

Maryland Transportation Financing and Infrastructure Investment Act of 2012

February 13, 2012

Application of Sales Tax on Motor Fuel:

- While there is currently a flat 23.5 cents per gallon (cpg) tax on motor fuel, motor fuel is exempt from Maryland's 6% sales tax.
- The Governor's proposal creates a "hybrid system" that maintains the flat 23.5 cpg tax and applies the State's 6% sales tax rate to the price of motor fuel.
- Applying a 6% sales tax to motor fuel is estimated to generate an additional \$613 million annually.

Calculating the Sales Tax:

- The sales tax would be applied to the retail price of motor fuel minus any federal and state taxes.
- An average retail price of motor fuel will be calculated by the Comptroller's Office every 6 months based on the average of the prior 6 months of actual prices of regular unleaded gasoline. This information is nationally published by multiple sources.
- A 'sales and use tax equivalent rate' will be calculated by applying the applicable sales tax rate at that time to the net average retail price calculated by the Comptroller's Office. This rate will be stated as a 'cents per gallon' amount and be collected at the same time as the current motor fuel tax.
- Using one 'sales tax equivalent rate' based on only non-premium unleaded gasoline simplifies its administration. Premium gasoline, diesel fuel, and other special fuel users will also be taxed at this rate, which will be slightly less than a rate calculated on their average 6-month price.
- New rates would go into effect on January 1 and July 1 of each year.
- The tax would be collected using the current method, in which the tax is paid by the wholesaler/distributor as it first enters the State.

Example: The average retail price of gasoline is \$3.49 per gallon. Subtract 18.4 cpg federal gas tax and 23.5 cpg state tax (total 41.9 cpg). The net retail price equals \$3.07 per gallon. Sales tax of 6% applied to \$3.07 equates to 18.4 cents per gallon.

Phased Implementation:

- As recommended by the Blue Ribbon Commission on Transportation Funding (BRC), the application of sales tax to motor fuel will be phased in over a minimum of three years. In each year of the phase in process, this proposal would add roughly 6 cents a gallon to the price of gasoline at the pump.
- In year 1, a 2% sales tax will be applied to the retail price of motor fuel. The amount Marylander's pay in tax related to gasoline would increase from 23.5 cents (30th in nation) to 29.5 cents (18th in the nation).
- The application of sales tax to motor fuel serves as a proxy for an indexing component, as recommended by the BRC. The current flat gas tax does not offset the impact of inflation on purchasing power while the sales tax is reflective of price.

Braking Mechanism:

- The implementation of the sales tax on motor fuel includes a braking mechanism that will slow the phasing in the event of dramatic fluctuations in motor fuel prices.
- If the price of gasoline in year one were to increase by more than 15% over the prior year, the rate in year two would remain at 2%. (We used 15 percent based on history of recent increases.)
- This test will be calculated in each subsequent year until the full rate of 6 percent can be applied.

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Local Transportation Aid:

- Highway User Revenue: Maryland counties and municipalities are budgeted to receive their full allocation of shared revenue per statute under the current funding formula. It is important to note that the State/local revenue share formula has changed from 70% State/30% local in 2008 to 90% State/10% local, effective FY13. This formula has varied over the past few years. For example, the FY12 share is: 80% = State; 11% = General Fund; and 9% = Local. From FY12 on, no HUR are scheduled to go to the General Fund.
- Of the 10% of local share of Highway User Revenue, Baltimore City=80%; Counties=16%; and Municipalities=4%.
- Local Transportation Infrastructure Aid Account (LTIAA): The proposal establishes a new account for the purpose of sharing more revenue with local governments.
- The new revenue generated by the application of sales tax would be shared with the local governments on an 80% State /20% local basis.
- The distribution of funds would be: Counties=70%; Municipalities=20%; and Baltimore City=10%.
- As with the application of the sales tax, the revenue sharing would be implemented in three phases. At a 2% rate, local governments would receive 10% of the new revenue generated. The local share would increase to 15% at the 4% rate and 20% at the 6% rate.
- When combined with Highway User Revenues, the revenue generated from the application of the sales tax will restore both municipalities and Baltimore City to approximately 70% of their 2008 funding levels and will restore the Counties to nearly half (42%) of their 2008 funding level.

Transportation Trust Fund (TTF) Protection:

- Amends statute to require that transfers from the State share of the Transportation Trust Fund would only be permissible if:
 - the General Assembly enacts Transportation Trust Fund specific legislation that is supported by a three-fifths majority during any final committee vote of the standing committee assigned before being passed in each house of the General Assembly; OR
 - The Governor proclaims a state of emergency as the result of a major catastrophe.
- Any transfer from the TTF would require an automatic repayment provision.
- Transfers from the TTF by the General Assembly could only be done after the Treasurer provides advice on the potential impact on the credit rating of MDOT debt.
- A determination on the potential impact of the transfer on the additional bonds test set forth in the Secretary's Resolution and the credit rating of MDOT debt would also need to be made prior to a transfer.
 - No transfer would occur if it is determined that such a transfer would cause the department to fail the additional bonds test or to experience a down grade of the Department's bonds.

Regional Transit Financing Authority Study:

- In accordance with the recommendation of the BRC, the bill proposes the creation of a workgroup to study and make recommendations on regional transit financing authorities for the purposes of bringing additional funding to support major transit projects.

Maryland Emergency Medical System Fund:

- The proposal includes a two-dollar increase in the registration surcharge to support the Maryland Emergency Medical Systems Operations Fund to ensure that revenues will cover projected expenditures.