

**Department of Legislative Services**  
Maryland General Assembly  
2001 Session

**FISCAL NOTE**  
**Revised**

House Bill 309 (The Speaker, *et al.*) (Administration)

Ways and Means and Appropriations

Budget and Taxation

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**Transportation - Distribution and Use of Revenues**

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This Administration bill increases funding for the Transportation Trust Fund (TTF) in order to support expenditures under the Governor's mass transit initiative. The bill shifts certain revenue sources that are currently directed to the general fund, including revenues from the sales tax on vehicle rentals, uninsured motorist penalty fees, security interest filing fees, and "vanity" plate fees, to the TTF. The bill also shifts certain revenues currently dedicated to the Maryland Automobile Insurance Fund (MAIF) and the Vehicle Theft Prevention Fund (VTPF) to the TTF. Under the initiative, toll revenues from the Maryland Transportation Authority (MdTA) will also be transferred to the TTF.

The bill takes effect July 1, 2001. The changes in revenue structure apply to various time periods, as discussed below.

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**Fiscal Summary**

**State Effect:** In total, TTF revenues increase by \$45.6 million in FY 2002 and by \$90.0 million in FY 2003. General fund revenues will decrease by approximately \$17.9 million, and TTF revenues will increase by a corresponding amount, in FY 2002 from the shift in tax and fee revenues. For FY 2003, the shift in revenues from the general fund to the TTF is estimated to be \$41.3 million due to annualization and growth, with future year projections based on revenue forecasts. \$22.1 million in off-budget toll revenue in FY 2002 and \$43.0 million per year from 2003 to 2007 will be transferred to the TTF under the initiative. \$3.6 million uninsured motorist fees currently distributed to MAIF will be transferred to the TTF in FY 2002, with increases through FY 2007 reflecting revenue growth. Finally, \$2.0 million in fees will be shifted from the Vehicle Theft Prevention Fund to the TTF in FY 2002 and FY 2003. The FY 2002 budget assumes a \$21.0 million transfer of general fund revenues to the TTF.

The budget includes \$39.6 million in additional TTF expenditures for projects contingent on enactment of this legislation and \$7.0 million for transit fare reductions and transit subsidies to State employees, for a total increase in budgeted expenditures of \$46.6 million. In addition, budget bill language allows an additional \$5.0 million in FY 2002 budget amendment requests to be added at a later date for transit expenditures (**not included in table below**). Future year expenditures for the mass transit initiative are not available at this time, and for the purposes of the table below are assumed to equal the increase in TTF revenues.

(\$ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	(\$17.9)	(\$41.3)	(\$43.7)	(\$44.0)	(\$45.0)
TTF Revenue	45.6	90.0	90.6	91.0	92.1
Other SF Revenue	(2.0)	(2.0)	0	0	0
MAIF Revenue	(3.6)	(3.7)	(3.9)	(4.0)	(4.1)
MdTA Revenue	(22.1)	(43.0)	(43.0)	(43.0)	(43.0)
SF Expenditure	46.6	90.0	90.6	91.0	92.1
Net Effect	(\$46.6)	(\$90.0)	(\$90.6)	(\$91.0)	(\$92.1)

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

**Local Effect:** None. It is assumed that any additional expenditures for services in Montgomery or Prince George’s County as a result of the initiative will be absorbed by the State.

**Small Business Effect:** A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration’s assessment becomes available.

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## Analysis

**Bill Summary:** The bill increases the TTF’s share of the sales tax on short-term vehicle rentals from 45% to 100% for the period from January 1, 2002 through fiscal 2007. The bill provides that the additional sales tax revenues will support expenditures associated with the mass transit initiative, not the Gasoline and Motor Vehicle Revenue Account (GMVRA) of the TTF, which currently receives the revenues generated by this tax. (The amount of revenues going to the GMVRA will not change during the effective period.)

Beginning in fiscal 2003 and continuing indefinitely thereafter, \$9 of each \$14 security interest filing fee will go to the TTF (rather than the general fund), with the remaining \$5 retained by Baltimore City. Also in fiscal 2003 and thereafter, the bill distributes to the TTF (rather than the general fund, and after certain existing distributions for scholarship programs) the revenues collected from special license (“vanity”) plate fees.

The bill changes the distribution of uninsured motorist penalty fees, as illustrated in **Exhibit 1**:

**Exhibit 1**  
**Changes to Distribution of Uninsured Motorist Penalty Fees under SB 200/HB 309**  
**(Change versus Current Law)**

<b>FY 02</b>	<b>FY 03</b>	<b>FY 04</b>	<b>FY 05</b>	<b>FY 06</b>	<b>FY 07</b>	<b>Thereafter</b>
Mandates \$6M transfer to TTF	N/A	N/A	N/A	N/A	N/A	N/A
MAIF distribution to TTF (\$3.6M)	MAIF distribution to TTF	MAIF distribution to TTF	MAIF distribution to TTF	MAIF distribution to TTF	MAIF distribution to TTF	<b>MAIF Distribution Restored</b>
VTPF distribution to TTF (\$2.0M)	VTPF distribution to TTF (\$2.0M)	<b>VTPF distribution sunsets (existing law)</b>	N/A	N/A	N/A	N/A
<b>Remainder of fees to General Fund</b>	<b>Remainder of fees to TTF</b>	Remainder of fees to TTF	Remainder of fees to TTF	Remainder of fees to TTF	Remainder of fees to TTF	<b>Remainder of fees to General Fund</b>

Notes:

Existing distributions to the Motor Vehicle Registration Enforcement Fund and the School Bus Safety Enforcement Fund from these penalty fees are not affected.

Some of the existing distributions are scheduled to sunset during this period.

The transfer of MdTA toll revenue is not specified in the legislation, but MDOT advises that it intends to transfer \$22.1 million in fiscal 2002 from the MdTA to the TTF and \$43 million per year for each year from fiscal 2003 through fiscal 2007.

All the above increases in TTF revenues will result in corresponding revenue decreases to either the general fund or the dedicated fund that currently receives these revenues.

The bill permits the Governor to exempt new mass transit service and fare modifications to existing service from the 40% fare box recovery requirement for three years from the initiation of the service or fare change. The bill permits the Department of Transportation (MDOT) to authorize payments to Prince George's and Montgomery counties to subsidize new bus service or fare modifications for three years from the initiation of service for fare change.

**Current Law:** The TTF currently receives 45% of the sales tax on short-term vehicle rentals, with the remainder to the general fund. Revenues from the \$14 security interest

filing fee are currently distributed \$9 to the general fund and \$5 to Baltimore City. Vanity plate revenues go to the general fund after \$380,000 in deductions for State educational scholarship programs. Uninsured motorist penalty fees are currently split, with 30% going to the Motor Vehicle Administration. The remaining 70% is divided, with \$2.0 million to the Vehicle Theft Prevention Program; approximately \$3.6 million to MAIF (for fiscal 2002; adjusted each year for inflation); \$400,000 to the Motor Vehicle Registration Enforcement Fund; \$600,000 to the School Bus Safety Enforcement Fund; and the balance to the general fund.

## **Background:**

### *Sales Tax on Short-Term Vehicle Rentals*

As part of the recession-induced revenue raising legislation enacted during the 1992 First Special Session, short-term rental car agencies were no longer permitted to deduct the automobile titling tax from their sales tax remittances. The industry complained that the tax change placed Maryland-only rental agencies at a competitive disadvantage with multi-state companies that did not pay titling taxes or the equivalent. To deal with the competitiveness issue, Chapter 254 of 1993 reinstated the credit against the sales tax for titling taxes paid. However, in order to maintain State revenues, Chapter 254 increased the sales tax rate on car rentals from 8% to 11.5% and imposed a higher rate on any add-ons to the rental billing: 11.5% on car rental add-ons and 8% on truck rental add-ons.

Chapter 706 of the Acts of 1998 simplified the system by exempting rental vehicles from the titling tax and repealing the credit against the sales tax. Exemption of rental vehicles from the titling tax would have reduced TTF revenues. To offset the loss, Chapter 706 mandated that 45% of the sales tax revenue from rental transactions be distributed to the TTF.

### *Filing Fees and Penalty Fees*

Prior to 1992, these filing fees, penalty fees, and vanity plate fees were exclusively dedicated to the TTF. The distributions to the programs listed above were added since that time in order to fund programs that were either previously funded from general revenues or that have been created since that time.

MAIF is a nonbudgeted State agency that performs two major functions: (1) providing insurance coverage for those individuals who are otherwise unable to obtain insurance; and (2) providing funds for Maryland residents who are involved in accidents in Maryland with uninsured motorists and "hit and run" drivers. It is estimated that MAIF will receive \$3.5 million in uninsured motorist fees in fiscal 2001 and \$3.6 million in

fiscal 2002. MAIF currently has an estimated 2001 surplus of \$153.1 million in its insured division and \$26.6 million in its uninsured division.

The Vehicle Theft Prevention Fund is a special fund administered by the Department of State Police. It supports vehicle theft prevention programs for local governments and agencies. It is scheduled to sunset at the end of fiscal 2003 under current law.

Toll revenues of the MdTA are currently not included in the TTF or otherwise in the State budget. State law allows for the transfer of off-budget MdTA revenues to the TTF so long as the MdTA preserves enough revenues to meet its debt obligations. The fiscal 2002 budget bill precludes the use of toll revenues to fund any MDOT operating expenditures, including the transit initiative. Rather, the additional revenues may only be used to support capital expenditures. The budget also requires that the TTF reimburse MdTA for any toll revenues used to support transit capital projects.

**State Revenues:** In total, the bill will increase tax and fee revenues to the TTF by an estimated \$45.6 million in fiscal 2002 and slightly over \$500 million over a six-year period, as illustrated in **Exhibit 2**. There will be a corresponding decrease in general fund revenues and certain other dedicated revenues. The projected increase in TTF revenues is illustrated below.

**Exhibit 2**  
**Estimated Increase in TTF Revenues from HB 309**

<u>Fund Source</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
MdTA Transfer	22.1	43.0	43.0	43.0	43.0	43.0	237.1
Rental Sales Tax	11.9	24.1	24.3	24.5	24.8	25.0	134.6
Elimination of GF deductions from fee revenues*	6.0	17.2	19.4	19.5	20.2	20.3	102.6
Elimination of MAIF deduction	3.6	3.7	3.9	4.0	4.1	4.3	23.6
Elimination of vehicle theft fund deduction	<u>2.0</u>	<u>2.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>4.0</u>
<b>Total</b>	<b>45.6</b>	<b>90.0</b>	<b>90.6</b>	<b>91.0</b>	<b>92.1</b>	<b>92.6</b>	<b>501.9</b>

\* Fee revenues include security interest filing fees, special license plate (“vanity plate”) fees, and uninsured motorist penalty fees.

Note: Revenues from uninsured motorist penalty fees assume extensions of the sunsets of certain existing statutory distributions.

Source: Maryland Department of Transportation

**State Expenditures:** The fiscal 2002 budget includes additional capital and operating expenditures for mass transit that are contingent on enactment of this legislation. The specific items made contingent on this legislation are shown in **Exhibit 3**.

**Exhibit 3**  
**Budgeted Mass Transit Expenditures Contingent on HB 309/SB 200**

<u>Agency</u>	<u>Program</u>	<u>Program Title</u>	<u>Amount</u>
Secretary's Office	JA01.04	Washington Metropolitan Area Transit – Operating	\$1,550,000
	JA01.05	Washington Metropolitan Area Transit – Capital	5,000,000
Mass Transit Administration	JH01.01	Transit Administration	1,200,000
	JH01.02	Bus Operations	3,822,000
	JH01.04	Rail Operations	2,100,000
	JH01.05	Facilities and Capital Equipment	16,415,000
	JH01.06	Statewide Program Operations	9,527,000
	<b>Total</b>		

In addition to the budgeted expenditures associated with the initiative, the initiative will reduce transit fares for weekly and monthly passes on the MTA (at a cost of approximately \$3 million) and provide free transit services for State employees (at a cost of approximately \$4 million). The specific projects to be funded under the initiative are illustrated in **Exhibit 4**.

The budget bill also includes language allowing MDOT to request a \$5.0 million budget amendment if MDOT can demonstrate that sufficient funds are available in the TTF to support additional transit services.

**Exhibit 4**  
**Transit Initiative – New or Enhanced Services**

			<u>Operating (\$18.2 million)*</u>
<u>Type of Service</u>	<u>Region</u>	<u>Service</u>	
Operating	Baltimore	Improved maintenance	
Operating	Baltimore	New bus lines	
Operating	Baltimore	Sunday Metro service	
Operating	Baltimore	Additional buses on current lines to reduce crowding	
Operating	Baltimore	Additional paratransit services	
Operating	Washington	Expanded local bus service	
Operating	Washington	Expanded Metrobus service	
Operating	Washington	Expanded Commuter bus service	
Operating	Washington	Parking lot shuttle service	
Operating	Statewide	Additional paratransit grants	
Operating	Statewide	Additional access to jobs grants	
Operating	Statewide	Additional senior services grants	
Operating	Statewide	New marketing initiatives	

			<u>Capital (\$21.4 million)</u>
Capital	Baltimore	Neighborhood shuttles	
Capital	Baltimore	Paratransit service improvements	
Capital	Baltimore	Bus and rail study	
Capital	Baltimore	Talking buses	
Capital	Washington	Buses for Montgomery and Prince George's counties	
Capital	Washington	Metrorail railcars	
Capital	Washington	Repair Metrorail red line tunnel leaks	
Capital	Washington	Largo Garage	
Capital	Statewide	Locally Operated Transit Services (LOTS) bus grants	

			<u>Fare Reduction (\$7 million)</u>
Fare Reduction	Baltimore	Free transit services for State employees	
Fare Reduction	Baltimore	Reduction in weekly and monthly passes	

\*Budget bill language allows \$5 million to be added through budget amendment, if MDOT can demonstrate sufficient revenues are available, and \$10 million to be added through budget amendment, if fiscal 2001 revenues exceed projections.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 200 (President, *et al.*) (Administration) - Budget and Taxation.

**Information Source(s):** Comptroller's Office, Department of Transportation,  
Department of Legislative Services

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Analysis by: Matthew D. Riven

Direct Inquiries to:  
John Rixey, Coordinating Analyst  
(410) 946-5510  
(301) 970-5510