

**Department of Legislative Services
Maryland General Assembly
2007 Session**

FISCAL AND POLICY NOTE

Senate Bill 949
Budget and Taxation

(Senator Miller)

Transportation Funding Act of 2007

This bill increases funding to the Transportation Trust Fund (TTF) by: (1) increasing the motor fuel tax rates by 12 cents per gallon, except aviation gasoline and turbine fuel, which remain unchanged; and (2) subject to limitations, imposing an additional tax on gasoline and diesel fuel equal to 4% of the amount by which the average wholesale nonpremium motor fuel exceeds \$1.50.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: TTF revenues would increase by \$406.7 million in FY 2008, with the State share totaling \$284.7 million. Future year revenues reflect increased fuel consumption. General fund expenditures could increase by \$53,200 in FY 2008 due to personnel costs at the Comptroller's Office.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
SF Revenue	\$406.67	\$427.94	\$433.03	\$440.60	\$466.25
GF Expenditure	.05	.05	.05	.06	.06
Net Effect	\$406.62	\$427.89	\$432.98	\$440.55	\$466.19

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

Local Effect: Local highway user revenues would increase by \$122.0 million in FY 2008 and by \$139.9 million by FY 2012. Local expenditures would not be affected.

Small Business Effect: Meaningful.

Analysis

Bill Summary: Major provisions of the bill are as follows:

- The motor fuel tax rate for gasoline is increased from 23.5 cents per gallon to 35.5 cents per gallon; for special fuel (diesel) from 24.25 cents per gallon to 36.25 cents per gallon; and for clean burning fuel from 23.5 cents per gasoline-equivalent gallon to 35.5 cents per gasoline-equivalent gallon.
- An additional tax is imposed on gasoline and diesel fuel equal to 4% of the amount, rounded to the nearest half-cent, by which the average wholesale price of nonpremium unleaded gasoline exceeds \$1.50. For any fiscal year, however, motor fuel tax rates may not be increased by more than 1 cent over the rate in effect on June 30 of the preceding fiscal year. In addition, the total motor fuel tax imposed per gallon cannot exceed \$0.395 for gasoline and clean burning fuel and \$0.4025 for diesel fuel.
- On April 15 and October 15 of each year, the Comptroller's Office is required to estimate the average wholesale price of nonpremium gasoline. For the April 15 determination, the Comptroller would estimate the average wholesale price from October to March of the preceding year. Any change in tax based on this determination would be effective July 1 of the same year. For the October 15 determination, the average price estimate would be for April to September of the previous year, and any change in tax rates would be effective January 1 of the following year.

Current Law: The State motor fuel tax rate per gallon or gasoline-equivalent gallon is:
• 23.5 cents for gasoline; • 24.25 cents for special fuel (diesel); • 7 cents for aviation gasoline and turbine fuel; and • 23.5 cents for clean burning fuel.

Background: Some states, including Maryland, impose only a motor fuel excise tax, while other states impose both an excise tax and a sales tax. A sales tax is expressed as a percentage of the selling price but for various purposes, it is often translated into cents per gallon based on a periodically-updated average retail fuel price. The motor fuel tax rates for gasoline in neighboring jurisdictions are shown in **Exhibit 1**.

Exhibit 1
Motor Fuel Tax Rates in Surrounding States

	<u>Gasoline</u>	<u>Diesel</u>
Delaware	23.0 cents	22.00 cents
District of Columbia	22.5 cents	22.50 cents
Pennsylvania	31.2 cents	38.10 cents
Virginia*	17.5 cents	16.00 cents
West Virginia	27.0 cents	27.00 cents
Maryland	23.5 cents	24.25 cents

*Does not include 2% local option taxes.

State Revenues: TTF revenues could increase by \$406.7 million in fiscal 2008 as a result of the two components of the bill: the increase in the motor fuel tax rates and the addition of a wholesale priced based tax on motor fuel. All revenues generated under the bill are dedicated to the Gasoline and Motor Vehicle Revenue Account, which is shared with local governments. **Exhibit 2** below illustrates the fiscal effect of the bill. The estimate is based in the following:

- current forecasts for motor fuel consumption;
- the increased price of gasoline will result in a decrease of taxable sales by slightly less than 1% due to price elasticity for fiscal 2008 through 2012;
- current average gasoline and diesel fuel price data from the federal Energy Information Agency (EIA); and
- projected changes in price based on national forecasts from EIA and Economy.com.

The price elasticity that is built into the estimate reflects factors such as consumers purchasing fuel in neighboring states with lower rates, shifting to lower-grade gasoline, or ultimately shifting to more fuel efficient vehicles and away from fuel-inefficient vehicles such as sport utility vehicles (SUVs). To the extent that actual elasticity is greater than assumed, then actual revenues could be lower than projected. It should also be noted that the projected revenues from the sales tax on motor fuel are based on economic projections of motor fuel prices. Such prices, however, are extremely volatile.

Exhibit 2
SB 949 – Transportation Revenues
Estimated Revenue Impact
(\$ in Thousands)

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Motor Fuel Rate Increase	\$390,226	\$394,582	\$399,208	\$406,301	\$414,069
New Wholesale Tax	<u>16,446</u>	<u>33,356</u>	<u>33,823</u>	<u>34,304</u>	<u>52,182</u>
Total TTF Increase	\$406,672	\$427,938	\$433,031	\$440,605	\$466,251
MDOT Share	284,671	299,557	303,122	308,424	326,375
Local Share	122,002	128,381	129,909	132,182	139,875

Based on gasoline price forecasts, it is estimated that the additional tax based on wholesale prices would add an additional \$0.01 per gallon tax in fiscal 2008 through 2011 and an additional \$0.015 in fiscal 2012. Fiscal 2008 represents a half-year impact resulting from the first increase occurring beginning January 2008.

State Expenditures: The Comptroller’s Office advises that it would need to hire an additional revenue specialist to administer and collect the additional tax imposed on the wholesale price of gasoline. As a result, general fund expenditures at the Comptroller’s Office would increase by \$53,200 in fiscal 2008. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salary and Fringe Benefits	\$48,359
Operating Expenses	<u>4,875</u>
Total FY 2008 Personnel Expenditures	\$53,234

Future year expenditures reflect: (1) a full salary with 4.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Local Effect: Local governments receive a portion of TTF revenues in the form of local highway user revenues for the purpose of constructing and maintaining local roads. Pursuant to this legislation, local highway user revenues would increase by

\$122.0 million in fiscal 2008 and by \$139.9 million in fiscal 2012, as shown in Exhibit 2. Local expenditures would not be affected.

Small Business Effect: Small businesses for which motor fuel constitutes a significant portion of their costs (transportation firms, delivery companies, taxicabs, etc.) could be meaningfully and negatively affected by a 12 cent per gallon increase and potentially an additional tax based on the wholesale price of gasoline.

There are approximately 2,200 service stations in Maryland, most of which are small businesses. These businesses would be required to collect and remit the wholesale tax, and reconcile these collections against the amount of their prepayments, which is likely to require significant administrative effort. Currently, the excise tax is paid by the wholesalers and is transparent to the retailer. Service stations that sell other items such as snacks, however, are currently required to collect and remit the sales tax.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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