
Transportation Revenue Options

**Presentation to the
Senate Budget and Taxation Committee**

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

September 14, 2011

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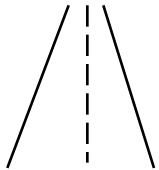
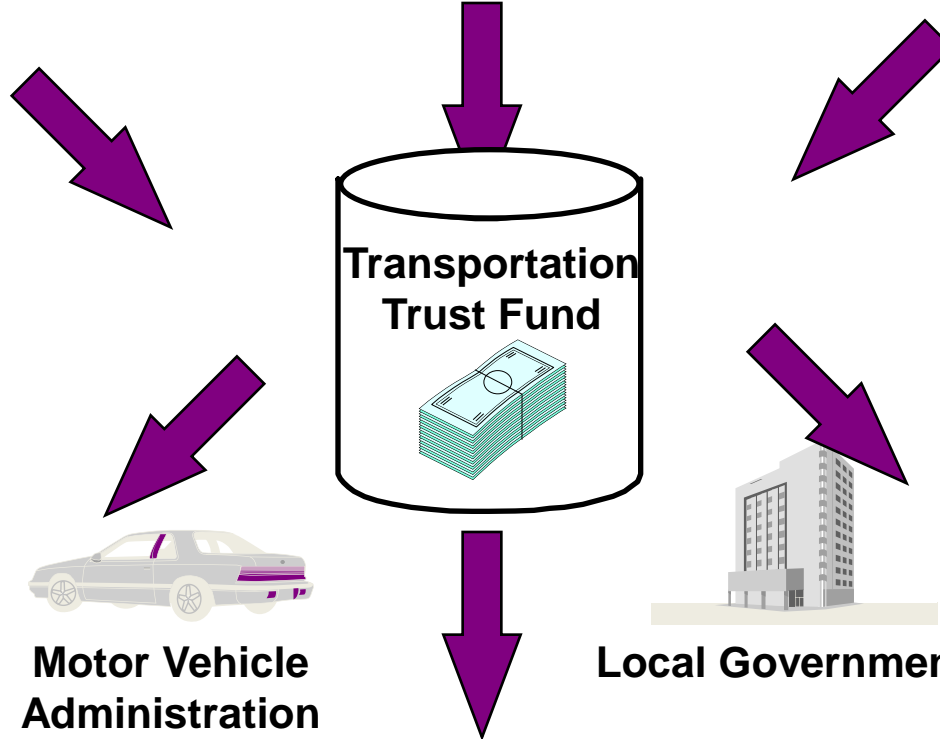
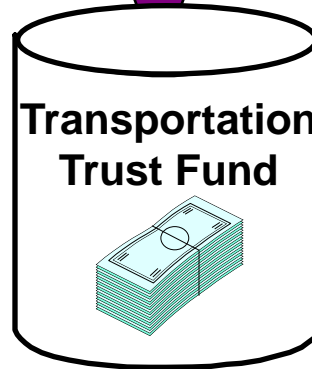
Transportation Trust Fund Overview

How the Transportation Trust Fund Works

Motor Fuel Tax
Operating Revenues
Federal Aid

Corporate Income Tax
Titling Tax
Motor Vehicle Taxes and Fees

Bonds and Other Aid
Sales Tax on Rental Cars



State Highway Administration



Motor Vehicle Administration



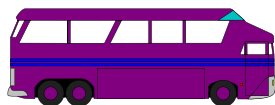
Local Governments



Debt Payments



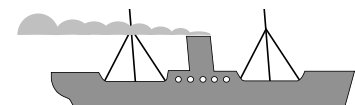
Maryland Aviation Administration



Maryland Transit Administration



Washington Metropolitan Transit Authority



Maryland Port Administration

Fiscal 2012

Gross Transportation Revenues

(\$ in Millions)

	<u>Amount</u>	<u>% of Total Revenue</u>
Federal Aid	\$770	21%
Motor Fuel Tax	738	20%
Titling Tax	623	17%
Operating Revenues	382	10%
Registration Fees	367	10%
Bond Sales	355	9%
Misc. MVA Fees	200	5%
Corporate Income Tax	172	5%
Other	124	3%
Total	\$3,731	100%

MVA: Motor Vehicle Administration

Blue Ribbon Commission on Maryland Transportation Funding

Blue Ribbon Commission on Maryland Transportation Funding

- Chapters 525 and 526 of 2010 established the Blue Ribbon Commission on Maryland Transportation Funding to look at transportation funding needs and mechanisms.
- The commission has been meeting since summer 2010. An interim report was submitted in December 2010 with a final report due November 1, 2011.
- The commission issued a second interim report in February 2011 that included recommendations and revenue options for the General Assembly to consider during the 2011 session.

Recommendations

- **Recommendation 1:** Put the trust back into the Transportation Trust Fund (TTF).
 - Amend constitution or enact statute to limit circumstances under which transfers from the TTF to the general fund could occur.
 - Retain the sales and corporate income tax distributions to the TTF.
 - Fully restore the local share of Highway User Revenues (HUR).

Recommendations (Cont.)

- **Recommendation 2:** Shore up and expand core transportation funding.
 - Raise \$800 million in new net annual funding (\$600 million in revenue and \$200 million in annual bond sales) in addition to restoring the local share of the HUR.
 - Increase the department's debt outstanding limit in recognition of the new revenue.
 - Remove the cost recovery cap for the Motor Vehicle Administration (MVA).

2011 Session Actions

- Ended the distribution of the HUR to the general fund by returning the TTF share of the sales tax and a portion of the corporate income tax to the general fund .
- Transferred \$40.0 million to the Rainy Day Fund and \$60.0 million to the general fund in fiscal 2012 with the \$60.0 million transfer repaid from fiscal 2014 to 2016 and the \$40.0 million transfer repaid through additional revenues.
- Increased TTF revenues by \$64.0 million in fiscal 2012 through fee increases for the certificate of title, dealer processing charge, dealer vendor credit, and vanity tags.
- Added provision requiring repayment to the TTF if the State share of the HUR is transferred to the general fund.
- Increased the local share of the HUR by \$13.3 million in fiscal 2012 only.

Issues to Consider

Issues to Consider Overview

- Federal Aid
- Funding Transit Lines
- Total Special Fund Highway vs. Transit Spending
- State Debt Limitations
- Local Highway User Revenues
- Environmental Mitigation Costs

Federal Aid

- In the coming weeks, there are several federal transportation funding issues that could result in reductions to the amount of federal aid the State receives.
- First, 14.1 cents of the 18.4 cent federal gas tax is set to expire on September 30, 2011. Congress will need to reauthorize the federal gas tax for states to continue receiving federal transportation aid.
- The second major hurdle is what impact actions taken by the deficit reduction “Super Committee” will have on transportation funding. It appears that funding from the federal gas tax is exempt from decisions by the Super Committee and the sequester process.
- There is federal general fund support for large transit projects like the Red and Purple Line, the Washington Metropolitan Area Transit Authority, and ongoing federal transportation aid. This funding could be reduced or sequestered.

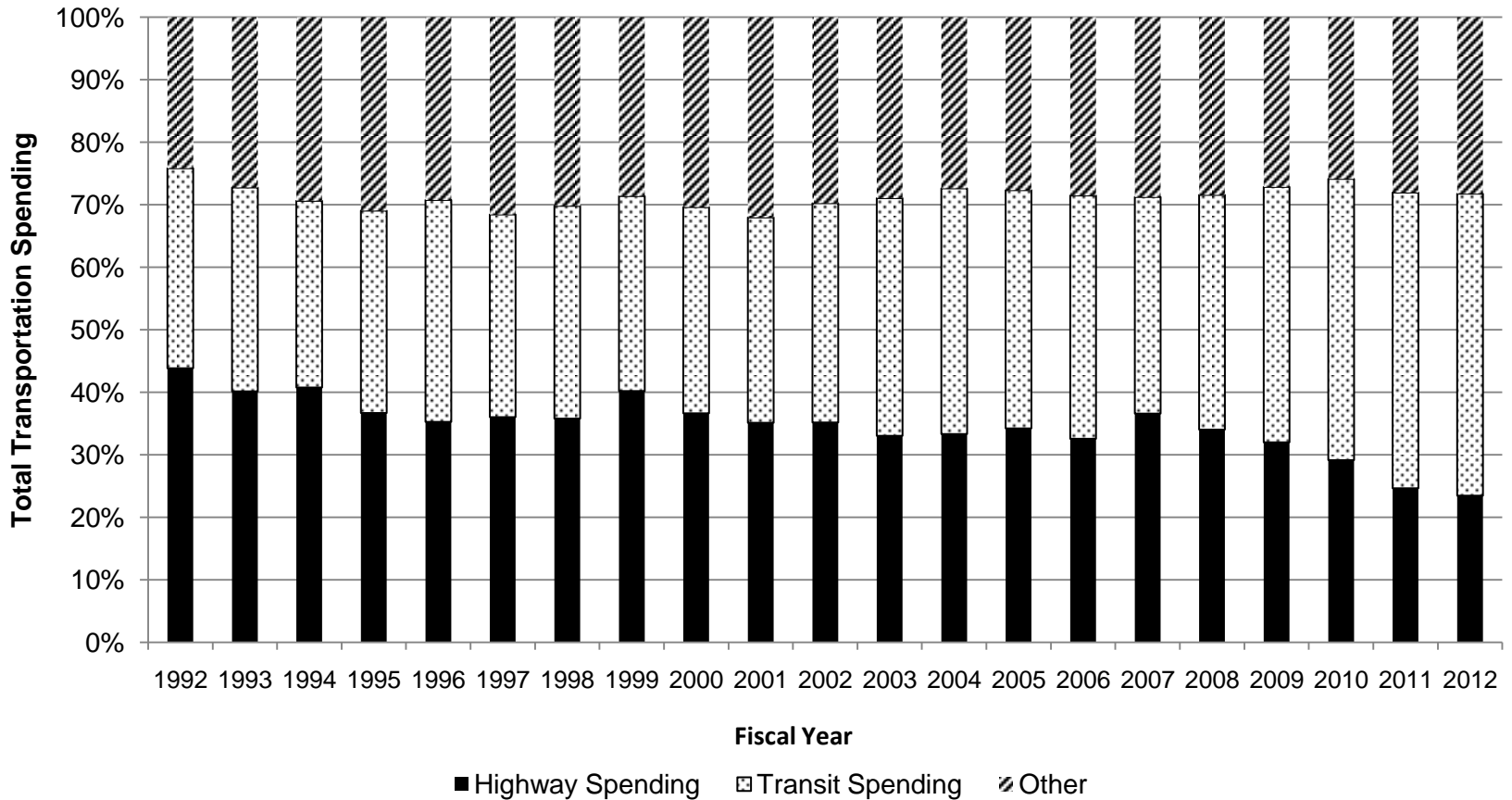
Federal Aid (Cont.)

- An ongoing issue is that the current amount of revenue collected from the federal gas tax is insufficient to support the current level of aid to states. To maintain this funding to the states, approximately \$34.5 billion has been transferred from the federal general fund.
- The House has proposed setting future federal aid equal to revenues, which could result in a 35% reduction in federal aid for the State. This could translate into a reduction of approximately \$170 million annually in highway and transit aid from the six-year capital program.
- The Senate has proposed a two-year reauthorization which would maintain current funding levels and require an additional \$12 billion in either new revenue or general fund revenue.

Funding the Transit Lines

- The department is moving forward with plans to construct the Red Line in the Baltimore region and the Purple Line in the Washington region.
- Based upon the financial plan submitted to the Federal Transit Administration, a sizable revenue increase will be required to construct and operate the two transit lines.
- The financial plan indicated that the projects will account for a majority of the department's expansion budget for all modes during construction.
- Furthermore, the department assumed a 50% match in federal aid. To the extent federal aid is reduced, the State would need to identify additional revenue to fund these projects.

Total Special Fund Highway Versus Transit Spending



Note: This does not account for the construction of the InterCounty Connector.

State Debt Limitations

- State debt is limited by two measures: (1) debt outstanding should not exceed 4% of personal income; and (2) debt service should not exceed 8% of revenues.
- The State is expected to reach the 8% limit in fiscal 2017. General obligation issuances have already been reduced by \$215 million due to the constraints on State debt.
- Typically, when transportation revenues are increased, the department's ability to issue debt is also increased in recognition of the additional revenue able to support that debt.

State Debt Limitations (Cont.)

- With the State projected to be near the 8% limit, there is little ability to leverage any new revenue into additional debt issuances for transportation spending. For illustrative purposes, House Bill 1001/Senate Bill 714 from the 2011 session would have raised \$471.2 million in fiscal 2012, but would have only increased bond sales by \$385.0 million over the six-year period.
- Furthermore, future transportation debt issuances may need to be constrained to meet other State priorities.

Local Highway User Revenues

- Transportation revenues have historically been distributed to Baltimore City, counties, and municipalities through the HUR formula.
- Local HUR is distributed using a formula based upon road miles and vehicle registrations.
- Prior to fiscal 2010, local jurisdictions had received 30% of eligible revenues, with Baltimore City receiving approximately 40% of the total local aid.

Local Highway User Revenues (Cont.)

- Due to shortfalls in the general fund, the local share of the HUR was reduced beginning in fiscal 2010.
- The local share of the HUR totaled \$467 million in fiscal 2009, the last year it was fully funded, compared to \$148 million in fiscal 2012.
- To what extent the local share of the HUR is restored or increased will need to be considered as part of any revenue increase.

Environmental Mitigation Costs

- Maryland is implementing a federally required Watershed Implementation Plan to restore the Chesapeake Bay.
- As part of Maryland's efforts, the Department of Transportation, and in particular the State Highway Administration (SHA), must implement extensive stormwater management improvement efforts.
- SHA estimates that \$1.0 billion to \$1.5 billion is required to implement projects by fiscal 2017. Approximately \$50 million is currently budgeted in the *Consolidated Transportation Program*, with more funding required to meet future goals.
- The State is also required to remediate chromium ore at the Port of Baltimore, which could cost \$200 million to \$400 million.

Revenue Options

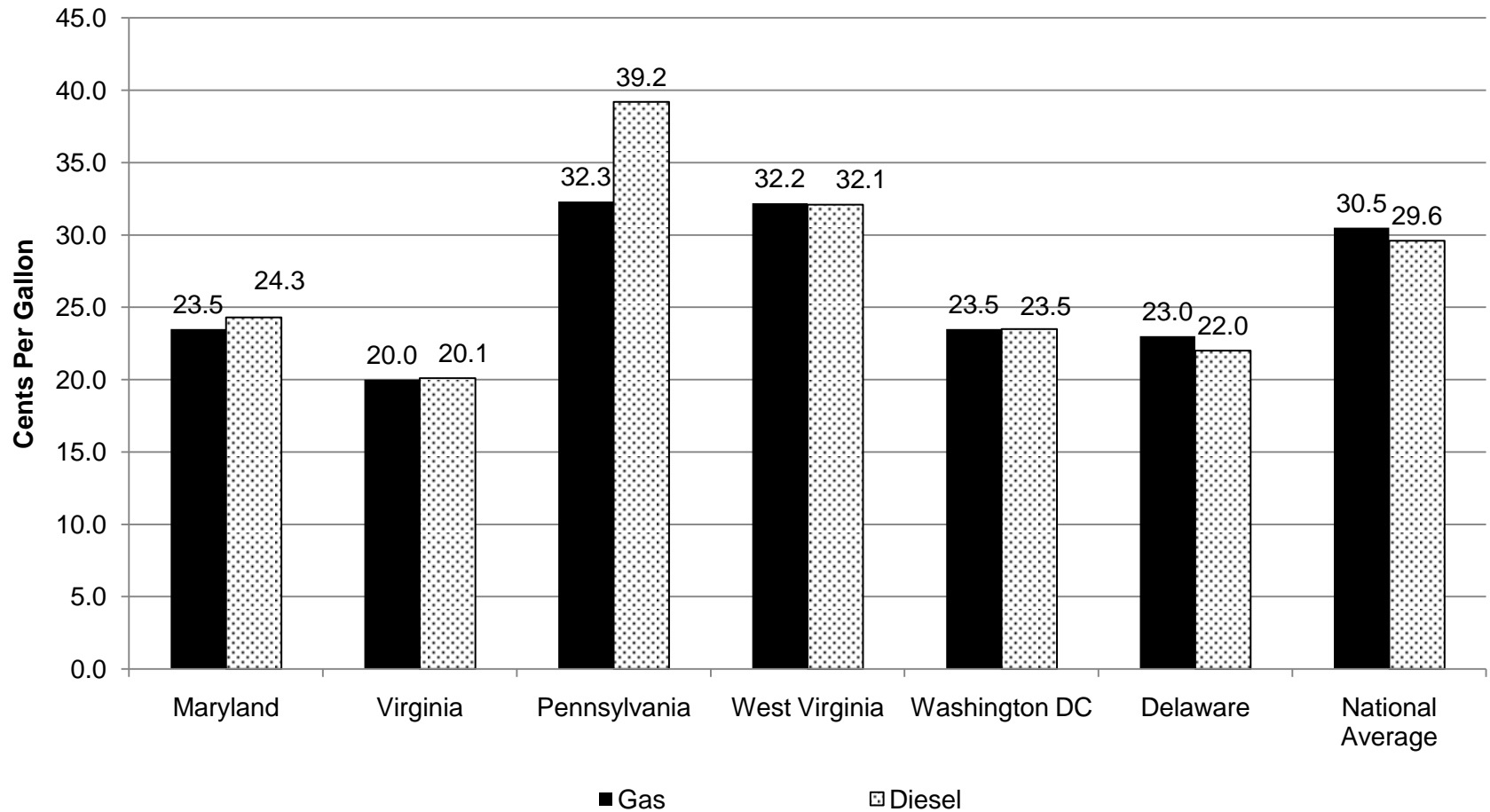
Revenue Options Overview

- Motor Fuel Tax
- Variable Tax Rate
- Vehicle Registration Fees
- Titling Tax
- Eliminate MVA Recovery Costs
- Vehicle Emissions Inspection Fee
- Rental Car Tax
- Corporate Income Tax
- Regional Sales Tax
- Property Tax
- Fare Increase
- Cost Shift
- Public-private Partnerships
- Tolling Existing Highways
- Vehicle Miles Traveled Fee
- Local Revenue Options

Motor Fuel Tax

- The motor fuel tax is an excise tax on gasoline and special fuel.
- The motor carrier tax is imposed on motor fuel used by commercial motor vehicles.
- Motor fuel tax rates (cents per gallon):
 - Gasoline and clean burning fuel – 23.5 cents;
 - Special fuel (including diesel) – 24.25 cents; and
 - Turbine fuel (jet fuel) – 7.0 cents.
- Motor fuel tax rates were last increased in 1992.
- Fiscal 2012 revenues are estimated to total \$738 million.

Motor Fuel Tax Rate Comparisons



Increase Motor Fuel Excise Tax

Tax Increase

Fiscal 2013 Revenue

5 cents

\$157 million

10 cents

314 million

15 cents

471 million

20 cents

628 million

Sales Tax on Motor Fuel

- One option in recent years has been to impose the sales tax on the sale of motor fuel. The primary advantage of applying a sales tax to motor fuel is that it would allow revenues to increase with inflation (price increases).
- California, Georgia, Illinois, Indiana, Michigan, New York, and Virginia impose a sales tax on motor fuel.
- Applying the 6% sales tax to the retail price of motor fuel would raise approximately \$672 million in fiscal 2013.

Sales Tax on Motor Fuel (Cont.)

Issues for Consideration:

- The tax is complex to administer. Most states require the sales tax on motor fuel to be prepaid with a reconciliation later. Gas stations are required to remit the difference between the amount of tax prepaid and the actual amount to be collected.
- Due to the volatility in the price of motor fuel, future revenue from a sales tax on motor fuel is difficult to predict. This can complicate planning for major capital projects and the issuance of debt.
- A policy question is whether or not to include State and federal taxes in the retail price when applying the sales tax. States calculate the tax both ways.

Variable Tax Rate

- Another option could be to regularly adjust the motor fuel tax rate to keep pace with inflation.
- Measures of inflation that could be used to adjust the tax rate include the average price of motor fuel, the Consumer Price Index, or the Construction Cost Index (CCI).
- States with motor fuel tax rates that are adjusted for price inflation include California, Connecticut, Florida, Kentucky, Maine, Nebraska, New York, North Carolina, Vermont, and West Virginia.

Variable Tax Rate (Cont.)

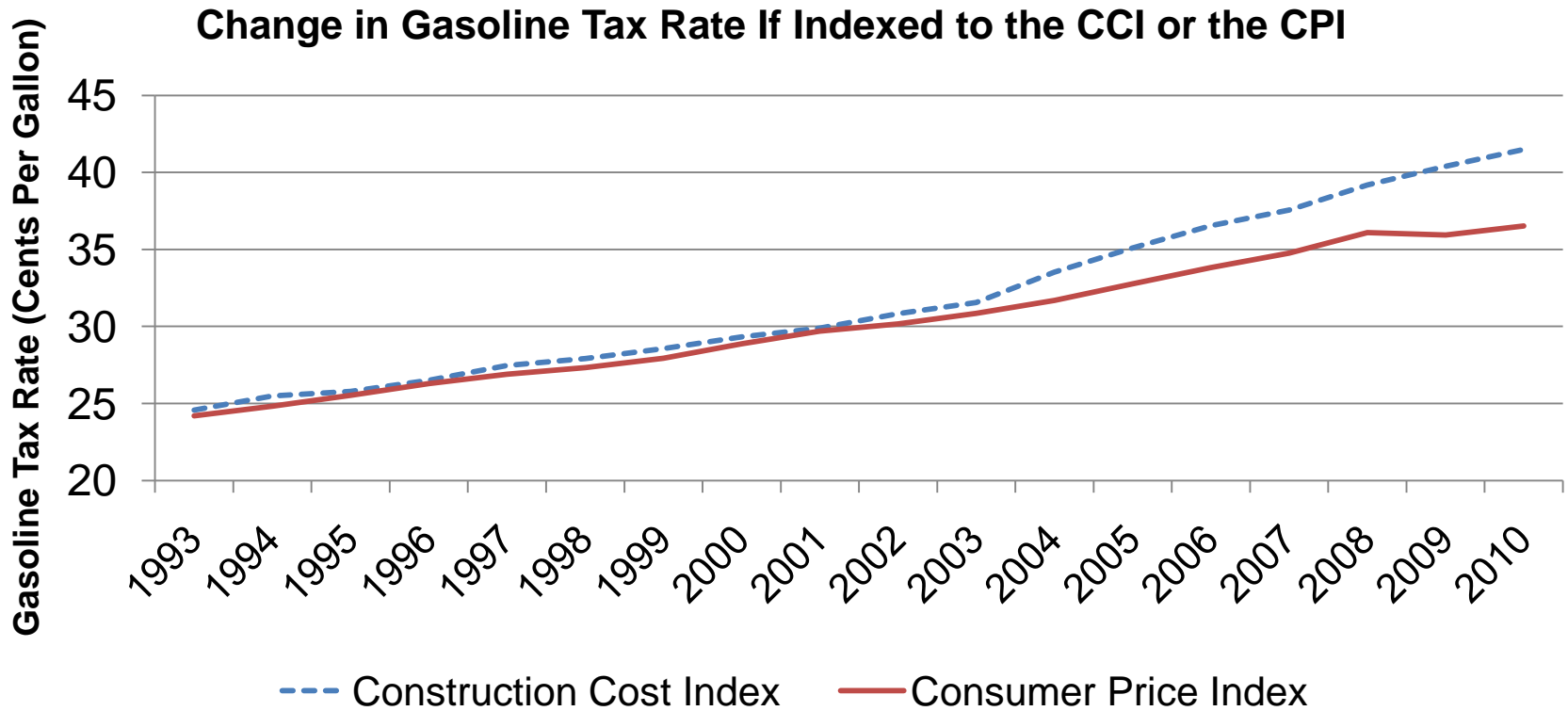
Issues for Consideration:

- An inflation-adjusted wholesale tax would combine the administrative simplicity of the excise tax with the inflation sensitivity of a sales tax.
- To avoid a dramatic increase or decrease in the tax rate, the amount by which the rate could change could be limited.
- Legislative oversight of revenue increases is reduced when the tax rate increases automatically.

Variable Tax Rate (Cont.)

- For example, applying a 6% rate to the average wholesale price would generate \$593 million, or approximately 19 cents a gallon.
- In the 2007 special session, the Governor proposed indexing the motor fuel tax to the CCI.
- House Bill 1001/Senate Bill 714 of 2011 proposed indexing to the CCI, which would have basically increased the excise tax by a penny each year.

Variable Tax Rate (Cont.)



CCI: construction cost index
CPI: consumer price index

Vehicle Registration Fees

- Currently the registration fee is \$50.50 to \$76.50 annually or \$101.00 to \$153.00 biennially for personal vehicles. In addition, there is an annual surcharge of \$13.50 for emergency medical services.
- Registration fees were last increased in 2004.
- House Bill 1001/Senate Bill 714 of 2011 proposed, among other things, to increase all registration fees by 50%, which would have generated approximately \$165 million in fiscal 2012.

Vehicle Registration Fees (Cont.)

	<u>Motor Vehicles</u>	<u>Commercial Vehicles</u>
North Carolina	\$28.00 plate fee	\$28.00 to \$51.60 per truck (4,000 to 6,000 lbs.) \$19.00 per trailer
West Virginia	\$30.00 (under 8,000 lbs.)	\$28.00 per vehicle (8,001 to 16,000 lbs.) plus \$5.00 per each 1,000 lbs. over 8,000 lbs.
Pennsylvania	\$36.00	\$27.00
Delaware	\$40.00	\$15.00 to \$40.00 for up to 5,000 lbs. and \$18.00 per each 1,000 lbs. over 5,000 lbs.
Virginia	\$40.75 for 4,000 lbs. or under \$45.75 for over 4,000 lbs.	\$51.75 per truck (6,501-7,500 lbs.)
Maryland	\$50.50 for 3,700 lbs. or under \$76.50 for over 3,700 lbs.	\$63.75 per truck (7,000 lbs.) \$9.00 to \$16.00 per 1,000 lbs. (10,000 to 80,000 lbs.)
District of Columbia	\$72.00 (3,499 lbs. or less) \$115.00 (3,500 - 4,999 lbs.) \$155.00 (5,000 lbs. or more)	\$125.00 to \$575.00 per weight

Titling Tax

- The titling tax is 6%, equal to the State sales tax, and was last increased during the 2007 special session from 5%.
- The titling tax is based upon the purchase price of a vehicle, less the value of a vehicle that is traded in.
- Increasing the titling tax from 6 to 7% would generate approximately \$100 million annually.

Titling Tax (Cont.)

	<u>Titling Tax Rate</u>	<u>Trade-in Allowance</u>
Delaware	3.75%	Yes
District of Columbia	6.0% for vehicles 3,499 pounds or less 7.0% for vehicles 3,500 to 4,999 pounds 8.0% for vehicles 5,000 pounds or greater	No
Maryland	6.0%	Yes
North Carolina	3.0% plus annual property tax	Yes
Pennsylvania	6.0% (plus 1.0% in Alleghany County and 2.0% in Philadelphia)	Yes
Virginia	3.0% plus annual property tax	No
West Virginia	5.0%	Yes

Titling Tax – Eliminate Trade-in Allowance

- During the 2007 special session, in conjunction with raising the rate to 6%, a trade-in allowance was added as part of the calculation of a vehicle's purchase price for the titling tax.
- The trade-in allowance allows an individual to deduct the value of a traded-in vehicle from the purchase price when calculating the titling tax.
- Eliminating the trade-in allowance would generate approximately \$60 million in fiscal 2012.

Eliminate MVA Cost Recovery

- MVA is required to recover 95 to 100% of its operating and capital expenses through the various fees it collects.
- MVA has the regulatory authority to set fees necessary to comply with the statutory requirement.
- Senate Bill 324 of 2011 would have removed the cost recovery requirement allowing MVA to generate additional revenue. The amount of revenue raised would be left to the department unless a limit is put in place by the General Assembly.

Vehicle Emissions Inspection Fee

- In response to the federal Clean Air Act, Maryland has operated a vehicle emissions inspection program in various parts of the State.
- MVA and the Department of the Environment must set the fee for the program, not to exceed \$14.
- The current fee is \$14. Senate Bill 324 of 2011 would have increased the maximum fee to \$28. It was estimated that revenues would have increased \$13.7 million in fiscal 2012.

Rental Car Sales Tax

- Currently, the TTF receives 45.0% of the rental car sales tax (8.0% for passenger vehicles and 11.5% for trucks).
- The remaining 55.0% is credited to the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund.
- Increasing the rental car sales tax rates to 10.0 and 15.0% would generate approximately \$15 million in fiscal 2013, with \$7 million going to the TTF unless otherwise specified.

Corporate Income Tax

- The current corporate income tax rate in Maryland is 8.25%. In recent years, the TTF had received 24.0% of the revenues from the first 7.0% of the corporate income tax, or 20.4% of the total.
- As part of the alteration of general fund distributions during the 2011 session, the TTF share of corporate income tax revenues was reduced to 9.5% in fiscal 2012, 19.5% from fiscal 2013 to 2016, and 17.2% thereafter.
- Increasing the corporate income tax rate by 1% and dedicating the revenues to the TTF would generate \$100 million in fiscal 2013.

Regional Sales Tax

- Several states, including California, Illinois, and New York, have a regional/local sales tax to support transit related expenditures.
- In January 2007, the Maryland Transit Funding Study Steering Committee issued a report with various revenue options, including a regional sales tax.
- There are different ways to determine which jurisdictions would be taxed and how the revenue would be used.

Regional Sales Tax (Cont.)

(\$ in Millions)

<u>Sales Tax Rate</u>	<u>Core Area</u>	<u>Metropolitan Area</u>
0.25%	\$78.7	\$101.2
0.50%	156.8	201.6
0.75%	234.3	301.3
1.00%	311.3	400.1

Core Area: Baltimore City and Baltimore, Anne Arundel, Montgomery, and Prince George's counties

Metropolitan Area: Baltimore City and Baltimore, Anne Arundel, Carroll, Charles, Frederick, Harford, Howard, Montgomery, and Prince George's counties

Property Tax

- The property tax is dedicated to pay the debt service for general obligation bonds. Currently, the State collects 11.2 cents for each \$100 of assessed value and the rate is established annually by the Board of Public Works.
- Beginning in fiscal 2013, revenue from the property tax will be insufficient to support debt service payments, requiring either an increase in the rate or a general fund appropriation.
- Increasing the property tax by 1.0 cents for each \$100 of assessed value and directing those revenues to the TTF would generate approximately \$63 million.

Fare Increase

- The Maryland Transit Administration (MTA) is required in statute to recover 35% of its operating expenditures in the Baltimore region through fares.
- The actual fiscal 2010 farebox recovery rate was 28%.
- MTA indicates that increasing the fare from \$1.60 to \$2.00 would generate approximately \$17.5 million, allowing MTA to meet the farebox recovery requirement through fiscal 2014.

Cost Shift

- Currently, the State pays Maryland's share of the operating and capital subsidy for the Washington Metropolitan Area Transit Authority.
- Previously, Montgomery and Prince George's counties had paid 25% of Maryland's share of the cost, with the State paying 75%.
- Requiring a local contribution of 25% would generate approximately \$100 million in savings for the TTF.

Public-private Partnerships

- To assist with the construction of infrastructure projects, the public sector can look to the private sector for assistance through a public-private partnership (P3).
- In Maryland, the notable P3s include leasing Seagirt Marine Terminal and State Center.
- Transit-oriented development has been used by the State to help construct commuter parking garages and to promote transit. It may also be used as a means to construct transit stations for any new transit line.
- There is a Joint Legislative and Executive Commission on Oversight of Public-private Partnerships tasked with looking more closely at the issue.

Tolling Existing Highways

- On the federal level, there has been discussion of expanding the use of tolling to existing highways.
- Currently, there are only limited opportunities for existing federally funded highways to be tolled.
- If federal policy is changed to allow for tolling on existing highways, it is unlikely that Maryland would be able to expand tolling to existing highways or construct new ones due to the financial constraints of the Maryland Transportation Authority.
- Tolling existing highways could be done through a P3.

Vehicle Miles Traveled Fee

- One alternative to the motor fuel tax is to implement a vehicle miles traveled (VMT) fee that would be tied more directly to the use of the transportation network.
- Administrative, policy, and technological issues prevent the VMT fee from being a viable revenue source in the near term.
- For illustrative purposes, a 1.3 cent per mile fee would generate \$711 million, assuming every mile travelled is assessed a fee, which is not currently the case.

Local Revenue Options

- Local jurisdictions could be given the authority to raise local revenues for transportation and to replace the local share of the HUR.
- Options:
 - Local option motor fuel taxes
 - Local option personal income tax
 - Local option personal property tax
 - Local vehicle charge