amount of transportation revenues by increasing motor fuel taxes and requiring the Maryland Transit Administration to increase base fare prices beginning in fiscal 2015.

Chapter 429 alters motor fuel taxes specifically by:

- indexing motor fuel tax rates, except for aviation and turbine fuel, to inflation beginning in fiscal 2014;
- imposing a 1% sales and use tax equivalent rate on all motor fuel, except for aviation and turbine fuel, beginning in fiscal 2014, increasing to 2% beginning on January 1, 2015, and to 3% beginning in fiscal 2016;
- unless federal remote sales tax legislation is enacted by December 1, 2015, the sales and use tax equivalent rate increases from 3% to 4% beginning January 1, 2016, and then increases to 5% beginning in fiscal 2017; and
- if federal remote sales tax legislation is enacted and takes effect by December 1, 2015, the sales and use tax equivalent rate remains at 3% and the Comptroller is then required to distribute 4% of total State sales and use tax revenues to TTF.

Chapter 429 also increases the vehicle registration fee surcharge, requires the Governor to include in the operating or capital budget specified appropriations to the State Highway Administration, and places procedural restrictions on transfers from TTF and use of TTF monies.

Chapter 429 also prohibits transfers from TTF unless legislation is approved by a three-fifths vote of the appropriate standing committees of the General Assembly and is enacted into law, or the Governor declares a state of emergency and declares that revenues are needed for defense or relief purposes. Any transfer must be repaid within five years.

In addition, Chapter 422 of 2013 proposed to amend the Maryland Constitution to (1) require TTF funds to be used only to pay the principal of and interest on transportation bonds and for any lawful purpose related to construction and maintenance of an adequate highway system or any other transportation-related purpose and (2) prevent TTF funds from being transferred to the general fund or a special fund. An exception to the prohibition on TTF transfers is authorized only if the Governor, by executive order, declares that a fiscal emergency exists and the General Assembly, by a three-fifths vote of both houses, approves legislation concurring with the use or transfer of the funds. The allocation of highway user revenues to local governments and the allocation of TTF revenues to the Maryland Transportation Authority are not affected. The constitutional amendment was approved by the voters at the November 2014 general election.

Exhibit 1 shows the estimated increases in transportation revenues and motor fuel tax rates as enacted by Chapter 429. Exhibit 1 also shows the impact of the increased motor fuel taxes for a typical driver.

Exhibit 1
Transportation Revenues Resulting from Chapter 429 of 2013

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Total Rate Increase¹	3.5¢	5.4¢	11.4¢	15.3¢	17.5¢	19.5¢	21.0¢
Typical Driver Impact²	\$20	\$29	\$59	\$76	\$82	\$87	\$89
<u>Revenues (\$ in Millions)</u>							
Sales and Use Tax Equivalent Rate	\$100	\$138	\$266	\$249	\$282	\$309	\$329
Contingent Rate ³	0	0	44	166	188	206	219
CPI Indexing	13	24	40	52	67	83	98
Farebox Recovery	<u>0</u>	<u>10</u>	<u>22</u>	<u>23</u>	<u>32</u>	<u>33</u>	<u>33</u>
Total Increase – MDOT	\$113	\$172	\$371	\$490	\$569	\$631	\$680
WIP – GO Bond⁴	\$0	\$45	\$65	\$85	\$100	\$100	\$0
Total Transportation Funding	\$113	\$217	\$436	\$575	\$669	\$731	\$680

MDOT: Maryland Department of Transportation

GO: general obligation

WIP: Watershed Improvement Plan

¹ Average rate in effect during the fiscal year.

² Expressed in constant 2015 dollars and based on average annual light duty fleet economy and 12,000 annual miles.

³ Unless federal remote sales tax legislation is enacted by December 1, 2015, the sales and use tax equivalent rate increases from 3% to 4% beginning January 1, 2016, and increases to 5% beginning in fiscal 2017.

⁴ The Budget Reconciliation and Financing Act of 2015 (Senate Bill 57/House Bill 72) proposes to retain the Watershed Improvement Plan appropriations but eliminates the requirement that the Governor include an appropriation to the State Highway Administration for these purposes.

Source: Maryland Department of Transportation; Department of Legislative Services

State Fiscal Effect: The bill repeals the indexing of specified motor fuel tax rates beginning in fiscal 2016. Under the current economic forecast, the CPI is expected to increase by about 2% annually through fiscal 2020. **Exhibit 2** shows the estimated reduction in motor fuel tax rates, revenues, and motor fuel taxes paid by a typical driver as a result of the bill.

**Exhibit 2
Net Impact of Bill
Fiscal 2016-2020**

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Total Rate Decrease	0.5¢	0.9¢	1.4¢	1.9¢	2.4¢
Typical Driver Savings	\$3	\$4	\$7	\$8	\$10
Revenues (\$ in Millions)	(\$15.3)	(\$27.5)	(\$42.8)	(\$58.3)	(\$73.9)

Source: Department of Legislative Services

MDOT is authorized to issue revenue bonds, called Consolidated Transportation Bonds (CTBs), for its capital program. These bonds are not backed by the full faith and credit of the State. There are specific limits on the amount of CTBs that can be issued. Currently there is a statutory limit of \$4.5 billion for CTBs. Further, MDOT uses two different debt service coverage ratios, the net income test and the pledged taxes test, with the net income test the limiting factor. MDOT has agreed to maintain a 2.0 coverage ratio with bond holders, whereby the pledged taxes or net income has to be 2.0 times greater than the maximum debt service. Currently MDOT uses a 2.5 coverage ratio to be conservative. MDOT's debt also counts toward State debt measures. Currently, the State's ability to issue debt is constrained by the debt service as a percentage of revenues measure. In fiscal 2017 and 2018, the State is approaching the current 8% limit.

If TTF revenues decrease, MDOT's capacity to issue debt decreases due to the debt service requirements. As a result, capital program spending could decrease by a significant amount over the six-year period.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, U.S. Department of Transportation, U.S. Energy Administration, Maryland Department of Transportation, Department of Legislative Services

Fiscal Note History: First Reader - February 3, 2015
min/jrb

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