

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1457 (Delegate Solomon, *et al.*)
Environment and Transportation and
Appropriations

Alternative Fuel, Fuel-Efficient, and Electric Vehicles - Highway Use Fees

This bill repeals the annual surcharge for zero-emission and plug-in electric drive vehicles enacted under the Budget Reconciliation and Financing Act (BRFA) of 2024 and establishes an annual highway use fee for alternative fuel, fuel-efficient, and plug-in electric drive vehicles registered in the State. The highway use fee must be collected by the Maryland Department of Transportation (MDOT) and deposited in the Transportation Trust Fund (TTF). The owner of a vehicle subject to the highway use fee may opt to pay a specified mileage-based user fee in lieu of the highway use fee. MDOT must establish a fully operational Mileage-Based User Fee Program by July 1, 2028. **The bill takes effect July 1, 2025.**

Fiscal Summary

State Effect: TTF revenues increase by *at least* \$10.0 million in FY 2026, as discussed below. Future years reflect projected growth in quantified net fee revenues. TTF expenditures may increase by an indeterminate amount in FY 2026 and/or future years, as discussed below.

(\$ in millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
SF Revenue	\$10.0	\$11.6	\$14.0	\$16.8	\$20.3
SF Expenditure	-	-	-	-	-
Net Effect	-	-	-	-	-

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary:

Annual Highway Use Fee

The owner of an alternative fuel vehicle, a fuel-efficient vehicle, or a plug-in electric drive vehicle must pay an annual highway use fee for each motor vehicle registered. “Alternative fuel vehicle” is defined as a motor vehicle that (1) is manufactured or modified to use an alternative fuel, including electricity, ethanol, methanol, gasohol, and propane or natural gas, regardless of energy consumption, and (2) is not a motor fuel vehicle, plug-in electric drive vehicle, or plug-in hybrid vehicle. “Fuel-efficient vehicle” is defined as a motor vehicle that has a combined fuel economy rating of at least 25 miles per gallon. The highway use fee does not apply to an autocycle, moped, or motorcycle; a vehicle with a gross weight of over 26,000 pounds; a vehicle owned by a governmental entity; a vehicle registered under the International Registration Plan; or a vehicle that participates in the Mileage-Based User Fee program as established under the bill.

For a plug-in electric drive vehicle, the annual highway use fee is equal to 85% of the estimated amount of motor fuel taxes paid each year to operate a fuel-efficient vehicle in the State (as calculated in accordance with the bill). For an alternative fuel vehicle or fuel-efficient vehicle, the annual highway use fee is equal to 85% of the difference between (1) the estimated amount of motor fuel taxes paid each year to operate a fuel-efficient vehicle in the State and (2) the estimated amount of motor fuel taxes paid each year to operate the vehicle being registered in the State (as specified).

The Secretary of Transportation must update the highway use fee calculated in accordance with the bill by July 1, 2025, and annually thereafter. For a vehicle that is registered for a period other than one year, the highway use fee is multiplied by the number (or fraction) of years that the vehicle will be registered. If a person that owns a motor vehicle subject to the highway use fee fails to pay the fee, the Motor Vehicle Administration must refuse to register or renew or transfer the registration of the motor vehicle.

Mileage-Based User Fee Program

MDOT must establish policies and procedures to allow owners of vehicles subject to the highway use fee the option of participating in the Mileage-Based User Fee Program with specified vehicle location and data tracking limitations. The owner of a motor vehicle registered in the State may not be required to participate in the program.

MDOT must calculate a fee per mile driven by dividing the annual highway use fee by the estimated average number of miles a Class A vehicle travels in the State each year. The

voluntary mileage-based user fee is equal to the number of miles a participant's vehicle travels during the fiscal year multiplied by the fee per mile driven and may not exceed the annual highway use fee that the owner would have otherwise paid.

Current Law:

Annual Electric Vehicle Surcharge

The BRFA of 2024 established an annual surcharge of \$125 for zero-emission vehicles (as defined under § 23-206.4 of the Transportation Article) and \$100 for other plug-in electric drive vehicles (as defined under § 11-145.1 of the Transportation Article), as adjusted annually for inflation beginning in fiscal 2026. The surcharge may be paid at the time the annual registration fee is paid or in installments throughout the registration period. Proceeds from the surcharge are deposited in TTF.

Motor Fuel Tax

Pursuant to the Transportation Infrastructure Investment Act of 2013 (Chapter 429), motor fuel tax rates for all motor fuels except aviation and turbine fuel are indexed to the annual change in the Consumer Price Index (CPI). By June 1 annually, the Comptroller must determine and announce the growth in the CPI for all urban consumers and the motor fuel tax rates effective for the fiscal year beginning the following July 1.

The rate increase is equal to the percentage growth in the CPI multiplied by the motor fuel tax rates in effect for the previous fiscal year, rounded to the nearest one-tenth of 1 cent. The percentage growth in the CPI is determined by averaging the CPI for the 12 months preceding April 30 to the average index for the prior 12 months. If there is a decline or no growth in the CPI, the motor fuel tax rates remain unchanged. Any increase in the motor fuel tax rates may not exceed 8% of the tax rates in effect for the previous year.

A floor tax is imposed on any person possessing tax-paid motor fuel for sale at the start of business on the date of an increase in the motor fuel tax rate. Such persons must compile and file an inventory held at the close of business on the immediately preceding date and remit within 30 days any additional tax due.

The revenue generated as a result of the CPI component of the motor fuel tax rates is distributed to TTF and retained by MDOT. As of July 1, 2024, the cumulative CPI component accounts for 8.6 cents of the motor fuel tax rates for (1) gasoline and clean burning fuel and (2) special fuel and diesel, for which the combined applicable motor fuel tax rate per gallon is equal to 46.10 cents and 46.85 cents, respectively.

In addition to indexing specified motor fuel tax rates to inflation, Chapter 429 imposed a 5% sales and use tax equivalent rate on all motor fuels except aviation and turbine fuel; the rate was phased in over fiscal 2014 to 2017. As of July 1, 2024, the sales and use tax equivalent rate accounts for 14.0 cents of the combined applicable motor fuel tax rates for gasoline and clean burning fuel and special fuel and diesel.

State Revenues: **Exhibit 1** shows the bill's estimated effect on TTF revenues in fiscal 2026 through 2030. As shown in the exhibit, in fiscal 2026, TTF revenues increase by a net of \$10.0 million; future years reflect projected growth in fee revenues under the bill and under current law.

Exhibit 1
Quantified Effect on TTF Revenues
Fiscal 2026-2030
(\$ in Millions)

	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
Repeal EV Surcharge	(\$26.7)	(\$34.2)	(\$44.9)	(\$57.5)	(\$72.1)
Establish Highway Use Fee	36.7	45.8	58.9	74.3	92.4
Net TTF Revenue Effect	\$10.0	\$11.6	\$14.0	\$16.8	\$20.3

EV: electric vehicle

TTF: Transportation Trust Fund

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

This estimate is based on projected electric vehicle surcharge revenues assumed in the current TTF revenue forecast and reflects the estimated amount of highway use fee revenue attributable to zero-emission and plug-in electric drive vehicles that would otherwise be subject to the electric vehicle surcharge absent the bill. The estimate shown above does not reflect highway use fee revenues attributable to other vehicles subject to the fee (alternative fuel vehicles and fuel-efficient vehicles that are not classified as zero-emission or plug-in electric drive vehicles); thus, actual net TTF revenues likely exceed the amounts shown.

Based on an analysis of Maryland traffic volume trends as published by the Federal Highway Administration, the Department of Legislative Services (DLS) estimates

that average Class A vehicle miles traveled in the State total about 12,000 annually. As discussed above, the bill specifies that the highway use fee is in part calculated based on the estimated amount of motor fuel taxes paid each year to operate a fuel-efficient vehicle (defined as a motor vehicle with a combined fuel economy rating of *at least* 25 miles per gallon) in the State; for purposes of this analysis, DLS assumes that this amount is calculated based on a combined fuel economy rating of 25 miles per gallon.

The estimate shown above does not account for the potential offsetting effect of the optional mileage-based user fee program beginning in fiscal 2029 (or earlier, depending on the timing of program implementation); to the extent drivers subject to the highway use fee opt to participate in the optional mileage-based user fee program and pay reduced fee amounts as a result, actual TTF revenues attributable to zero-emission and plug-in electric drive vehicles may be less than the amounts shown.

State Expenditures: An estimate of potential MDOT implementation and administrative costs is not available at this time. TTF expenditures may increase in fiscal 2026 and/or future years to the extent MDOT incurs one-time and/or ongoing costs to administer the highway use fee and mileage-based user fee program.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Maryland Energy Administration; U.S. Department of Energy; U.S. Energy Information Administration; U.S. Department of Transportation; Moody's Analytics; IHS Markit; Department of Legislative Services

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js/hlb

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