SB 946

Department of Legislative Services

Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 946 (Senator Washington)
Budget and Taxation

Transportation - Highway User Revenues - Distribution

This bill increases the share of funds from the Gasoline and Motor Vehicle Revenue Account (GMVRA) that the Maryland Department of Transportation (MDOT) must annually provide to local governments beginning in fiscal 2024. Additionally, beginning in fiscal 2023, the revenues must be shared directly with local governments instead of being provided through local transportation grants. The bill also expands the purposes for which county transportation bonds may be issued by MDOT on behalf of a county. **The bill takes effect July 1, 2022.**

Fiscal Summary

State Effect: Relative to current law, Transportation Trust Fund (TTF) revenues available to MDOT decrease by a net of an estimated $2.5 billion over the five-year period covered by this fiscal and policy note, as discussed below. Federal fund revenues and expenditures may decrease significantly and correspondingly, as discussed below.

Local Effect: Over the five-year period addressed in this fiscal and policy note, relative to current law, local government revenues increase by an estimated $344.9 million in FY 2024, $430.8 million in FY 2025, $436.2 million in FY 2026, and $225.2 million in FY 2027. Local expenditures are not directly affected.

Small Business Effect: None.

Analysis

Bill Summary:

Highway User Revenues

Beginning in fiscal 2023, instead of sharing GMVRA revenues with local governments through local transportation grants, MDOT must directly distribute the revenues to local governments. Additionally, **Exhibit 1** illustrates the bill's effect on the percentage of GMVRA revenues annually distributed to local governments beginning in fiscal 2024.

Exhibit 1
Local Share of Highway User Revenues
Fiscal 2024 and Future Fiscal Years

Current Law

Fiscal 2024		Fiscal 2025 and Ongoing	
MDOT	86.5%	MDOT	90.4%
Baltimore City	8.3%	Baltimore City	7.7%
Counties	3.2%	Counties	1.5%
Municipalities	2.0%	Municipalities	0.4%

Under the Bill

Fiscal 2024 through 2026		Fiscal 2027 and Ongoing	
MDOT	70.0%	MDOT	80.0%
Baltimore City	15.0%	Baltimore City	11.5%
Counties	10.0%	Counties	5.5%
Municipalities	5.0%	Municipalities	3.0%

MDOT: Maryland Department of Transportation

Source: Department of Legislative Services

County Transportation Bonds

The bill expands the purposes for which county transportation bonds may be issued by MDOT on behalf of a county to include providing (1) local participating funds for State-aided transportation projects and (2) for local capital improvement projects along

State roadways maintained by local governments and Maryland Transit Administration priority bus routes.

Current Law:

Highway User Revenues

TTF provides local transportation aid through GMVRA; this aid is more commonly referred to as Highway User Revenues (HUR). Currently, the revenues dedicated to the account include all or some portion of the motor vehicle fuel tax, vehicle titling tax, vehicle registration fees, short-term vehicle rental tax, and State corporate income tax.

Chapters 330 and 331 of 2018 altered the manner in which GMVRA revenues are shared with local governments, beginning in fiscal 2020. Instead of directly sharing the revenue with local governments, the Acts require 100% of the funds in GMVRA to be retained by TTF and distributed to local governments through capital transportation grants. This change allows MDOT to issue bonds backed by the GMVRA revenues that are ultimately issued to local governments; MDOT was unable to do so prior to the enactment of Chapters 330 and 331.

Chapters 330 and 331 also increased the local government share of GMVRA revenues from fiscal 2020 through 2024. **Exhibit 2** shows the effect of Chapters 330 and 331 on the local share of GMVRA revenues beginning in fiscal 2020. Beginning in fiscal 2025, the percentage of revenues provided to local governments is set to revert back to the totals in place before the enactment of Chapters 330 and 331; however, the revenues must continue to be distributed as capital transportation grants.

Exhibit 2
Distribution of Highway User Revenues
Effect of Chapters 330 and 331 of 2018

	Prior to FY 2020	FY 2020-2024	Beginning in FY 2025
MDOT	90.4%	86.5%	90.4%
Baltimore City	7.7%	8.3%	7.7%
Counties	1.5%	3.2%	1.5%
Municipalities	0.4%	2.0%	0.4%

MDOT: Maryland Department of Transportation

Source: Department of Legislative Services

County Transportation Bonds

MDOT is authorized, from time to time, to borrow money through county transportation bonds to disburse to participating counties to (1) accelerate programs of road construction and reconstruction; (2) provide local participating funds for federally aided transportation projects; (3) make major road repairs as necessary to eliminate damage caused to county roads by severe and unforeseen weather conditions; and (4) generally finance the capital cost of transportation facilities. Any bonds issued are considered MDOT debt and may not be considered to constitute a debt of any county.

When issuing bonds for a county, MDOT must pay the annual debt service using the affected county's share of HUR, pursuant to an agreement with the county; however, MDOT may not issue bonds on behalf of a county if the county's share of HUR for the latest fiscal year is less than twice its annual debt service on county highway construction bonds and county transportation bonds. The agreement between MDOT and a county must include specified criteria and limitations.

Debt Service Requirements and Practices

State law and agency debt practices limit Consolidated Transportation Bond (CTB) issuances with three criteria: a debt outstanding limit and two coverage tests. The debt outstanding limit is set in statute at $4.5 billion. The two coverage tests are established in the department's bond resolutions and require that annual net income and pledged taxes from the prior year each equal at least 2.0 times the maximum level of future debt service payments on all CTBs outstanding and to be issued. The department has adopted a management practice that requires minimum coverages of 2.5 times maximum future debt service. The net income coverage test is the ratio of all the prior year's income (excluding federal capital, bond proceeds, and third-party reimbursements) minus prior year operating expenses, debt service payments, deductions for nontransportation agencies, and local transportation aid to maximum annual future debt service, and typically, is the limiting coverage ratio. The pledged taxes coverage test measures annual net revenues from vehicle excise, motor fuel, rental car sales, and corporate income taxes (excluding refunds and all statutory deductions) as a ratio of maximum future annual debt service.

If either of these coverage ratios fall below the 2.0 times level, the department is prohibited under its bond covenants from issuing additional debt until the ratios are once again at the minimum 2.0 times level.

State Fiscal Effect:

Highway User Revenues

Over the five-year period covered by this fiscal and policy note, net TTF revenues available to MDOT decrease by $2.5 billion. This estimate includes the impact of increasing the local share of HUR, requiring HUR to be provided through revenue sharing instead of capital transportation grants, a 100% reduction in planned bond issuances, and corresponding debt-service payment savings. A greater discussion of these impacts can be found below in the following subsections.

Revenue Sharing Instead of Capital Grants: The bill significantly reduces TTF revenues available to MDOT by increasing the local share of HUR beginning in fiscal 2024 and by requiring HUR to be provided to local governments through direct revenue sharing, instead of through capital transportation grants, beginning in fiscal 2023. Relative to current law and based on the estimated funds credited to GMVRA, the bill directly reduces TTF revenues available to MDOT by an estimated $276.5 million in fiscal 2023, $627.2 million in fiscal 2024, $633.5 million in fiscal 2025, $641.4 million in fiscal 2026, and $433.1 million in fiscal 2027, totaling $2.6 billion over the five-year period addressed in this fiscal and policy note.

However, MDOT experiences a reduction in capital expenditures equal to the capital transportation grants that would have been provided to local governments absent the bill. Relative to current law, these grants totaled $1.4 billion over the five-year period addressed in this fiscal and policy note, meaning the net impact of this change is $1.2 billion.

The *Consolidated Transportation Program* for fiscal 2022 through 2027 already assumes increased capital grants for local governments beginning in fiscal 2025 that are consistent with the current law description above for fiscal 2020 through 2024. The increased funding totals $250.2 million; however, it is not accounted for in this analysis because it is not required by current law.

Bond Issuance: Due to the significant reduction in TTF revenues available to MDOT, MDOT cannot maintain the required 2.0 debt service coverage ratio discussed above on its outstanding debt, even after canceling all existing plans to issue bonds. MDOT is prohibited from issuing additional bonds until the debt service ratio is corrected (which MDOT anticipates will be many years beyond fiscal 2027). Therefore, TTF revenues available to MDOT decrease by *an additional* $1.4 billion (which is 100% of MDOT's planned bond issuances over the five-year period covered by this fiscal and policy note). As MDOT issues less debt under the bill, it experiences a corresponding reduction in debt service payments of $118.1 million over the five-year period.

To address the debt-service issue, MDOT could also reduce its operating costs (likely through decreased services) or increase revenues (likely through increased fees and fares). To the extent that MDOT takes these actions, it may be able to issue additional bonds sooner, making the TTF revenue impact discussed above less pronounced. However, any such impact is speculative and is not reflected in this analysis.

County Transportation Bonds

The bill's expansion of authorized uses of county transportation bonds is not anticipated to increase the issuance of these bonds and, therefore, is not anticipated to affect TTF finances.

Other Significant Funding Issues

As noted above, even when MDOT cancels all planned bond issuances, it cannot maintain the required 2.0 debt service coverage ratio. This inability, combined with the bill's other effects on the State's transportation system, may result in a downgrade to MDOT's credit ratings, directly increasing costs for MDOT to borrow money to finance transportation projects when it is able to once again issue bonds.

MDOT advises that the significant impact of the bill on its operating and capital finances may not leave sufficient money in TTF to ensure the State can provide matching funds for some projects; matching funds are generally required as a condition of receiving federal funding for many projects. Thus, the bill may reduce federal fund revenues (and corresponding expenditures) significantly, resulting in the delay or cancellation of additional projects beyond the reduction in funding discussed above.

Local Fiscal Effect: Over the five-year period addressed in this fiscal and policy note, relative to current law, local jurisdictions' highway user revenues increase by an estimated $344.9 million in fiscal 2024, $430.8 million in fiscal 2025, $436.2 million in fiscal 2026, and $225.2 million in fiscal 2027. The distribution of the increase among Baltimore City, the counties, and municipalities is shown in **Exhibit 3**.

Exhibit 3
Projected Increase in Local Distribution of Highway User Revenues
Fiscal 2025-2027
($ in Millions)

	FY 2024	FY 2025	FY 2026	FY 2027
Baltimore City	$140.1	$154.1	$156.1	$82.3
Counties	142.2	179.5	181.7	86.6
Municipalities	62.7	97.1	98.4	56.3
Total	**$344.9**	**$430.8**	**$436.2**	**$225.2**

Note: Totals may not sum due to rounding.

Source: Department of Legislative Services

Exhibit 4 shows the *increase* in highway user revenues distributed to localities and the *total* amount of highway user revenues distributed to localities for fiscal 2023 through 2027 under the bill (by county), relative to current law.

The bill's expansion of authorized uses of county transportation bonds is not anticipated to increase the issuance of these bonds. As such, overall county expenditures are not affected; however, the bill's expansion of the authorized uses of the bonds provides additional financial flexibility for counties in using the bond proceeds if and when they are issued.

Exhibit 4
Local Government Increase and Total – Highway User Revenues
Fiscal 2023-2027
($ in Millions)

	FY 2023		FY 2024		FY 2025		FY 2026		FY 2027	
	Increase	**Total**	**Increase**	**Total**	**Increase**	**Total**	**Increase**	**Total**	**Increase**	**Total**
Allegany	0.0	3.0	5.3	8.4	7.5	8.5	7.6	8.6	4.1	5.0
Anne Arundel	0.0	8.7	17.9	26.8	23.3	27.1	23.6	27.4	11.6	15.5
Baltimore City	0.0	170.0	140.1	313.6	154.1	316.7	156.1	320.7	82.3	249.0
Baltimore	0.0	9.6	20.9	30.7	26.4	31.0	26.7	31.4	12.7	17.5
Calvert	0.0	2.0	4.1	6.2	5.4	6.2	5.5	6.3	2.7	3.6
Caroline	0.0	1.7	3.2	4.9	4.4	5.0	4.4	5.1	2.3	2.9
Carroll	0.0	5.0	9.4	14.5	12.9	14.7	13.1	14.8	6.8	8.6
Cecil	0.0	2.7	5.2	7.9	7.0	8.0	7.1	8.1	3.7	4.7
Charles	0.0	3.0	6.2	9.3	8.1	9.4	8.2	9.5	4.1	5.4
Dorchester	0.0	1.9	3.6	5.6	5.0	5.7	5.1	5.8	2.6	3.3
Frederick	0.0	8.1	14.5	22.8	20.4	23.0	20.7	23.3	11.0	13.6
Garrett	0.0	1.9	3.7	5.6	4.9	5.6	4.9	5.7	2.5	3.3
Harford	0.0	5.2	10.1	15.5	13.7	15.7	13.8	15.9	7.0	9.1
Howard	0.0	3.9	8.4	12.4	10.6	12.5	10.7	12.6	5.1	7.0
Kent	0.0	1.0	1.8	2.8	2.5	2.8	2.5	2.9	1.3	1.7
Montgomery	0.0	15.3	29.1	44.7	39.6	45.2	40.1	45.8	20.6	26.3
Prince George’s	0.0	15.7	28.6	44.6	39.8	45.0	40.3	45.6	21.2	26.5
Queen Anne’s	0.0	1.6	3.2	4.8	4.2	4.9	4.3	5.0	2.1	2.8
Somerset	0.0	1.0	1.9	2.9	2.5	2.9	2.6	3.0	1.3	1.7
St. Mary’s	0.0	2.1	4.4	6.6	5.7	6.7	5.8	6.8	2.8	3.8
Talbot	0.0	1.9	3.4	5.4	4.9	5.5	4.9	5.5	2.6	3.2
Washington	0.0	4.6	8.4	13.1	11.7	13.3	11.9	13.4	6.3	7.8
Wicomico	0.0	3.8	6.8	10.7	9.6	10.8	9.7	11.0	5.2	6.4
Worcester	0.0	2.5	4.7	7.3	6.5	7.3	6.6	7.4	3.4	4.3
Total	**0.0**	**276.5**	**344.9**	**627.2**	**430.8**	**633.5**	**436.2**	**641.4**	**225.2**	**433.1**

Notes: Totals may not sum due to rounding. Estimate assumes that highway road miles and vehicle registrations in fiscal 2023 remain constant through fiscal 2027.

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Maryland Department of Transportation; Charles and Frederick counties; Maryland Municipal League; City of Havre de Grace; Department of Legislative Services

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