

Enhancing Boating in Maryland: Task Force Final Report



September
2015

Report of the Task Force to Study Enhancing Boating
and the Boating Industry in Maryland
MSAR #9816

This report represents the recommendations of the Task Force to Study Enhancing Boating and the Boating Industry in Maryland, created as a result of Senate Bill 90 (2013).



Maryland Department of Natural Resources Boating Services provided Staff support to the Task Force, including preparation of this report.



The Environmental Finance Center (EFC) is located at the University of Maryland in College Park. The EFC is a regional center developed by the Environmental Protection

Agency to assist communities and watershed organizations in identifying innovative and sustainable ways of implementing and financing their resource protection efforts throughout the Mid-Atlantic region. The EFC is non-advocacy in nature and has assisted communities and organizations in developing effective sustainable strategies for watershed protection goals and requirements.

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Task Force Membership

The Secretary of the Department of Natural Resources or the Secretary's designee, who shall serve as the chair of the Task Force, and the following individuals appointed by the Secretary:

- (1) one representative of the **Marine Trades Association of Maryland**;
Susan Zellers
- (2) one representative of the **Department of Business and Economic Development**;
Marci Ross, Heather Ersts, Maryland Office of Tourism Development
- (3) one representative of the **Maryland Association of Counties**;
Mark Garrity, Anne Arundel County
- (4) one representative of the **Maryland Municipal League**;
Michael Vlahovich, President, St. Michaels Commissioner
- (5) one representative of the **Boat Owners Association of the United States**;
Bob Adriance
- (6) one representative of the **Recreational Boating and Fishing Foundation**;
Michael Belitzky, Libby Yranski, NMMA
- (7) one representative of the **Chesapeake Bay Yacht Clubs Association**;
Coles Marsh
- (8) one representative from the **Maryland Boat Act Advisory Committee**;
Jon Sheller
- (9) one individual representing **paddle sports**;
Ralph Heimlich, **Chesapeake Paddlers Association**
- (10) one representative of a **local tourism board or visitor bureau** in a county that borders the Chesapeake Bay. Debbie Birch, **Queen Anne's County**

University of Maryland Environmental Finance Center: Naomi Young, Jennifer Cotting

Maryland Department of Natural Resources: Mark O'Malley, Sharon Carrick, Paul Chenoweth

Maryland Department of Legislative Services: Andrew Gray

Task Force Objectives

The Task Force shall:

(1) Evaluate options and make recommendations for enhancing boating and growing the boating industry in the State; and consider the following:

- (i) incentives to encourage boats to register in the State and use marinas and boatyards for recreation, repair, and outfitting in the State;
- (ii) the impact of modifying the State vessel excise tax rate and boat registration fees;
- (iii) the expenditure and use of the Waterway Improvement Fund and its benefits to the general boating public and the State's boating industry;
- (iv) the impact on the boating industry and the general boating public of decreased State and federal spending on boating access;
- (v) the costs and needs of maintaining and improving public boating infrastructure and boating safety; and,
- (vi) any other matter that the Task Force agrees will enhance boating in the State.

(2) On or before September 1, 2015, the Task Force shall submit a report of its findings and recommendations to the Governor and, in accordance with § 2-1246 of the State Government Article, the General Assembly.

Executive Summary

Recreational boating represents \$2.2 billion in economic impact and over 20,000 jobs to the State of Maryland. As the word “recreational” suggests, boating is a discretionary expense and as such, boating is inextricably linked to the state of the economy both nationally and here in Maryland. During the economic downturn from 2009 through 2013, there were two disturbing trends in boating in the State: a reduction of 14,000 boats registered in Maryland and a 50% reduction in revenue to the Waterway Improvement Fund (WIF).

Fortunately, it appears that this situation is in our wake. Economic indicators are positive, and we have seen an upswing in boat sales and registrations, and a resulting increase in WIF revenue. The tax cap imposed by Senate Bill 90 enacted in May of 2013 is a likely contributor to these improvements. This bill created a ceiling of \$15,000 for the vessel excise tax (VET) which affects boats valued at \$300,000 and above. An economic impact study conducted by the University of Maryland Environmental Finance Center (EFC), which can be found in Appendix 3 of this report, indicated that for the two and a half years the cap has been in place, it appears the cap has spurred sales of higher-end vessels. EFC economists have stated that to be statistically significant, five years of data would be required to make a definitive statement on the effectiveness of the tax cap. Multiple articles in respected trade journals also point to a significant turnaround in the boating industry.

A concerted effort by Maryland agencies must be undertaken to ensure that momentum gained by the recovering economy is maintained to ensure that the vital role boating plays in the State’s economy and tourism remains at a high level. Maintenance of the waterways and public boating facilities is imperative to the economic health of the boating industry and supporting businesses.

In spite of these positive indicators, the WIF has lagged in developing a sufficient level of revenue to serve counties and municipalities in need of grant funds to create or improve boating infrastructure throughout the State. While the cap seems to have spurred high-end boat sales, this has not offset the \$588,000 loss of vessel excise tax that would have been collected were the cap not in place. However, SB 90 reinstated the distribution of motor fuel tax to the WIF, and these funds have helped mitigate the lost VET.

As part of the effort to prepare this report, a survey of boat owners with vessels valued at over \$100,000 was conducted to determine what motivates boaters to register their boats in a particular state, the results of which can be found in Appendix 4. Factors such as access to cruising waters, scenery, quality of the environment, quality of private marinas and boatyards, and proximity to their home were of far greater influence in their decision making. It was found that while this universe of owners was keenly aware

of the taxes to be paid; this expenditure was not a key driver in their choice to register in Maryland.

All states vying for recreational boating dollars are looking for ways to remain competitive and make their destination the most attractive to boaters; yet, it is important to note that only Maryland has created a Waterway Improvement Fund. No other east coast state funds boating infrastructure construction, repair, or dredging.

The following recommendations are the product of a comprehensive examination of the boating industry by the Task Force:

- Keep the VET tax cap of \$15,000 in place and at the end of fiscal year 2018 conduct an economic analysis using five full years of data to have a more complete analysis of the effect of the cap on vessel sales and registrations.
- DNR should work with the Maryland General Assembly to adjust vessel title and registration fees to account for program costs and inflation and avoid issuance of documents at a fiscal loss to the State. This would free up additional WIF funds from being used to support overhead costs incurred to fund Licensing and Registration and other DNR Units that could then be used to support additional grants to counties and municipalities.
- DNR should work with the Maryland General Assembly to propose non-powered vessels pay the one-time excise tax at the point of purchase in place of the general sales tax now being collected.
- The Maryland General Assembly should restore the \$2.2 million that had been transferred to the General Fund from the WIF in fiscal year 2015.
- DNR should continue to support Executive Order 13508 regarding public access in the Chesapeake Bay Region and encourage counties and municipalities to pursue WIF grants to enhance and expand investment in infrastructure that serves transient boaters including boat ramps and temporary docking facilities.
- DNR & DBM should coordinate with the Army Corps of Engineers to expand the definition of commercial waterways to include marinas, boatyards and other water-dependent entities to expand the opportunity for federal dredging funds.
- DNR should coordinate a public awareness campaign to increase visibility of the Waterway Improvement Grant Program emphasizing the impact of the important grant-supported work being done in conjunction with counties and municipalities.

- DNR should examine its internal policy of directing Waterway Improvement Fund revenue to other DNR Units for the purpose of paying for operating costs that should be funded by General Funds. Specifically, special funds should be restricted to the purpose of that fund; supporting and enhancing Maryland's waterways.
- DNR should coordinate a working group, through its Working Waterfronts Program, to encourage the development of boatyards, marinas, and shore-side attractions for transient and Maryland commercial and recreational based vessels. Additionally, DNR, DBM and other State agencies should support the protection of waterfronts similar to the Baltimore Maritime Industrial Zoning Overlay District Study (MIZOD) and the Annapolis Maritime Industry Preservation Analysis.
- DBED/Maryland Office of Tourism Development should coordinate a comprehensive tourism and marketing strategy for boating and water-based tourism activities.

Introduction

Recreational boating is an important contributor to the U.S. economy, generating over \$35 billion in direct sales of product and services annually. In Maryland, it is a \$2 billion industry. The trades that support the building, repairing, and storing of the vessels have grown into a substantial industry in the State that goes beyond the more than 20,000 jobs it supports. The industry is part of the very fabric that defines Maryland.

The boating industry in Maryland is made up of many small businesses that range from boat sales to marinas to riggers to engine repair facilities. Marine businesses are subject to fluctuations in the economy because boaters spend much less on boats and boating in poor economic times. The industry works diligently to grow boating in the State and regularly supports efforts to promote new boaters as well as attract additional existing boaters to the State.

Registration of boats in Maryland has declined from a peak of 208,000 in 2005 to 182,000 in 2014, mirroring a national trend. In an effort to attract more boats and bolster the marine trades in Maryland, Senate Bill 90 established an excise tax cap of \$15,000 for boats with a value exceeding \$300,000. For example, a vessel valued at \$400,000 would pay \$15,000 rather than the \$20,000 that would have been collected in the absence of the cap. The bill also restored an allocation of 0.5% of motor fuel tax monies to the WIF; the previous 0.3% allocation ceased in 2007.

Maryland is a highly desirable state in which to boat, due to its 2,630 square miles of protected waters, over 3,000 miles of shoreline, central location, limited exposure to hurricanes, and the number and quality of marinas. However, from a tax perspective, Maryland faces significant competition from other East Coast states such as: Delaware, where no tax is in place; Virginia, where there is no use tax, sales tax is capped at \$2,000, and an annual personal property tax is collected; and, North Carolina where tax on boats is capped at \$1,500. New York has capped their tax at 4% on the first \$230,000,

No other state in the eastern U.S. operates a fund that specifically supports boating infrastructure construction, repair, or dredging

plus local taxes; and, New Jersey is currently considering the reduction of vessel sales tax to 3.5%.

All of the states vying for recreational boating dollars are looking for ways to remain competitive and make their destination the most attractive to boaters; yet, it is important to note that only Maryland has created a Waterway Improvement Fund (WIF). No other eastern state funds boating infrastructure construction, repair, or dredging.

The WIF was established by the Maryland General Assembly in 1965 to finance projects and activities which promote, develop, and maintain Maryland's boating infrastructure and waterways for the benefit of the general boating public in cooperation with federal, state, and local governments. Since its inception, the WIF has been essential in financing projects and has completed over 4,700 boating related grant projects valued at approximately \$321 million. Essentially, it serves as the "Transportation Trust Fund" for the boating public. WIF revenues are derived from the one time 5% vessel excise tax that is paid on the value of the vessel at the time of initial registration for use on Maryland's waters. All documented and state numbered vessels with primary operations in Maryland are subject to the vessel excise tax. The WIF does not receive any General Funds.

The importance of the WIF grants is not limited to the improvement of boating infrastructure but also the impact to the State's economy. The University of Maryland Environmental Finance Center has estimated that the \$6 million of grants issued in FY-16 will have an overall impact of \$11.2 million to the State's economy.

Senate Bill 90 also created a Boating Enhancement Task Force (Task Force) to consider options for:

- raising Waterway Improvement Fund revenues;
- developing incentives to encourage boats to register in the State and use marinas and boatyards for recreation, repair, and outfitting in the State; and,
- assessing the costs and needs of maintaining and improving public boating infrastructure and boating safety.

This report summarizes the Task Force's findings on these issues, provides background information on the Fund, suggests additional revenue options, and points to recent developments and boating trends that may require additional capital funding.

The Waterway Improvement Fund

Background

The Chesapeake Bay and Maryland's other waterways are known throughout the United States and abroad as one of the best locations for recreational boating. With over 182,000 registered vessels principally using Maryland waters as of June 30, 2014, thousands of visiting boaters, and an estimated 135,000 undocumented, non-motorized (paddle) craft, boating is a very popular activity throughout the State.

In 2007, the University of Maryland estimated in-state spending by boat owners at more than \$2 billion and supporting 35,000 jobs. In 2012, the National Marine Manufacturers Association estimated [boating's economic impact](#) in Maryland at \$2.4 billion,¹ making the boating industry a major factor in the State's economy. It is a priority of DNR to support boating safety, improve upon and increase boating access, enhance the quality of the recreational boating experience, and support the economic viability of the recreational boating industry.

State funded public boating facilities and public navigation channels are essential for the boating industry and enable local commercial watermen to serve their customers and perform their work related activities. The WIF is critical in that it is the only source of State funding that supports public boating access sites and the associated dredging that ensures Maryland's waterways will remain both safe and accessible to local and transient boaters.

The ability to support dredging activities is even more essential given that the U.S. Army Corps of Engineers (ACOE) can no longer maintain federal shallow water channels in Maryland. To meet the statutory requirements within their budget, the ACOE uses 1 million tons of commercial cargo as a threshold for dredging a waterway. In general, this limits ACOE activity to the main channels leading to the Port of Baltimore and the Wicomico River. Without reliable, safe channels and public boating facilities, local marine related business and watermen could lose customers and associated income, resulting in a loss of jobs.

¹ 2012 Boating Economic Impact Study. National Marine Manufacturers Association.

WIF Revenue Streams and Funding Trends

Historically, there were two sources of WIF revenues: the 5% vessel excise tax (VET) paid on newly registered vessels primarily operating in Maryland waters and 0.3% of the State Motor Fuel Tax. In 2007, the motor fuel tax revenue to the WIF was redirected to the Transportation Trust Fund, but Senate Bill 90 restored funding to the WIF at 0.5% in 2013. The Fund also receives some limited additional income from repayments on outstanding tax district loans, boat tax violation penalties/interest, and land rent which totals approximately \$800,000.

The VET rate has traditionally been consistent with the Maryland sales tax percentage. However, the VET percentage was not raised when the Maryland sales tax increased from 5% to 6% in 2007.

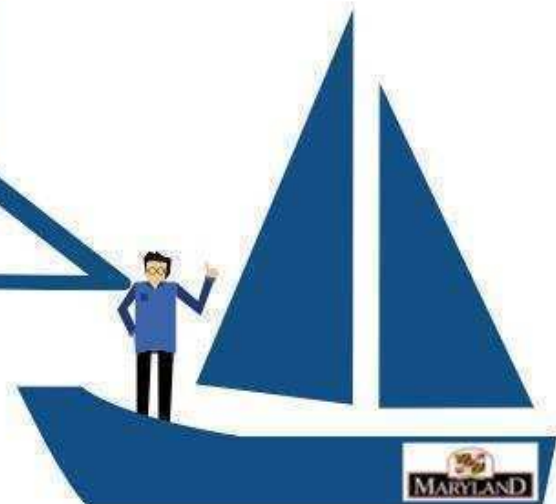
The Waterway Improvement Fund does not receive any revenue from boat registration fees.

The Fund does not receive revenues from Maryland boat registration fees. Those fees go to the State Boat Act Fund that is used primarily for boating safety under the leadership of the Natural Resources Police.

What Constitutes Principal Operation?

A vessel establishes principal operation in Maryland when it is used in the State in a calendar year more than any other single jurisdiction.

A vessel duly registered in another jurisdiction may enjoy Maryland waters for a cumulative total of 90 days in a calendar year without incurring a vessel excise tax liability. A vessel may remain longer than 90 days as long as the total days in Maryland waters are less than the total days spent in the jurisdiction of principal operation.



VET revenues have varied greatly over the years and are heavily influenced by national economic factors such as home values, boat loan interest rates, fuel prices, and consumer confidence. In recent years, VET revenues for the Fund have ranged from \$15 million to \$31 million depending on the state of the economy, as demonstrated in Figure 1 below. State motor fuel tax revenues, however, have been a steady source of WIF revenue, averaging \$1.5 to \$1.75 million per year, and reaching \$2.7 million after the increase to 0.5% in 2013.

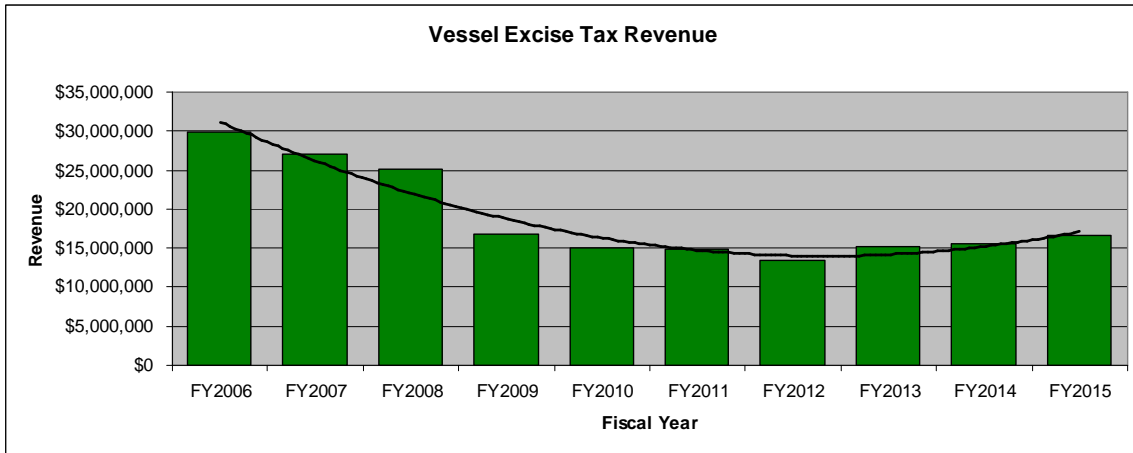


Figure 1: Maryland Vessel Excise Tax Revenue from 2006 to 2015

Between 1991 and 2004, \$48 million was transferred from WIF to the General Fund to help offset statewide budget shortfalls, resulting in the elimination of 790 grant projects. The Budget Reconciliation and Finance Act (BRFA) for 2010 and 2011 transferred \$17,539,000 from WIF projects to the General Fund. However, all of these funds were replaced with General Obligation Bonds as per the Maryland Consolidated Capital Bond Loan for 2010 and 2011, allowing projects to proceed. The 2015 BRFA transferred \$2.2 million to the General Fund without replacement.

As shown in Figure 2 below, registration of boats in Maryland has declined from a peak of 208,000 in 2005 to 182,000 in 2014. In an effort to attract more boats and bolster the marine trades in Maryland, Senate Bill 90 established a vessel excise tax cap of \$15,000 for boats valued at over \$300,000.

The ten year trend in Maryland mirrors the national trend, and the resulting reduction in sales and registrations has led to a 50% reduction in VET revenues. This decrease directly correlates with the decline of the State and U.S. economies.

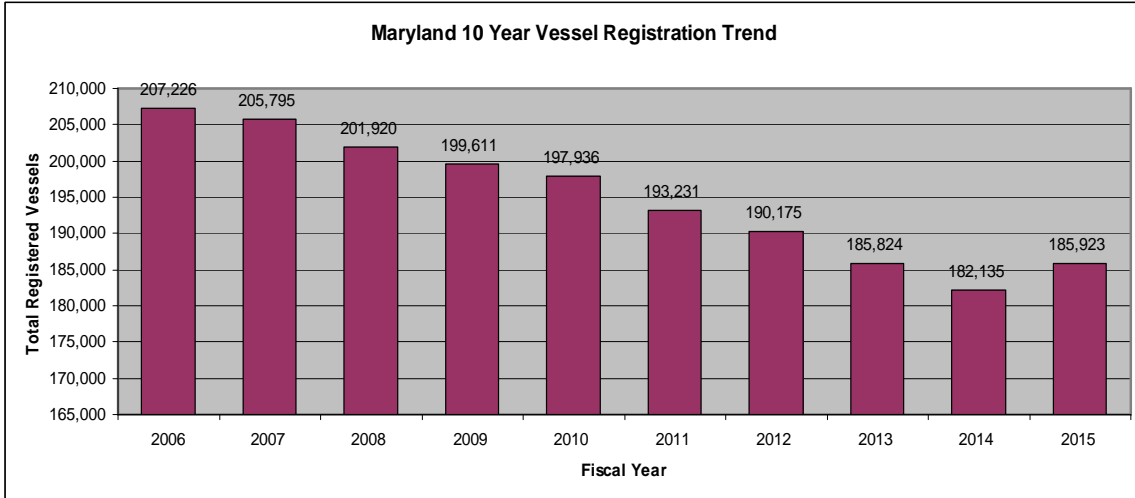


Figure 2: Maryland Vessel Registrations from 2005 to 2015

Similar declines have occurred in neighboring states, as Figure 3 indicates.

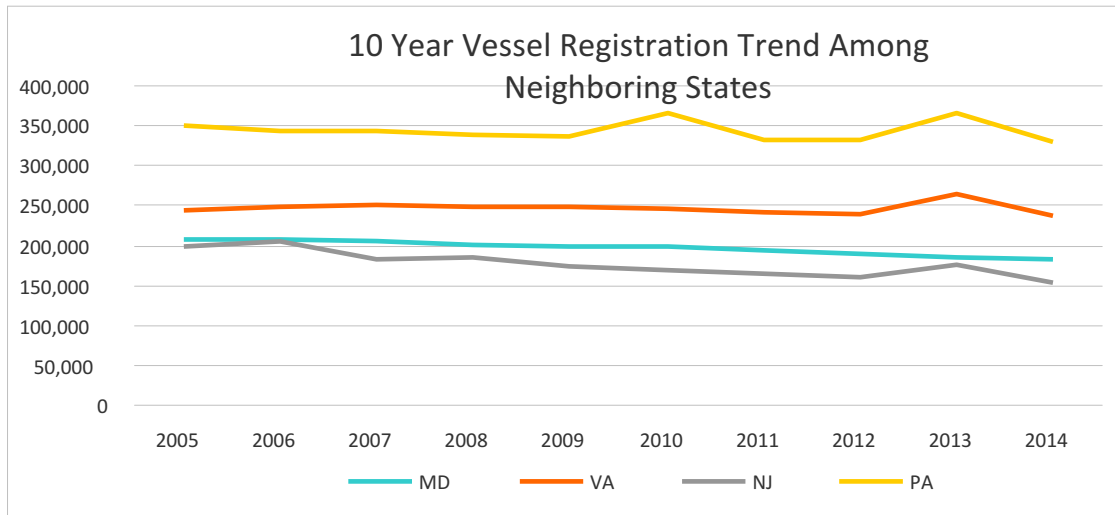


Figure 3: Maryland Vessel Registration Trend Compared to Neighboring States 2005 to 2014

It is important to note, that the trend of declining boat sales, and subsequently new registrations, should not be correlated to a reduced need to invest in boating infrastructure. Existing, and often long-neglected, infrastructure must be maintained and replaced to support the boating economy. Upgrades to meet ADA guidelines and enhancement and expansion of existing resources to serve anticipated future needs will be required over time as new registrations eventually trend back up.

Financial Demands on the WIF

The WIF is used by DNR to support important projects and services within the Department that are critical to the overall boating environment and required by statute. These funds are used to complete boating related planning and regulatory activities, project management, and construction, as well as provide technical assistance to local governments for boating related projects and support for the Natural Resources Police marine operations.

Capital and Operational Demands

The WIF supports both operating and capital budgets at DNR. The total expenditures for the operating budget at the Department attributed to the WIF for FY 2015 is \$10,543,714. Figure 4 below summarizes WIF funding that supports DNR operations. These encompass a number of Departmental Units, as well as the Waterway Improvement Grants program.

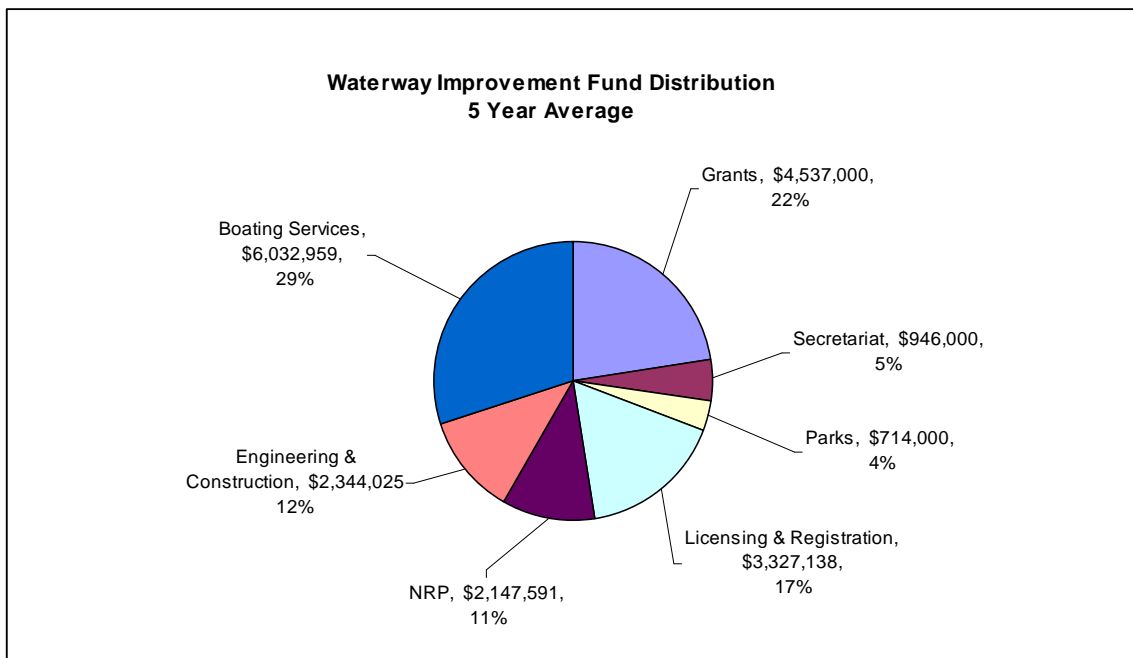


Figure 4: Distribution of Waterway Improvement Funds (five-year average)

Boating Services – DNR’s Boating Services provides critical support to both commercial and recreational boating operations in the State. WIF funds specifically sustain hydrographic operations, boating implementation, facilities and regulations, and miscellaneous grant programs:

- **Hydrographic Operations:** services 3,000 regulatory buoys, markers, and signs critical to boating safety and the protection of fisheries and aquatic resources, charting, field surveys for oyster leases, and winter ice breaking activities.

- **Boating Implementation:** administers 459 grant projects valued at \$23.1 million, completing project assessments and site inspections, reviewing and approving project plans/specifications for infrastructure and dredging, and providing technical assistance to government agencies and the public.
- **Clean Waterways, Facilities and Regulations:** assesses statewide waterway use and site specific boating facility plans, completes boating related reports, directs boating regulatory processes, staffs the State Boat Act Advisory Committee, and oversees the Ft. Washington and Somers Cove Marinas.
- **Boat Tax Enforcement:** investigates vessels physically located in the State of Maryland for principal operation in Maryland waters and the proper payment of vessel excise tax.

DNR Engineering and Construction – WIF funds for engineering and construction needs include:

- **State projects** where engineering staff manage Waterway Capital Improvement Projects located on DNR lands.
- **Marine Construction Crew** which serves as a dedicated in-house crew completing public boating access projects on State and local lands and removing debris in State waters that is hazardous to boaters.

Natural Resources Police – The WIF supports Natural Resource police officers assigned to marine operations including patrols, boating safety, resource conservation, and search and rescue. This level of support is legislated at \$2.1 million annually.

Licensing and Registration – Responsible for the collection of special funds from the sale of recreational hunting and fishing licenses, the issuance of commercial fishing licenses, the titling and registration of boats, the issuance of documented vessel decals, the sale of off-road vehicle permits, and collection of the vessel excise tax.

Maryland Park Service – The WIF funds boating facilities within Maryland’s State Parks.

Office of the Secretary – Providing general administrative support functions such as the Office of Communications, Information Technology, fiscal services, and the Office of the Attorney General. This level of support is legislated at \$750,000 annually.

WIF Grant Funded Projects

Perhaps most importantly, the WIF provides financial support to local governments, the Department of Natural Resources, and federal agencies in the form of grants and/or loans for a wide variety of capital projects and services for the boating public. More specifically, the WIF finances projects and activities that benefit the general boating public including:

- Marking channels and harbors and establishing aids to navigation in cooperation with the U.S. Coast Guard;
- Clearing debris and obstructions from navigable waters of the State;
- Dredging channels and harbors, and constructing jetties and breakwaters in cooperation with the U.S. Army Corps of Engineers;
- Constructing, maintaining, and renovating new and existing marine facilities beneficial to the general boating public (boat ramps, piers, landings, and parking);
- Funding marine operations for the Natural Resources Police;
- Installing marine sewage pump-out stations to maintain and improve water quality;
- Improving, reconstructing, or removing bridges, drawbridges or similar structures over or across water if those structures delay, impede, or obstruct the boating public;
- Evaluating water oriented recreation needs and capacities of Maryland waterways and developing comprehensive plans for waterway improvement projects;
- Providing boating information and education;
- Constructing marine facilities and acquiring vessels/equipment for marine firefighting, enforcement, first aid and medical assistance, and communications for promoting safety of life and property and general service to the boating public; and,
- Implementing boating-related shoreline erosion control projects.

Through the 1990's until 2009, DNR received an increasing number of grant requests, culminating in a high of \$36 million in funding requests (FY 2009). The increase was largely due to a steep rise in the need for dredging local boating access channels. In addition, there was a significant increase in funding requests to upgrade older existing public boating facilities in need of structural upgrades and site modifications in order to meet increased user demands and ADA requirements. DNR aggressively pursues federal U.S. Fish and Wildlife boating access and Clean Vessel Act grants, both of which require state matching funds.

The Department relies almost exclusively on annual VET revenue attainment to fund WIF grant and loan projects. Historically, the WIF capital budget has been determined

by the balance of funds that remain after the Department’s operating costs have been satisfied. As such, the capital budget has been significantly impacted by the 50% reduction in VET revenues. The rapid decline in funding available for capital projects occurred due to a significant decrease in VET revenues, as well as a reduction in the reserve balance of the WIF.

Overall, demand for WIF grant funds continues to exceed the amount of funding available for State and local boating access and dredging projects as shown in Figure 5. Over the last five years, the Department has been able to support less than 50% of the grant requests for projects like those listed above. DNR has been able to fund just 26% of the dollar amount requested in the same time frame. Revenue enhancements to the WIF are needed to provide a funding level sufficient to maintain Maryland’s boating access, waterway navigability, boating safety, and environmental boating projects. The Department estimates that the annual grant funding needed to support the demand for boating related capital projects in Maryland is approximately \$10 million.

Maryland’s Department of Natural Resources estimates that the funding needed to support the demand for boating related projects in Maryland is approximately \$10 million annually.

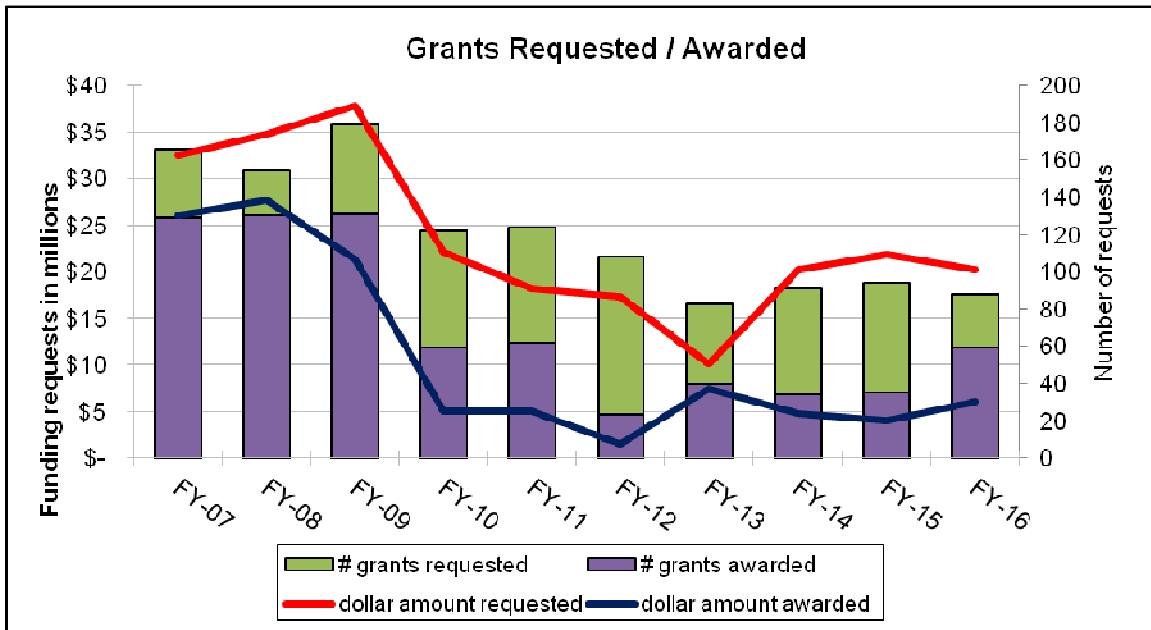


Figure 5: Number and Amount of Grant Requests vs Actual Awards

Grant Project Prioritization

Projects found to be eligible for State assistance from the WIF may receive funds in the form of grants or loans as described below. The type of funding selected for a project is dependent upon the scope of the project and statutory guidelines, as well as to what degree the project benefits the general boating public. The funding categories for WIF Projects are as follows:

- \$5,000 Small Project Grants (soft launches, portable toilets, small maintenance grants)
- 100% State Grants less than \$100,000
- 100% State Funds for Projects on DNR Lands and for Select Navigation
- Projects Matching Funds (50/50)
- 25 Year Interest Free Tax District Loans

Grant Funding Policies

DNR provides 100% State funds only for dredging or navigation projects that directly serve a publicly owned public boating facility, for projects that support major public thoroughfare channels, or for projects cost shared with the U.S. Army Corps of Engineers. These are the projects that have historically provided the greatest benefit to the general boating public.

All other dredging or navigation projects, including those that primarily serve local communities, are funded through 50/50 matching state grants, tax district loans, or local special benefit districts (privately financed loans) depending on the level of benefit that the project provides to the general boating public.

Dredging or navigation projects that benefit publicly owned boating facilities, major public thoroughfare channels, or U.S. Army Corps of Engineers projects, or have multiple funding sources that require less than 50% State matching funds are a top priority. This provides funding to those projects that provide the greatest benefit to the boating public and maximize leverage of limited State funds.

DNR provides 100% State grants where the total project costs are below \$100,000 to the extent of available funding.

DNR provides matching State grants to acquire fire and rescue boats and equipment to the extent of available funding. This policy supports the existing statute and is important to boating safety.

DNR considers reimbursing mitigation costs only if the mitigation is completed and is required by federal/state/local regulatory agencies as part of the overall project. Any required stormwater retrofits are the responsibility of the project sponsor.

Boat counts are used when appropriate to help determine the level of benefit that a project will provide to the general boating public.

Local jurisdictions that elect to charge a countywide fee for use of their public boat ramps/landings or to use just a stand alone boating facility (individual ramp or boat slips) will be limited to a single \$50,000, 100% State grant during any fiscal year (depending on availability of funds). Anything beyond that amount will require a 50/50 matching fund grant. This policy does not apply to facilities that only charge a user fee to out-of-state boaters. These county applied fees help defray maintenance costs for the county.

Five Year (2011-2015) Average of Vessel Excise Tax Paid and WIF Grants Received by County			
County	Number of Registered Boats FY 2013	Vessel Excise Tax Paid	WIF Grants Received
Somerset	1,818	\$33,749	\$271,610
Dorchester	2,982	\$104,923	\$214,400
Worcester	4,892	\$223,783	\$307,200
St. Mary's	8,566	\$336,161	\$412,000
Wicomico	3,484	\$97,256	\$104,400
Allegany	2,072	\$27,584	\$26,800
Queen Anne's	6,296	\$384,160	\$340,300
Kent	2,829	\$138,584	\$104,700
Caroline	2,155	\$56,036	\$35,000
Anne Arundel	34,012	\$2,791,574	\$1,192,650
Cecil	5,744	\$271,615	\$115,860
Washington	4,018	\$90,541	\$34,800
Talbot	5,282	\$436,801	\$144,400
Baltimore	19,753	\$946,842	\$270,460
Prince George's	5,794	\$225,253	\$59,560
Calvert	7,157	\$351,072	\$78,538
Frederick	6,068	\$199,627	\$29,800
Garrett	2,058	\$54,744	\$8,000
Baltimore City	3,454	\$278,118	\$38,190
Harford	8,743	\$466,123	\$58,800
Charles	5,406	\$204,112	\$21,500
Montgomery	9,817	\$740,833	\$7,600
Carroll	4,713	\$161,294	No eligible projects
Howard	4,420	\$369,098	In these counties
Out Of State Vessels		\$3,630,592	
State Projects			\$657,632
Total	161,533	\$12,620,476	\$4,534,200

Figure 6: Five Year Average of Excise Tax Paid & Grants Received by County

Note: Out-of-State indicates vessels registered in Maryland whose owners live outside of Maryland.

Statewide indicates projects that are undertaken on Maryland owned property.

Project Selection Criteria

The following project criteria are used by DNR in evaluating and ranking proposed projects that are eligible for grants through the Waterway Improvement Fund. Projects are prioritized based on the following:

- Expand or improve public boating access;
- Impact on boating safety;
- Project cost/benefit;
- Status of regulatory permits;
- Projected expenditure rate;
- Continuation of a current project;
- Impact on boating congestion;
- Sustainable building elements; and
- State and/or local priority

Comparing Maryland to Its Neighbors

The tax associated with acquiring and operating four different sizes of boats, see Figure 7 below, was examined to compare burden imposed by Maryland and neighboring states on boat ownership in the region. This was based on data in the [Boat U.S. website](#), as well as websites for taxation, boat titling and registration, and motor fuel tax and refunds.

Boat	Boat Price	Length
Bayliner	\$17,200	16'
Calcutta	\$109,000	26'3"
True North Express	\$345,000	35'9"
Tiara (diesel)	\$903,700	45'6"

Figure 7: Four "Model" Boat Types for the purposes of comparing tax burdens across states

The first tax is generally on acquisition, and is only paid at the time the boat is purchased, either new or from another owner. In Maryland this is the Vessel Excise Tax. How neighboring states address initial acquisition varies relatively broadly as shown in Figure 8 below.

Taxes on acquisition of several boat sizes in Maryland and neighboring states						
State	Boat Sales & Use Tax Rate:	\$17,200 boat	\$109,000 boat	\$345,000 boat	\$903,700 boat	Notes:
MARYLAND	5%	\$860	\$5,450	\$15,000	\$15,000	Excise tax is used to fund the WIF, capped at \$15,000.
PENNSYLVANIA	6%	\$1,032	\$6,540	\$20,700	\$54,222	Tax is 7% in Allegheny and Philadelphia Counties
VIRGINIA	2%	\$344	\$2,000	\$2,000	\$2,000	\$2,000 Maximum Sales Tax; State decal for documented vessels is available upon request.
DELAWARE	0%	\$128	\$814	\$2,576	\$6,749	There is a Gross Receipts Tax that will increase the cost of vessels purchased from dealers (used here)
NEW JERSEY	7%	\$1,204	\$7,630	\$24,150	\$63,259	Vessel sales tax is proposed to be capped at 3.5%; a vote is scheduled for late Sept 2015.
NORTH CAROLINA	3%	\$516	\$1,500	\$1,500	\$1,500	Maximum tax due is \$1,500

Figure 8: Comparative Vessel Acquisition Tax Burden in Maryland and Neighboring States

Additional fees associated with vessel use and operation include annual registration, fuel taxes (which are refunded in part in some states), and in some cases personal property taxes.² Adding all of these costs together, dividing the tax on acquisition by ten years, treating the other categories as annual costs provides an estimated total cost. Dividing this total cost by the assumed boat value provides “tax cost” as a percentage. Based on this measure, as demonstrated in Figure 9 below, Delaware has the lowest tax costs for boats, and Virginia (using Arlington County program parameters) has the highest. Maryland is third highest of the six states examined.

Total tax cost of ownership for several boat sizes in Maryland and neighboring states				
State	Total Cost of Ownership			
	\$17,200 boat	\$109,000 boat	\$345,000 boat	\$903,700 boat
MARYLAND	\$113	\$623	\$1,662	\$1,512
PENNSYLVANIA	\$154	\$771	\$2,302	\$5,448
VIRGINIA	\$905	\$5,667	\$17,472	\$45,400
DELAWARE	\$23	\$111	\$288	\$725
NEW JERSEY	\$149	\$856	\$2,560	\$6,406
NORTH CAROLINA	\$85	\$203	\$203	\$203
State	Percent of cost			
	\$17,200 boat	\$109,000 boat	\$345,000 boat	\$903,700 boat
MARYLAND	0.66%	0.57%	0.48%	0.17%
PENNSYLVANIA	0.89%	0.71%	0.67%	0.60%
VIRGINIA	5.26%	5.20%	5.06%	5.02%
DELAWARE	0.13%	0.10%	0.08%	0.08%
NEW JERSEY	0.87%	0.79%	0.74%	0.71%
NORTH CAROLINA	0.49%	0.19%	0.06%	0.02%

Figure 9: Comparative Vessel Acquisition Tax Burden in Maryland and Neighboring States

Note: None of the six states title or register non-motorized vessels.

Impact of \$15,000 Tax Cap

Based on the economic analysis prepared by the University of Maryland Environmental Finance Center, (Appendix 3) the \$15,000 tax cap on the vessel excise tax enacted in July 2013 appears to have had the following effects which are also demonstrated in Figure 10 below:

- The total loss in VET revenue due to the tax cap is approximately \$588,000 over two calendar years (2013 and 2014).

² Comparative tables of these taxes across Maryland and neighboring states can be found in Appendix 2.

- The growth in new registrations for vessels with a net purchase price of \$400,000 or greater was much stronger than expected, and is likely due to the excise cap. This increase in new registrations, however, was not enough to offset the loss in VET revenue as a result of the cap lowering the per-vessel tax collection.
- The cap’s impact on new registrations of vessels valued between \$350,000 and \$399,999 is mixed. After an initial drop in 2013, the analysis finds that the cap may have led to an increase in the number of new registrations in 2014. Again, the net impact on VET revenue is still estimated to be negative.
- While the tax cap had a negative impact on VET revenue, the increase in new registrations does have a positive impact on the Maryland economy through increased boating activity.

The increase in new registration may have generated over \$1 million in direct spending in the Maryland economy with a multiplier effect lifting output to nearly \$2.5 million over two years.

According to the Environmental Finance Center, more fully assessing the impact of the \$15,000 tax cap will require at least five years of data (FY-13 through FY-18) to be statistically significant.

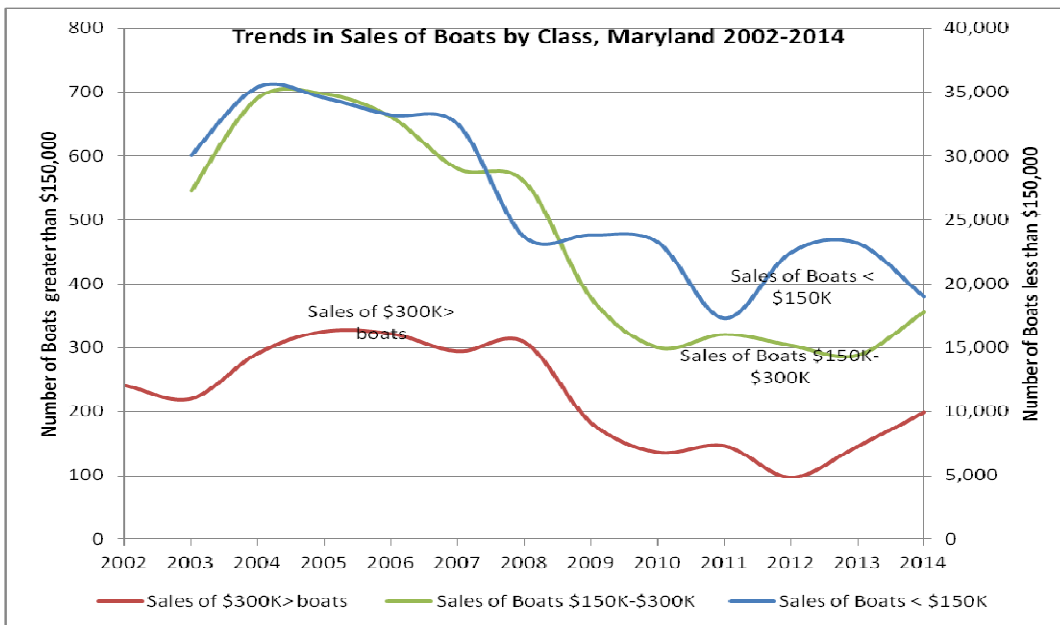


Figure 10: Trends in Boat Sales by Cost Class 2002 to 2014

Diversifying and Enhancing Revenue Sources

As previously suggested, the functions of the WIF and the services and programs it supports are critical to carrying out DNR's statutory mandates and the support of the boating industry. Creating a new, diverse revenue portfolio for the WIF will better enable DNR to meet its statutory mandates and ensure that Maryland's boating industry and opportunities remain competitive with other Atlantic coastal states.

This section of the report describes several potential funding opportunities to increase revenues to the DNR. While some of these fees and the revenue created by them do not directly contribute to the WIF, the increased funds available to DNR may reduce the reliance on the WIF for operational funding. These include establishing graduated boat registration fees to support additional marine enforcement; adjusting vessel titling fees; and, requiring use decals for non-motorized vessels. Other opportunities, including directing U.S. Coast Guard Boating Safety funds to WIF projects and considering alternative excise tax scenarios, would directly increase flow of revenue to the WIF. An examination of each follows.

Graduated Vessel Registration Fee

Currently, vessels sixteen feet or less with motors of 7.5 horsepower or less receive free registration decals from the Department, meaning that while these vessels benefit from the projects and services the WIF supports, they are not contributing to the fund. In addition, there is an administrative burden to DNR to process these registrations, the cost of which is not being recovered.

In fact, DNR issued an average of 14,125 "free" decals annually between 2010 and 2014. The Department conservatively estimates a \$10 per-decal cost to design, print, and mail renewal reminders, process renewal applications, and mail the free decal and registration card. This suggests an operating loss to the State to process these decals of approximately \$141,250 annually.

Updating Maryland's existing \$24 biennial boat registration fee, originally set in 1970s, offers a significant opportunity to enhance WIF revenues. Implementing an adjusted and graduated fee system, one that addresses vessels less than sixteen feet with motors of 7.5 horsepower or less which are currently a drain on the Department, could increase annualized revenues by an estimated \$7.51 million. Eleven of the fifteen Atlantic coastal states use a graduated vessel registration fee schedule.

Proposed Graduated Vessel Registration Schedule			
		Registration Schedule (Annualized)	Annual Total
	# Vess els		
≤ 16 feet & motor less than 7.5hp or less	29,164	\$12	\$349,968
≤ 16 feet	47,629	\$25	\$1,190,725
> 16 feet but less than 26 feet	88,991	\$50	\$4,449,550
26 feet but less than 40 feet	25,976	\$100	\$2,597,600
40 feet but less than 65 feet	4,176	\$200	\$835,200
65+ feet	88	\$300	\$26,400
Total Revenue			\$9,449,443
Additional Annualized Revenue (above FY 2012 level)			\$7,510,942

Figure 11: Potential Revenue Impact of a Graduated Annual Boat Registration

Increasing the Vessel Titling Fee

The fees for issuing a title when a vessel’s ownership changes or for issuing a duplicate title were set by law at \$2 in 1965 and have not been adjusted since to account for inflation or increased processing costs. Increasing the fee for vessel titling to \$15 would make the fee more in line with the actual cost of administration and processing associated with the transaction. Increasing the titling fee to \$15 would result in an estimated additional \$312,000 annually to State Boat Act funds.

Annual registration and titling funds are distributed to the State Boat Act Fund and are used primarily for DNR Natural Resources Police and several other purposes but not typically for the WIF even though paragraph (h) of the enabling legislation allows the use of funds for waterway projects as indicated below.

Maryland Department of Natural Resources Laws
 TITLE 8 - WATERS
 Subtitle 7 - State Boat Act
 Section 8-723 - State Boat Act Fund.
§ 8-723. State Boat Act Fund.

- (f) Use.- The Department shall use the Fund:
- (1) For the administration of this subtitle;
 - (2) To cover the costs of fulfilling the duties and responsibilities of the Department under this title; and
 - (3) For administrative costs calculated in accordance with § 1-103(b)(2) of this article.

(g) Investment earnings.- Any investment earnings of the Fund shall be credited to the General Fund of the State.

(h) Agreements to share cost of waterway projects.- Within the limits of funds available, the Department may enter into any agreement with the federal government, any municipality or other political subdivision of the State, or any private agency to share the cost of any development, construction, or improvement of waterways or of facilities determined to have beneficial value to the boating public.

(i) Expenditures.- Expenditures from the Fund may be made only in accordance with the State budget.

Adjusting Registration and Titling Fees for Inflation

The current fee schedule has not been changed for many years, so if the schedule were simply adjusted for inflation³ it would result not only in additional revenue but would provide adequate funding for the administration costs of issuing these documents.

Presently the Licensing and Registration Division operates at a loss due to the low cost of these documents.

Certificate Type	Current	2015 Value
Certificate of Title, (last changed 1965)	\$2.00	\$15.02
Replacement Certificate (last changed 1973)	\$2.00	\$10.66
Certificate of Number (last changed 1970s)	\$24.00	\$57.01
Dealer's annual license (last changed 1965)	\$25.00	\$53.97

Figure 12: Adjusting Existing Titling and Annual Boat Registration Fees

Inflation Adjusted Registration Schedule					
	2014 Quantity	Current	Revenue	Inflation Adjusted Value	Potential Revenue
Boat Dealer licenses	441	\$25	\$11,025	\$54	\$23,814
Titles	23,341	\$ 2	\$46,682	\$15	\$350,115
Registrations	80,514	\$24	\$1,932,336	\$57	\$4,589,298
Documented Use Decals	4,842	\$10	\$48,420	\$21.50	\$104,103
No-fee decals	13,595	0	0	\$10	\$135,960
Total			\$2,038,463		\$5,203,290

Figure 13: Potential Revenue Impact of Adjusting Existing Titling and Annual Boat Registration Schedule

³ Dept. of Labor, Bureau of Labor Statistics, Consumer Price Index

Requiring Use Decals on Non-motorized Vessels

Requiring use decals on the estimated 135,000 non-motorized paddle craft (kayaks and canoes) using Maryland waters offers additional revenue potential. Currently, these vessels are not required to have identification decals in Maryland. It is estimated that requiring these boats to obtain a decal in Maryland would generate an additional \$675,000 annually if a \$5 annual (\$10 biennial) fee is charged for these vessels.

Paddle craft owners would also receive safety and property security benefits from registering their vessels given that the Natural Resources Police and U.S. Coast Guard would be able to identify the owner of lost, stolen, or separated vessels, rather than having the expense of launching search and rescue operations. However, this benefit could also be achieved by better publicizing the voluntary Coast Guard ID sticker program which provides a free sticker to be placed in each paddle craft with the owner's name and contact information.⁴

If non-motorized boats were registered, Maryland would qualify for more funds from the U.S. Coast Guard State Recreational Boating Safety Program. Based on the FY 2013 allocations, the amount allocated by numbers of registered boats was \$35.0 million, for 11,900,167 registered U.S. boats, or \$3.01 per boat. The additional registrations would net Maryland \$406,350. However, if other states also registered paddle craft, the amount per boat would decline. Funds from the State Recreational Boating Safety Program do not increase the WIF since they are allocated within Maryland to the Natural Resources Police for their boating safety programs, and would not directly support facilities for paddle craft and other non-motorized boats.

Four other states require registration of paddle craft:

- Minnesota – \$10.50 registration, \$5 invasive species fee, \$8.50 initial service fee
- Michigan – \$ 5.00 registration
- Ohio – \$38.00 registration
- Iowa – \$12.40 registration for craft longer than 13 feet

Use of U.S. Coast Guard Boating Safety Funds.

The Sport Fish and Boating (Wallop-Breaux) Trust Fund was established in the Deficit Reduction Act of 1984 to improve funding to the states for the RBS program administered by the U.S. Coast Guard and the Sport Fish Restoration program administered by the U.S. Fish and Wildlife Service. The legislation provided that the two separate funds for those programs would become individual accounts under the single umbrella of the new Wallop-Breaux Trust Fund. Trust fund receipts consist of federal excise taxes attributable to motorboat and small-engine fuel use and on sport fishing equipment, along with import duties on fishing equipment, yachts and pleasure craft. The Boat Safety Account is funded solely from motorboat fuel taxes. The Sport Fish

⁴ More details on the Coast Guard ID sticker program can be found at <http://annapolisgaux.org/Paddlecraft/PaddleSmart.pdf>

Restoration Account receives a portion of the motorboat fuel tax as well as all other trust fund receipts. The State grant programs funded through Wallop-Breaux are excellent examples of "user pays/user benefits" since all monies deposited into the trust fund are paid by boaters and fishermen. No general tax revenues are involved.

The U.S. Coast Guard Office of Boating Safety allocates funds to state government. DNR has received \$14,947,823 over the last five years for an annual average of \$2,989,564. This revenue stream is used primarily for DNR Natural Resources Police not for the WIF even though the Coast Guard authorizes the use of funds for waterway projects as indicated below in bold below.

Federal funds provided for a state's boating safety program may be used for any of the following:

- *Providing facilities, equipment, and supplies for boating safety education and law enforcement, including purchase, operation, maintenance, and repair.*
- *Training personnel in skills related to boating safety and to the enforcement of boating safety laws and regulations.*
- *Providing public boating safety education, including educational programs and lectures, to the boating community and the public school system.*
- ***Acquiring, constructing, or repairing public access sites used primarily by recreational boaters.***
- *Conducting boating safety inspections and marine casualty investigations.*
- *Establishing and maintaining emergency or search and rescue facilities, and providing emergency or search and rescue assistance.*
- ***Establishing and maintaining waterway markers and other appropriate aids to navigation.***
- *Providing state recreational vessel numbering and titling programs.*

Alternative Vessel Excise Tax Rates

The Task Force examined a number of vessel excise tax options including the following:

Aligning the Vessel Excise Tax with the State Sales Tax

Traditionally, the VET has been in line with the State tax rate; however, when this was raised to 6% in 2007, the VET was not similarly adjusted. Based on existing total estimated boat sales, equalizing the vessel excise tax (5%) with Maryland's existing sales tax (6%) could raise an additional \$3.1 million or more for the WIF annually.

Reducing the Vessel Excise Tax for All Vessels to 4% with No Tax Cap

In an effort to spur growth of the boating population throughout the State, reducing the excise tax from 5% to 4% may provide the stimulus across all values and types of vessels. Using 2015 as a baseline, if all vessels registered in fiscal year 2015 were subject to 4% excise tax, the Waterway Improvement Fund revenue for fiscal year 2015 would be reduced by approximately \$325,000.

Note: this calculation does not take into account any impacts a 4% excise tax with no cap would have on the total number of registrations or on the value of boats purchased.

Raising the Vessel Tax Cap to \$20,000 (affecting vessels valued at \$400,000 and greater)

In the Vessel Excise Tax Cap Economic Impact Report for 2015, it was determined that the price point for the cap’s greatest impact was on vessels valued at \$400,000 or more. This increase of new vessel registrations had a positive impact on the economy across the spectrum. Using fiscal year 2015 as a baseline, if the cap was raised to \$20,000, the Waterway Improvement Fund revenue would increase by approximately \$753,000.

Boating Excise Tax Revenue Adjusted for Several Tax Rates and Caps

The table below summarizes estimated excise revenue for FY15. It uses the number of new registrations observed in FY15 as the base for calculating VET revenue changes under number of alternative VET rates and caps.

The estimated VET revenue is indicative. Analysis of how the \$15,000 cap affected new registrations suggests that the total number of registrations does change in response to the VET cap. It is reasonable to expect that a change in the VET rate would also induce some change in registrations decisions. In principle, a lower excise rate and/or higher cap should result in more new registrations relative to current scenario of 5% excise with a \$15,000 cap.

Scenario	Excise Revenue	Affected by the Cap	
		Number	Percent
6%, no cap	\$21,736,000	--	--
5%, no cap	\$18,113,000	--	--
5%, \$20,000 cap	\$16,289,000	82	0.34%
5%, \$15,000 cap	\$15,771,000	133	0.56%
5%, \$10,000 cap	\$14,858,000	260	1.1%
4%, no cap	\$14,491,000	--	--

Figure 14: Comparing Alternative Excise Scenarios based on 23,834 registrations (present state in red)

Reduced Tax Rate or Elimination of Tax for a Fixed Period of Time

A pilot initiative can also be explored that would allow for a temporary reduction in the VET during months when historic boat sales are the lowest, such as January and February. The purpose would be to see if such an action would spur boat sales during that time period which could potentially increase overall WIF revenue attainment.

Extending the Excise Tax to Non-motorized Vessels

In addition, non-motorized boats, such as canoes, kayaks, stand-up paddleboards, and non-powered sail and rowing boats could contribute to the cost of related boating facilities which are often funded by the WIF if the existing 6% sales tax were replaced by

an excise tax. While this would put some additional burden on retailers of these vessels who do not sell motorized vessels, many of them who deal with larger boats already account for excise tax in their operation.

Using an estimate of 135,000 non-motorized boats in the State, and assuming that sales equal 5% of this amount per year at an average sales value of \$1,000, this action could provide an additional \$340,000 in funds for the WIF each year.

As an alternative, a one-time “waterway access enhancement” fee could be assessed at the time of purchase. This revenue would be limited to the creation and improvement of launches that accommodate paddle craft.

Outreach and Promotion of Broader Boating Community Engagement on Maryland Waterways

Regardless of what collection of revenue generators are ultimately selected to enhance capitalization of the WIF, there remains a clear and critical need for expanded and cohesive outreach and engagement strategy that communicates the significance of boating to the State and the value of investing in supporting infrastructure, as well as the benefits of registering in the State and using Maryland marinas and boatyards for recreation, repair, and outfitting of vessels.

With regard to tourism marketing, the Maryland Office of Tourism Development, local Destination Marketing Organizations and the private sector continue to promote Maryland’s waterways, activities, and attractions through a variety of media including television commercials, radio spots, the VisitMaryland.org website, social media, and e-newsletters, as well as print material, including travel guides, destination guides, brochures, and maps.

Included in the marketing efforts are:

- The Chesapeake Bay, and other Maryland waterways, as unique and beautiful places to visit.
- Promotion of all boat activities on the waterways of Maryland, including motor boating, sailing, kayaking, personal watercraft, and stand up paddleboards.
- Marketing of water-based activities including water trails, water-side culinary experiences, and outdoor recreation activities on and along Maryland’s waterways such as cycling, hiking, and birding.
- Further development of Fish and Hunt Maryland as a unique Maryland brand and product.

- Partnering and promotion with National Park Service of the national historic trails and federal parks on and along the Maryland waterways, including Captain John Smith National Historic Trail and the Star-Spangled Banner National Historic Trail.
- Partnering and promotion of all Maryland State Parks along Maryland waterways.
- Working with tourism stakeholders throughout the state, including local Destination Management Organizations, to help create, sustain, and promote tourism attractions and activities along all of the Maryland waterways.

Recommendations

- Keep the VET tax cap of \$15,000 and at the end of fiscal year 2018 conduct an economic analysis using five full years of data to have a more complete analysis of the effect of the cap on vessel sales and registrations.
- DNR should work with the Maryland General Assembly to adjust vessel title and registration fees to account for program costs and inflation and avoid issuance of documents at a fiscal loss to the State. This would free up additional WIF funds from being used to support overhead costs incurred to fund Licensing and Registration and other DNR Units that could then be used to support additional grants to counties and municipalities.
- DNR should work with the Maryland General Assembly to propose non-powered vessels pay the one-time excise tax at the point of purchase in place of the general sales tax now being collected.
- The Maryland General Assembly should restore the \$2.2 million that had been transferred to the General Fund from the WIF in fiscal year 2015.
- DNR should continue to support Executive Order 13508 regarding public access in the Chesapeake Bay Region and encourage counties and municipalities to pursue WIF grants to enhance and expand investment in infrastructure that serves transient boaters including boat ramps and temporary docking facilities.
- DNR & DBM coordinate with the Army Corps of Engineers to expand the definition of commercial waterways to include marinas, boatyards and other water-dependent entities to expand the opportunity for federal dredging funds.
- DNR should coordinate a public awareness campaign to increase visibility of the Waterway Improvement Grant Program emphasizing the impact of the important grant supported work being done in conjunction with counties and municipalities.
- DNR should examine its internal policy of directing Waterway Improvement Fund revenue to other DNR Units for the purpose of paying for operating costs that should be funded by General Funds. Specifically, special funds should be restricted to the purpose of that fund; supporting and enhancing Maryland's waterways.
- DNR should coordinate a working group, through its Working Waterfronts Program, to encourage the development of boatyards, marinas, and shore-side

attractions for transient and Maryland commercial- and recreational-based vessels. Additionally, DNR, DBM and other State agencies should support the protection of waterfronts similar to the Baltimore Maritime Industrial Zoning Overlay District Study (MIZOD) and the Annapolis Maritime Industry Preservation Analysis.

- DBED/Maryland Office of Tourism Development should coordinate a comprehensive tourism and marketing strategy for boating and water-based tourism activities.

References

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Transient Boating in Maryland: The Economic Impact of Out-Of-State Boater Spending, Douglas Lipton, May 2005.

Waterway Improvement Capital Program Benefits, Needs, and Opportunities, Prepared in Response to the 2011 Joint Chairman's Report, September 2011.

Appendices

Appendix 1: Senate Bill 90

Appendix 2: Comparative Vessel Acquisition and Use Financial Burden in Maryland and Neighboring States

Appendix 3: Economic Impact Studies, FY 13-15

Appendix 4: Boater Attitude Survey Findings

Appendix 1

Senate Bill 90

Chapter 180

(Senate Bill 90)

AN ACT concerning

~~Natural Resources – Vessel Excise Tax – Maximum Tax
Motor Fuel Tax Distribution – Waterway Improvement Fund~~
Natural Resources – Vessel Excise Tax – Waterway Improvement Fund

FOR the purpose of ~~limiting the amount of the vessel excise tax to a certain amount for each vessel; limiting the amount of the vessel excise tax to a certain amount for each vessel; and generally relating to a limitation on the vessel excise tax payable for each vessel~~ altering a certain distribution of certain motor fuel tax revenue; requiring the Comptroller to distribute a certain percentage of the revenue to the Waterway Improvement Fund; requiring the Department of Natural Resources to submit reports on or before certain dates describing the effect of the limitation on the vessel excise tax as enacted by this Act; establishing the Task Force to Study Enhancing Boating and the Boating Industry in Maryland; providing for the composition, chair, and staffing of the Task Force; prohibiting a member of the Task Force from receiving certain compensation, but authorizing the reimbursement of certain expenses; requiring the Task Force to evaluate options and make recommendations for enhancing boating and growing the boating industry; requiring the Task Force to report its findings and recommendations to the Governor and the General Assembly on or before a certain date; providing that the altered distribution of motor fuel tax revenue as enacted by this Act applies only under certain circumstances; providing for the termination of certain provisions of this Act; and generally relating to the distribution of motor fuel tax revenue, vessel excise tax and the Waterway Improvement Fund.

~~BY repealing and reenacting, with amendments,
Article – Natural Resources
Section 8–716(c)
Annotated Code of Maryland
(2012 Replacement Volume)~~

BY repealing and reenacting, with amendments,
Article – Natural Resources
Section 8–716(c)
Annotated Code of Maryland
(2012 Replacement Volume)

BY repealing and reenacting, with amendments,
Article – Tax – General

Section 2-1104
Annotated Code of Maryland
(2010 Replacement Volume and 2012 Supplement)

SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND, That the Laws of Maryland read as follows:

~~Article – Natural Resources~~

~~§ 716.~~

~~(e) (1) [Except] SUBJECT TO THE LIMITATION UNDER PARAGRAPH (3) OF THIS SUBSECTION AND EXCEPT as provided in § 8-715(d) of this subtitle and in subsections (e) and (f) of this section, and in addition to the fees prescribed in subsection (b) of this section, an excise tax is levied at the rate of 5% of the fair market value of the vessel on:~~

~~(i) The issuance of every original certificate of title required for a vessel under this subtitle;~~

~~(ii) The issuance of every subsequent certificate of title for the sale, resale, or transfer of the vessel;~~

~~(iii) The sale within the State of every other vessel; and~~

~~(iv) The possession within the State of a vessel used or to be used principally in the State.~~

~~(2) Notwithstanding the provisions of this subsection, no tax is paid on issuance of any certificate of title if the owner of the vessel for which a certificate of title is sought was the owner of the vessel prior to June 1, 1965, or paid Maryland sales and use tax on the vessel as required by law at the time of acquisition. The Department may require the applicant for titling to submit satisfactory proof that the applicant owned the vessel prior to June 1, 1965.~~

~~(3) THE EXCISE TAX IMPOSED UNDER THIS SUBSECTION MAY NOT EXCEED \$10,000 FOR ANY VESSEL.~~

Article – Natural Resources

8-716.

(c) (1) [Except] SUBJECT TO THE LIMITATION UNDER PARAGRAPH (3) OF THIS SUBSECTION AND EXCEPT as provided in § 8-715(d) of this subtitle and in subsections (e) and (f) of this section, and in addition to the fees prescribed in

subsection (b) of this section, an excise tax is levied at the rate of 5% of the fair market value of the vessel on:

(i) The issuance of every original certificate of title required for a vessel under this subtitle;

(ii) The issuance of every subsequent certificate of title for the sale, resale, or transfer of the vessel;

(iii) The sale within the State of every other vessel; and

(iv) The possession within the State of a vessel used or to be used principally in the State.

(2) Notwithstanding the provisions of this subsection, no tax is paid on issuance of any certificate of title if the owner of the vessel for which a certificate of title is sought was the owner of the vessel prior to June 1, 1965, or paid Maryland sales and use tax on the vessel as required by law at the time of acquisition. The Department may require the applicant for titling to submit satisfactory proof that the applicant owned the vessel prior to June 1, 1965.

(3) THE EXCISE TAX IMPOSED UNDER THIS SUBSECTION MAY NOT EXCEED \$15,000 FOR ANY VESSEL.

SECTION 2. AND BE IT FURTHER ENACTED, That the Laws of Maryland read as follows:

Article – Tax – General

2-1104.

(a) Except as otherwise provided in this section, after making the distributions required under §§ 2-1101 through 2-1103 of this subtitle, from the remaining motor fuel tax revenue, the Comptroller shall distribute:

(1) 2.3% to the Chesapeake Bay 2010 Trust Fund; and

(2) 0.5% TO THE WATERWAY IMPROVEMENT FUND; AND

[(2)] (3) any remaining balance to the Gasoline and Motor Vehicle Revenue Account of the Transportation Trust Fund.

(b) For each fiscal year beginning on or before July 1, 2015, instead of the distribution required under subsection (a)(1) of this section, the Comptroller shall distribute 2.3% of the remaining motor fuel tax revenue as follows:

- (1) to the General Fund of the State:
 - (i) \$5,000,000 for each fiscal year beginning on or before July 1, 2011;
 - (ii) \$5,000,000 for each of the fiscal years beginning July 1, 2012, July 1, 2013, and July 1, 2014; and
 - (iii) \$4,624,687 for the fiscal year beginning July 1, 2015;
- (2) \$8,000,000 to the Budget Restoration Fund for the fiscal year beginning July 1, 2012; and
- (3) the balance to the Chesapeake Bay 2010 Trust Fund.

SECTION 3. AND BE IT FURTHER ENACTED, That the Department of Natural Resources shall submit a report on or before August 1 of 2014, 2015, and 2016 to the Governor and, in accordance with § 2-1246 of the State Government Article, the General Assembly that describes the effect of the limitation on the vessel excise tax enacted by Section 1 of this Act during the preceding fiscal year on:

- (1) the number and type of vessels registered in the State; and
- (2) the health of the boating industry.

SECTION 4. AND BE IT FURTHER ENACTED, That:

(a) There is a Task Force to Study Enhancing Boating and the Boating Industry in Maryland.

(b) The Task Force consists of the Secretary of the Department of Natural Resources or the Secretary's designee, who shall serve as the chair of the Task Force, and the following individuals appointed by the Secretary:

- (1) one representative of the Marine Trades Association of Maryland;
- (2) one representative of the Department of Business and Economic Development;
- (3) one representative of the Maryland Association of Counties;
- (4) one representative of the Maryland Municipal League;
- (5) one representative of the Boat Owner's Association of the United States;

(6) one representative of the Recreational Boating and Fishing Foundation;

(7) one representative of the Chesapeake Bay Yacht Clubs Association;

(8) one representative from the Maryland Boat Act Advisory Committee;

(9) one individual representing paddle sports; and

(10) one representative of a local tourism board or visitor bureau in a county that borders the Chesapeake Bay.

(c) The Department of Natural Resources shall provide staff for the Task Force.

(d) A member of the Task Force:

(1) may not receive compensation as a member of the Task Force; but

(2) is entitled to reimbursement for expenses under the Standard State Travel Regulations, as provided in the State budget.

(e) The Task Force shall:

(1) evaluate options and make recommendations for enhancing boating and growing the boating industry in the State; and

(2) consider the following:

(i) incentives to encourage boats to register in the State and use marinas and boat yards for recreation, repair, and outfitting in the State;

(ii) the impact of modifying the State vessel excise tax rate and boat registration fees;

(iii) the expenditure and use of the Waterway Improvement Fund and its benefits to the general boating public and the State's boating industry;

(iv) the impact on the boating industry and the general boating public of decreased State and federal spending on boating access;

(v) the costs and needs of maintaining and improving public boating infrastructure and boating safety; and

(vi) any other matter that the Task Force agrees will enhance boating in the State.

(f) On or before September 1, 2015, the Task Force shall submit a report of its findings and recommendations to the Governor and, in accordance with § 2-1246 of the State Government Article, the General Assembly.

SECTION 5. AND BE IT FURTHER ENACTED, That, notwithstanding Section 1 of this Act, except as otherwise provided in this section, the altered distribution of revenue from the motor fuel tax under the provisions of Title 2, Subtitle 11 of the Tax – General Article as enacted by this Act does not apply until any Consolidated Transportation Bonds that were issued by the Department of Transportation before July 1, 2013, no longer remain outstanding and unpaid. In any fiscal year for which funds are appropriated by the General Assembly to pay the amount due and payable in that fiscal year for the principal of and interest on the Department of Transportation’s Consolidated Transportation Bonds ~~that were issued before July 1, 2013~~, the revenue from the motor fuel tax shall be distributed as provided in Title 2, Subtitle 11 of the Tax – General Article as enacted by this Act.

SECTION ~~5~~ 6. AND BE IT FURTHER ENACTED, That this Act shall take effect July 1, 2013. Sections 1 and 4 of this Act shall remain effective for a period of 3 years and, at the end of June 30, 2016, with no further action required by the General Assembly, Sections 1 and 4 of this Act shall be abrogated and of no further force and effect.

Approved by the Governor, May 2, 2013.

Appendix 2

Comparative Vessel Acquisition and Use Financial Burden in Maryland and Neighboring States

To see the comparative tax burden imposed by states on boat ownership in the region, the tax associated with acquiring and operating four different sizes of boats, see Figure 8 below, was calculated. This was based on data in the [Boat U.S. website](#), as well as websites for taxation, boat titling and registration, and motor fuel tax and refunds.

Four "Model" Boat Types for the purposes of comparing tax burdens across states

Boat	Price	Length	GPH	Speed (kts)	MPH	MPG
Bayliner	\$17,200	16'	2.9	21.6	24.9	8.586207
Calcutta	\$109,000	26'3"	7.3	22	26	3.561644
True North Express	\$345,000	35'9"	12.2	16..6	19.1	1.565574
Tiara (diesel)	\$903,700	45'6"	30	20	23	0.766667

The first tax is generally on acquisition, and is only paid at the time the boat is purchased, either new or from another owner. In Maryland this is the Vessel Excise Tax. How neighboring states address initial acquisition varies relatively broadly.

Taxes on acquisition of a several boat sizes in Maryland and neighboring states						
State	Boat Sales & Use Tax Rate:	\$17,200 boat	\$109,000 boat	\$345,000 boat	\$903,700 boat	Notes:
MARYLAND	5%	\$860	\$5,450	\$15,000	\$15,000	Excise tax is used to fund the WIF, capped at \$15,000.
PENNSYLVANIA	6%	\$1,032	\$6,540	\$20,700	\$54,222	Tax is 7% in Allegheny and Philadelphia Counties
VIRGINIA	2%	\$344	\$2,000	\$2,000	\$2,000	\$2,000 Maximum Sales Tax; State decal for documented vessels is available upon request.
DELAWARE	0%	\$128	\$814	\$2,576	\$6,749	There is a Gross Receipts Tax that will increase the cost of vessels purchased from dealers (used here)
NEW JERSEY	7%	\$1,204	\$7,630	\$24,150	\$63,259	There is a propose 3.5% sales tax proposal being considered by the New Jersey General Assembly
NORTH CAROLINA	3%	\$516	\$1,500	\$1,500	\$1,500	Maximum tax due is \$1,500

Comparative Vessel Acquisition Tax Burden in Maryland and Neighboring States

The second tax or fee is for registration, which is an annual cost for operating the boat. Some states size classes cut across the boat length lines assumed, but these are generally accurate to the length of the boat.

Annual registration fee for several boat sizes in Maryland and neighboring states					
		Registration Fee (annualized)			
		\$17,200 boat	\$109,000 boat	\$345,000 boat	\$903,700 boat
State	Registration requirement	16'	26'3"	35'9"	45'6"
MARYLAND	all boats >16 feet and/or with engines > 7.5 hp.	\$0.00	\$12.00	\$12.00	\$12.00
PENNSYLVANIA	Powered and unpowered if used at certain launches	\$13.00	\$26.00	\$26.00	\$26.00
VIRGINIA	all motorboats, including electric motors and sailboat over 18 feet	\$9.00	\$12.33	\$12.33	\$15.00
DELAWARE	all motorboats, including electric motors	\$10.00	\$30.00	\$30.00	\$50.00
NEW JERSEY	all motorboats, including electric motors and sailboats over 12 feet	\$12.00	\$52.00	\$52.00	\$80.00
NORTH CAROLINA	all motorboats, including electric motors and sailboats over 14 feet	\$33.00	\$53.00	\$53.00	\$53.00

Fuel taxes are another major component of cost for operating the boat. Some states refund all or a part of the fuel tax, so the calculation includes any refund, which must be applied for by the boater. Refunds are as indicated at the [American Boating Association](#) website or by investigating the state websites.

Annual gasoline costs for several boat sizes in Maryland and neighboring states						
State	Gasoline taxes (cents per gallon)		Fuel Tax Calculated			
	Rate 2013	Refund?	\$17,200 boat	\$109,000 boat	\$345,000 boat	\$903,700 boat
			Gas	Gas	Gas	Diesel (not taxed)
MARYLAND	23.5		\$27	\$66	\$150	\$0
PENNSYLVANIA	32.3		\$38	\$91	\$206	\$0
VIRGINIA	19	Yes \$.175 per gallon	\$2	\$4	\$10	\$0
DELAWARE	23	Yes	\$0	\$0	\$0	\$0
NEW JERSEY	14.5		\$17	\$41	\$93	\$0
NORTH CAROLINA	30.2	Yes	\$0	\$0	\$0	\$0

Finally, some states still have a local tangible personal property tax that is assessed on vehicles, including power boats that are identified in the registration system. This is an annual cost of operating a boat. Virginia localities have this option, which varies widely between different parts of the state. An extreme example would be Arlington County, which is among the highest in the state at \$5 per \$100 of value. For Arlington County, the \$5,000 boat would be charged \$250 per year, the \$100,000 boat would pay \$4,230 per year, and the \$500,000 boat would pay \$24,230 per year, after certain exemptions are applied. Some Virginia localities do not apply the personal property tax to boats or charge lower rates per \$100 of value.

Virginia County	Valuation	Annual Tax Rate per \$100 valuation	Annual tax on \$100,000 boat
Arlington	100%	\$5.00	\$5,000
York	100%	\$4.00	\$4,000
King George	100%	\$3.25	\$3,250
Matthews	100%	\$1.45	\$1,450
Portsmouth	100%	\$0.50	\$500

Adding these costs together, dividing the tax on acquisition by ten years, treating the other categories as annual costs provides a total cost. Dividing this total cost by the assumed boat value provides “tax cost” as a percentage. Based on this measure, Delaware has the lowest tax costs for boats, and Virginia, using Arlington County program parameters, has the highest. Maryland is third highest of the six states examined.

Total tax cost of ownership for several boat sizes in Maryland and neighboring states				
State	Total Cost of Ownership			
	\$17,200 boat	\$109,000 boat	\$345,000 boat	\$903,700 boat
MARYLAND	\$113	\$623	\$1,662	\$1,512
PENNSYLVANIA	\$154	\$771	\$2,302	\$5,448
VIRGINIA	\$905	\$5,667	\$17,472	\$45,400
DELAWARE	\$23	\$111	\$288	\$725
NEW JERSEY	\$149	\$856	\$2,560	\$6,406
NORTH CAROLINA	\$85	\$203	\$203	\$203
State	Percent of cost			
	\$17,200 boat	\$109,000 boat	\$345,000 boat	\$903,700 boat
MARYLAND	0.66%	0.57%	0.48%	0.17%
PENNSYLVANIA	0.89%	0.71%	0.67%	0.60%
VIRGINIA	5.26%	5.20%	5.06%	5.02%
DELAWARE	0.13%	0.10%	0.08%	0.08%
NEW JERSEY	0.87%	0.79%	0.74%	0.71%
NORTH CAROLINA	0.49%	0.19%	0.06%	0.02%

The same table for a Virginia county that does not charge tangible personal property tax on boats is below. Delaware is still lowest, but Virginia is now second lowest and Maryland is second or third highest of the six states examined depending on boat size, after Pennsylvania and New Jersey (for largest boats).

Total tax cost of ownership for several boat sizes in Maryland and neighboring states (assumes no personal property tax in VA)				
State	Total Cost of Ownership			
	\$17,200 boat	\$109,000 boat	\$345,000 boat	\$903,700 boat
MARYLAND	\$113	\$623	\$1,662	\$1,512
PENNSYLVANIA	\$154	\$771	\$2,302	\$5,448
VIRGINIA	\$45	\$217	\$222	\$215
DELAWARE	\$23	\$111	\$288	\$725
NEW JERSEY	\$149	\$856	\$2,560	\$6,406
NORTH CAROLINA	\$85	\$203	\$203	\$203
State	Percent of cost			
	\$17,200 boat	\$109,000 boat	\$345,000 boat	\$903,700 boat
MARYLAND	0.66%	0.57%	0.48%	0.17%
PENNSYLVANIA	0.89%	0.71%	0.67%	0.60%
VIRGINIA	0.26%	0.20%	0.06%	0.02%
DELAWARE	0.13%	0.10%	0.08%	0.08%
NEW JERSEY	0.87%	0.79%	0.74%	0.71%
NORTH CAROLINA	0.49%	0.19%	0.06%	0.02%

The various states' treatment of non-motorized boats, such as canoes and kayaks, is summarized below:

Tax treatment of canoes/kayaks versus power boats in Maryland and neighboring states (no personal property tax in VA)					
	Excise or Sales Tax			Titling	Registration
	Power Boats	Canoes and Kayaks			
MARYLAND	5%	6%	new	none	none
PENNSYLVANIA ¹	6%	6%	new	none	none
VIRGINIA	2%	5.30%	new	none	none
DELAWARE	0.75%	0.75%	gross receipts tax on all retail	none	none
NEW JERSEY	7%	7%	new	none	none
NORTH CAROLINA	3%	3%	new	none	none

¹ Unless using certain State ramps.

Appendix 3

2015 Economic Impact Study

2013 and 2014 studies available upon request



Fiscal Analysis of the Cap on the Vessel Excise Tax

Developed by the
University of Maryland Environmental Finance Center

August 2015

Introduction

This report provides a detailed analysis estimating the impact of the \$15,000 tax cap on the vessel excise tax (VET) established by Senate Bill 90 which took effect in July 2013. Maryland imposes a 5% VET calculated on the fair market value or purchase price which, at this tax rate, causes the cap to impact vessels valued above \$300,000. To assess the impact of the excise cap, the analysis uses data provided by the Maryland Department of Natural Resources (DNR). The data provides detailed records of each newly registered boat in Maryland. That is, each record represents an additional vessel declaring Maryland's waters as its primary place of use for that calendar year.¹

This study estimates the cap's impact using two key measures. First is the net change in VET revenue. In principle, the tax cap effectively lowers the cost of registering a boat in Maryland, which should lead to additional vessel registrations. At the same time, the cap lowers the vessel excise tax (VET) revenue collected on a per vessel basis. The analysis focuses on the net change to VET revenue to gauge if the gain in registrations offsets the lower per-vessel tax. The second measure considers economic impacts more broadly. This second measure estimates the how an increase in boating registrations leads to economic gains in the State's economy through boat trip expenditures.

Trends in New Registration

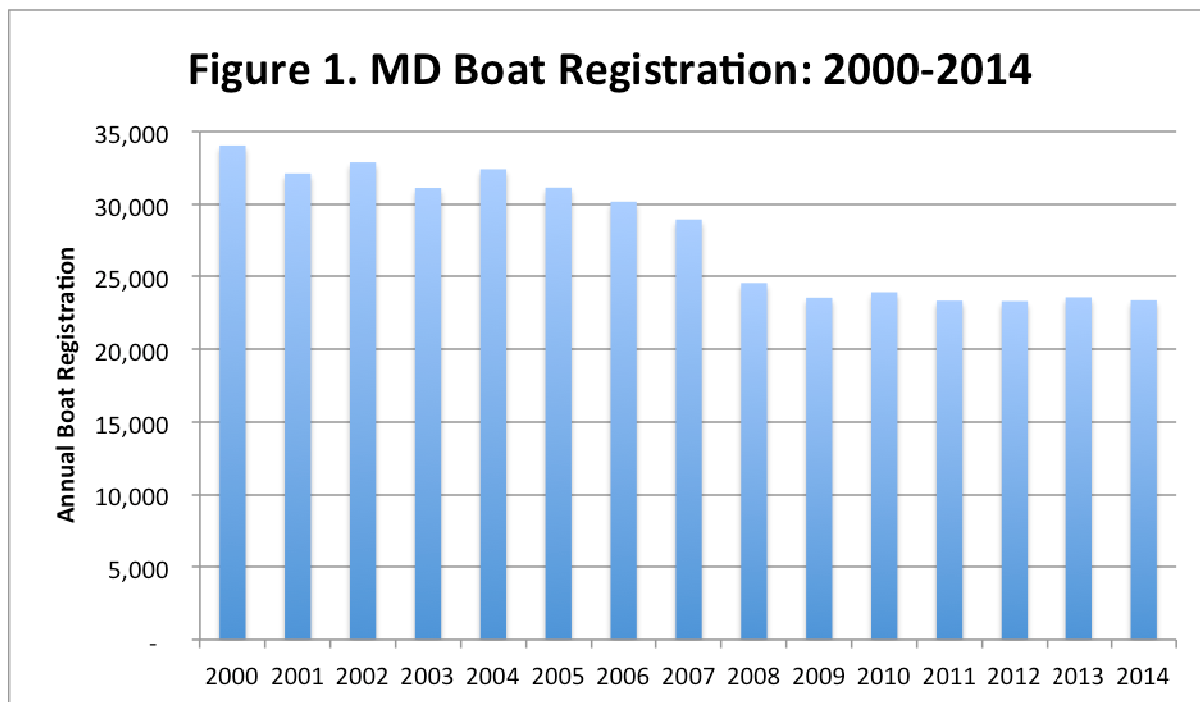
DNR's boating registration data dates back several decades.² Since early 2000, new registrations of vessels have ranged between 23,400 and 34,100 per year, with an annual average of 27,900. Overall, new registrations have been falling. (See Figure 1.) This trend is not unique to Maryland. In other states and nationally, boating participation levels have been falling.

At the start of the period, Maryland had just over 34,000 new registrations. By 2014, annual registrations had fallen to around 23,400. The downward trend in new registration has slowed since the

¹ The analysis concentrates on new registrations because the vessel excise is a one-off tax. For example, the first time a vessel registers in Maryland, it is subject to the excise. If that vessel was then registered in another state and subsequently returned to Maryland as its state of principal use, it would not be subject to the excise tax again.

² For the purposes of this analysis, selected data covers the period January 2000 to mid-May 2015 (inclusive) and has 418,474 records.

US economy emerged from the 2008 recession. From 2000 to 2008, registration levels fell by just over 2% per annum. After the 2008 recession, annual registration has been holding relatively steady.



Estimating the Impact of the Excise Cap on VET Revenue

Estimating the impact of the excise cap requires constructing a baseline. The baseline presents a scenario of what registrations would have looked like without the excise cap in effect. It is the difference between what is observed in the new registration data and this baseline that reflects the change – or impact of the excise cap. This baseline requires two key pieces of information:

- (1) estimate of the average net purchase price for vessels valued in excess of \$300,000; and
- (2) estimate of the number of registrations that would have occurred without the cap.

The excise cap effectively lowers the cost of the boats. In principle, this lower cost should stimulate an increase in the demand for boats, specifically those with a net purchase price in excess of \$300,000. Table 1, below, shows the relationship between boat value and the excise with the tax cap in effect. As the value of the vessel increases the effective excise rate falls, and the avoided excise increases. For a boat valued at \$350,000, the savings is \$2,500, reducing the effective tax rate from 5% to 4.3%. At \$400,000, the effective tax rate is lowered to 3.8%. For a vessel valued at \$500,000, the cap reduces the tax liability by \$10,000 and lowers the effective tax rate by 2%.

At face value, the extent to which the tax savings offsets total expenditures (marginal increase in vessel value) does not seem sufficiently strong to induce demand for a more expensive vessel. For example,

spending an additional \$50,000 on a vessel saves only an additional \$2,500. However, one study on boating choice suggests that high wealth individuals have a strong reaction to tax savings.³

Table 1. Excise Actual and Effective by Boat Value

Boat Value	Excise at 5%	Cap savings	Effective tax rate
<\$300,000	<\$15,000	\$0	5%
\$300,000	\$15,000	\$0	5%
\$350,000	\$17,500	\$2,500	4.3%
\$400,000	\$20,000	\$5,000	3.8%
\$500,000	\$25,000	\$10,000	3.0%
\$750,000	\$37,500	\$22,500	2.0%
\$1,000,000	\$50,000	\$35,000	1.5%

The following examines new registration data in more detail to identify the effect the excise cap had on boat registration and VET revenue.

The excise cap affects a very small share of new registrations. Table 2 summarizes the registration data to show the composition of new registrations by vessel value. Over a 15-year period from 2000-2014, the data set reported over 418,400 new registrations. Of these, vessels valued at \$300,000 or higher account for less than half a percent of all new registrations (1,673). Annually, this category of boats averages around 110 registrations. In contrast, almost 90% of all new registrations during this period involved boats valued at less than \$30,000. Given the small number of affected registrations, it would be surprising if the effect of the cap could be detected looking at the overall level of new annual boat registrations.

Table 2 also shows that boats valued over \$300,000 have a disproportionate share of the total VET revenue. Less than 0.5% of new registrations accounted for nearly 10% of VET revenue. Since 2000, boats valued in excess of \$300,000 accounted for nearly 16,000 registrations. VET revenue generated by these new registrations is just over \$32.5 million. This relationship between registration and VET revenue suggests that a small change among high valued boats can potentially have noticeable effect on VET revenue.

The analysis offers a careful comparison of trends in new registrations for vessels valued between \$300,000 and \$349,999. The data showed new registrations of vessels in this value category follow patterns similar to vessels valued between \$200,000 and \$299,999. Based on how closely the new registrations and prices behaved and the relatively small impact of the cap on the effective tax rate, the analysis focuses on vessels valued in excess of \$350,000.⁴

³ Lipton, Douglas. 1999. "Boat Location Choice: The Role of Boating Quality and Excise Taxes" *Coast Management*, 27:1, 81-89.

⁴ The analysis assumes that the excise cap did not impact new registrations for vessels valued between \$300,000 and \$349,000. The average purchase price for this category was around \$321,000. As a result, the estimated loss to VET revenue is around \$55,000 over two years.

Table 2: Net Boat Value Category: Registrations and Paid Excise from 2000 - 2014

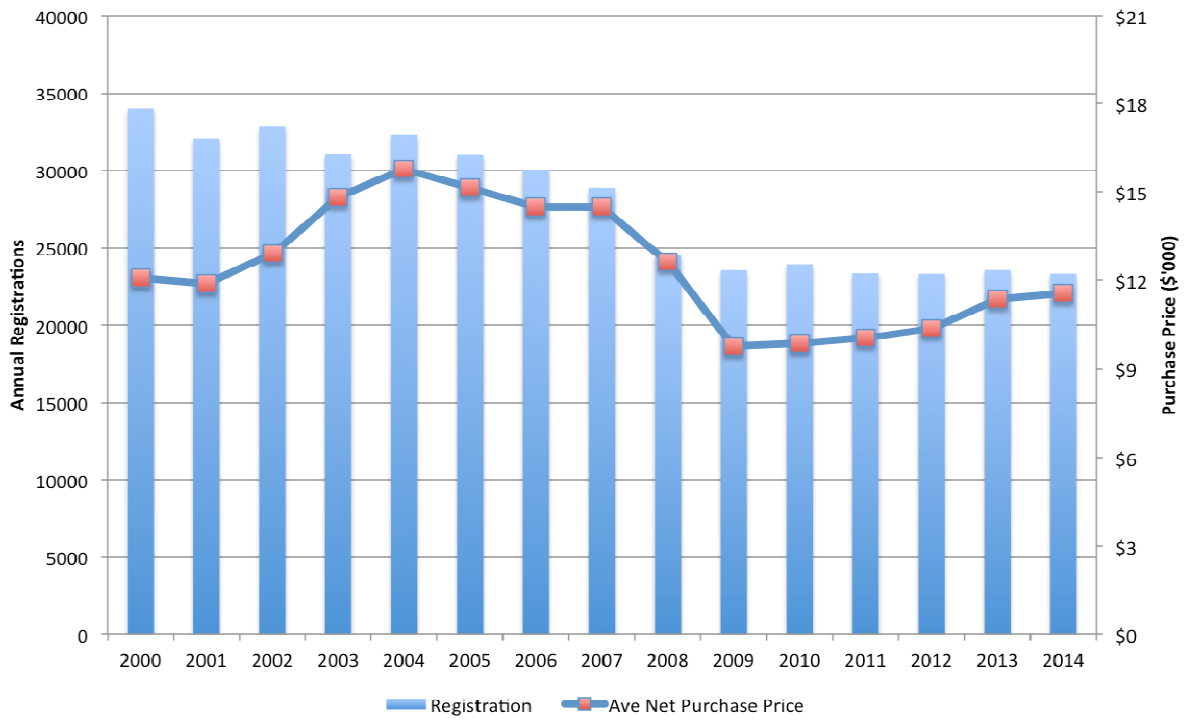
Net Purchase Price Category	Registration			Ave Net	Excise Paid	
	Total	Ave Annual	Cumulative Share	Purchase Price	Ave Annual Excise Paid	Cumulative Share
\$0 – \$49	31,463	2,098	8%	\$2	\$1	0.01%
\$ 50 – \$99	3,319	221	8.3%	\$55	\$5	0.02%
\$ 100 – \$499	80,817	5,388	28%	\$200	\$9	0.3%
\$ 500 – \$999	52,796	3,520	40%	\$615	\$29	0.9%
\$ 1,000 – \$4,999	98,309	6,554	64%	\$2,250	\$106	5%
\$ 5,000 – \$9,999	44,775	2,985	74%	\$7,145	\$331	10%
\$10,000 - \$19,999	40,858	2,724	84%	\$14,085	\$655	21%
\$20,000 – \$29,999	19,805	1,320	89%	\$24,230	\$1,121	29%
\$30,000 – \$39,999	11,651	777	92%	\$34,290	\$1,579	36%
\$40,000 – \$49,999	7,289	486	93%	\$44,370	\$2,024	42%
\$50,000 – \$59,999	4,855	324	95%	\$54,335	\$2,448	46%
\$60,000 – \$69,999	3,602	240	95.5%	\$64,285	\$2,873	50%
\$70,000 – \$79,999	2,700	180	96%	\$74,345	\$3,259	53%
\$80,000 – \$89,999	2,119	141	96.6%	\$84,195	\$3,683	56%
\$90,000 – \$99,999	1,628	109	97%	\$94,510	\$4,179	59%
\$100,000 – \$149,999	5,745	383	98%	\$121,605	\$5,377	71%
\$150,000 – \$199,999	2,795	186	99.1%	\$170,810	\$7,507	79%
\$200,000 – \$249,999	1,453	97	99.4%	\$222,060	\$9,694	84%
\$250,000 – \$299,999	822	55	99.6%	\$272,520	\$12,057	88%
\$300,000 – \$349,999	543	36	99.7%	\$321,575	\$14,327	91%
\$350,000 – \$399,999	334	22	99.8%	\$371,115	\$16,493	93%
\$400,000 +	796	53	100%	\$621,680	\$24,151	100.00%
Total	418,474	27,898		\$14,130	\$564	

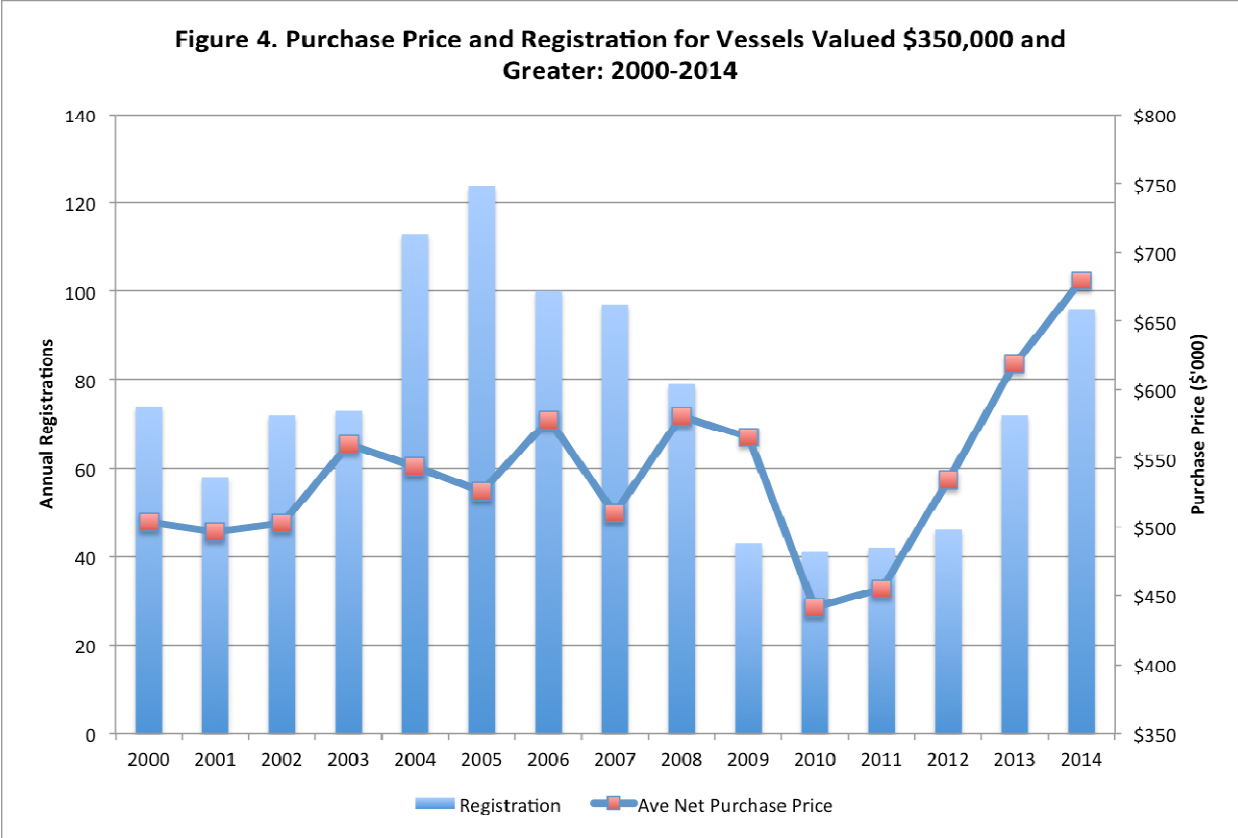
Note: All values reported in nominal dollars.

The Figures 3 and 4 segment new registration data into two categories. Figure 3 shows trends for boats with a net purchase price that is less than \$350,000; Figure 4 shows trends for vessels valued at \$350,000 and higher. When looking at these trends, it is important to note that despite the recession officially ending in 2009, the economy is still recovering. With the recovery, new registration numbers have stabilized, holding around 23,500 annually. With only one complete calendar year since the excise cap was implemented, there is little evidence to suggest whether new registrations will pick up or continue trending downward.

Comparisons across the graphs show that these two groups behave differently. For vessels valued under \$350,000, purchase price and new registration levels have tracked together since the early 2000s. Both exhibit a general downward trend leading into the 2008 recession and appear relatively stable since 2009. Average net purchase price fell from a high near \$16,000 to a low around \$10,000. New registration levels also fell leading up to the recession. Since 2009, new registrations of boats valued less than \$350,000 have been relatively constant around 23,000 per year.

**Figure 3. Purchase Price and Registration for Vessels Valued Less Than \$350,000:
2000-2014**





In contrast, vessels valued at \$350,000 and greater show greater volatility in annual prices and new registrations. Annual registration peaked in 2005 and then fell to a low in 2010. Net purchase price did not follow the same dramatic increase in 2005. Prices did, however, fall substantially. Pre-2008 recession prices were around \$550,000 and fell to around \$450,000 post-2008 recession.

Based on the trends, the excise cap may have had an impact. Table 3 provides year-on-year changes for 2011 to 2014. The two years of data where the excise cap was in effect (2013 and 2014) show dramatic growth in both annual registration and average net purchase price. However, the table also shows that 2012 was a transition year. It registered growth in price registration numbers. This pattern confounds the analysis, making it difficult to ascertain how much of the growth seen in 2013 and 2014 can be attributed to the excise cap.

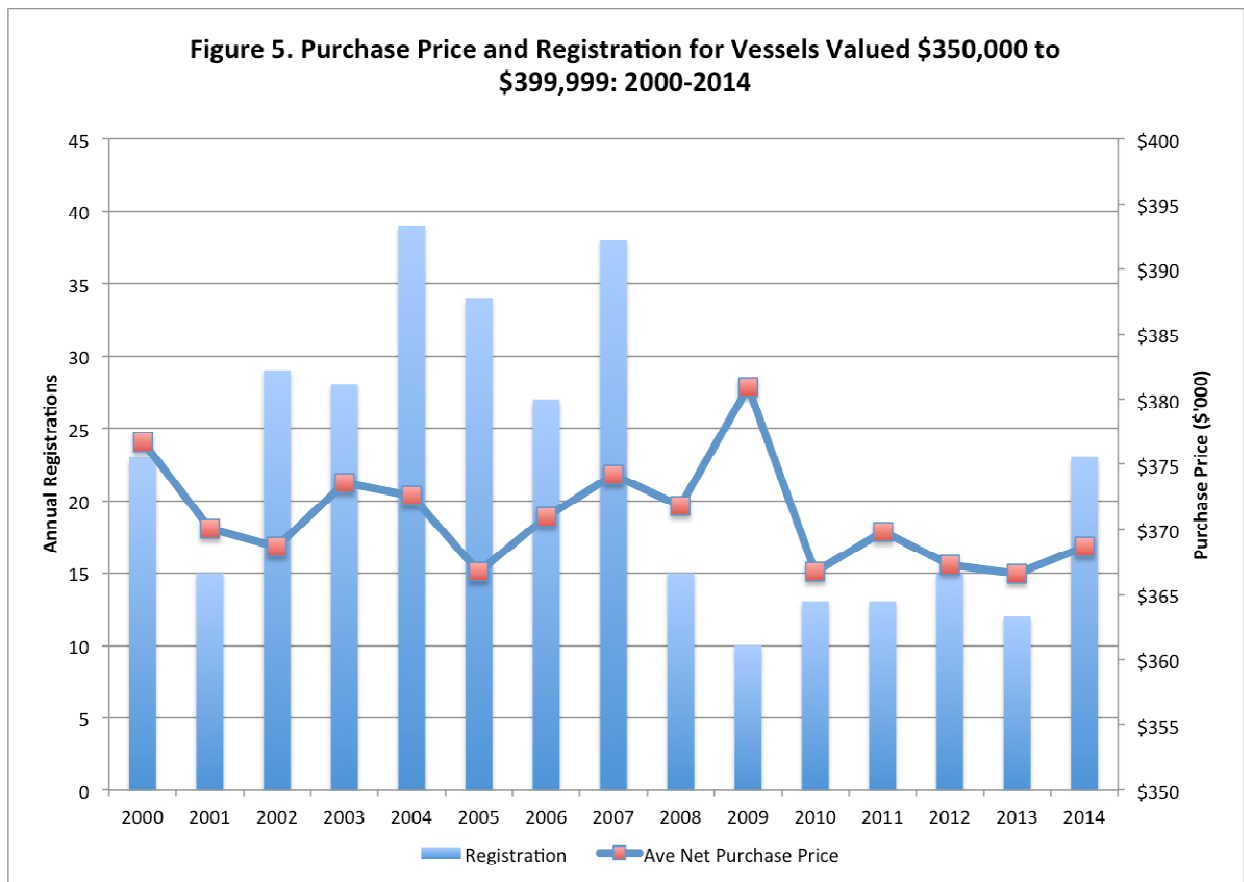
Table 3. Boats Valued at \$350,000 and Greater: Year-on-Year Change

Year	Registration		Average Net Purchase Price	
	Count	Yr-on-Yr Change	Price	Yr-on-Yr Change
2011	42	2%	\$455	3%
2012	46	10%	\$534	17%
2013	72	57%	\$618	16%
2014	96	33%	\$679	10%

Figures 5 and 6, below, further segment the vessels valued at \$350,000 and greater. The first segment is vessels valued between \$350,000 and \$399,000. Historically, this category of vessels has very low levels of new registration. From 2000 to 2014, it ranges from 12 to 39 per year. Figure 5 highlights that registration fell in 2013 by only two vessels. Then, new registrations picked up in 2014, nearly doubling. During this time, boat purchase price changed marginally, staying around \$367,000.

Without further information about how vessel owners make purchase decisions, it is difficult to explain what drove these results. One possible explanation is “switching,” in other words, in light of the excise cap, a handful of individuals planning to purchase a boat in this value range opted to purchase a more expensive vessel (i.e., purchase price greater than \$400,000) in 2013. As a result of this decision, the number of newly registered boats with a net purchase price greater than \$400,000 would increase and the number of newly registered boats with a net purchase price between \$350,000 and \$400,000 would decrease. These changes are seen in Figures 5 and 6.

Because the tax savings does not offset the increased boat price, it is reasonable to expect that the market would normalize after excise cap’s initial implementation. As a result, the “switching” would be less significant, and the number of registrations would return to baseline conditions. This data fits this pattern of behavior. The registrations in 2014 are close to what would be expected had the change in registration observed in 2012 continued.



The analysis builds a baseline scenario based on this theory of “switching” since it fits what is observed in the data. Table 4 summarizes actual and baseline changes. The baseline scenario assumes that the introduction of the excise cap did not affect purchase price, rather it only impacted the number of registrations.

Table 4. Boats Valued between \$350,000 and \$399,000: Actual and Baseline

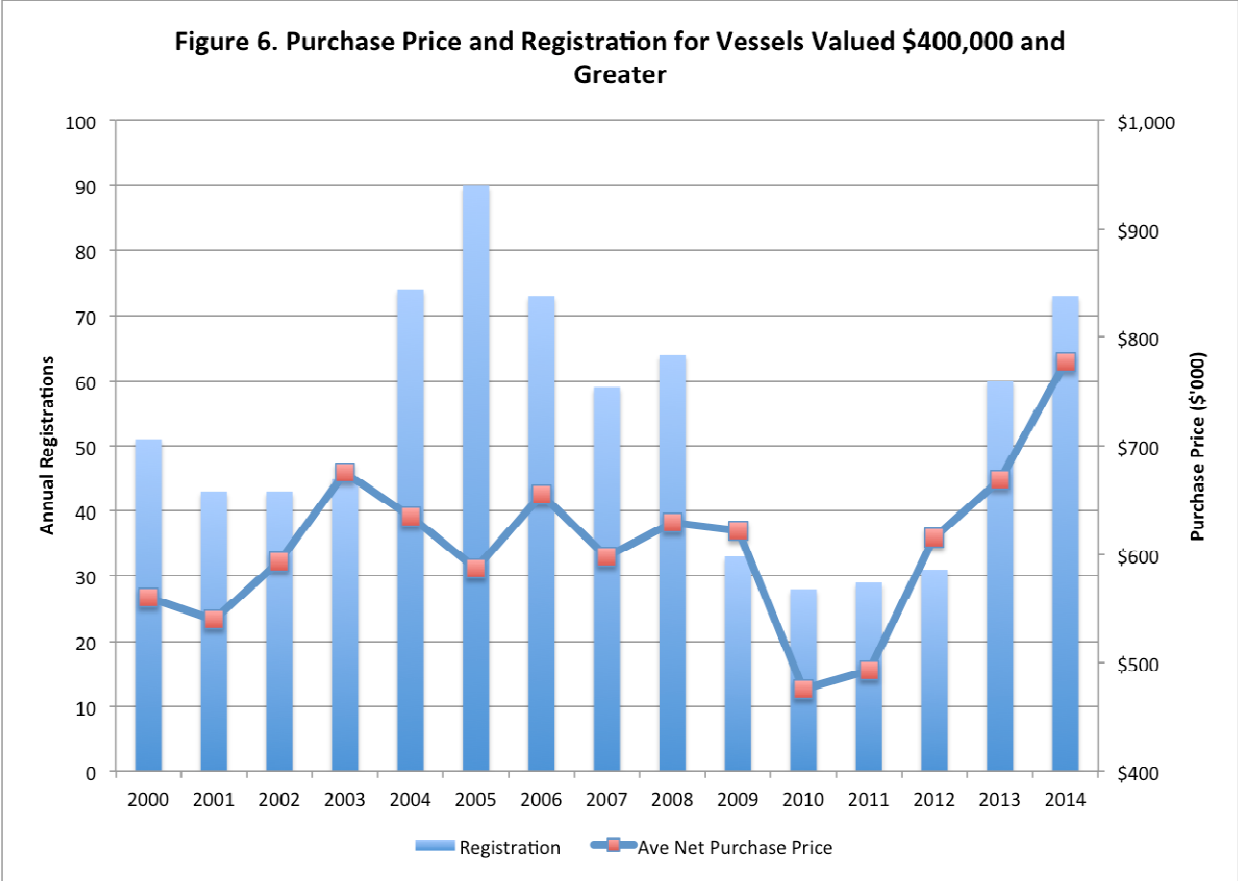
Year	Actual New Registrations		Baseline	Average Net Purchase Price	
	Count	Yr-on-Yr Change	New Registrations	Price	Yr-on-Yr Change
2011	13	0%		\$370	1%
2012	15	15%		\$367	-1%
2013	12	-20%	17	\$367	0%
2014	23	92%	20	\$369	1%

Based on the table above, the excise cap resulted in net loss to VET revenue from this boat value category. The estimated total loss is relatively small, approximately \$154,000 over the two years. It arises from two effects: (1) the excise cap resulting in fewer than expected registrations, and (2) the cap lowering the effective excise rate. Table 5 summarizes the change in VET revenue under the actual and baseline scenarios.

Table 5. Change in VET Revenue for Vessels Valued \$350,000 - \$399,999

Year	Actual	Baseline	Change to VET revenue
2013	\$180,000	\$311,950	- \$131,950
2014	\$345,000	\$367,000	- \$22,000
Total	\$525,000	\$678,950	- \$153,950

Figure 6 shows the trends in registration and average purchase price for vessels valued greater than \$400,000. Annual registration and purchase price did not track together in the period preceding the 2008 recession. While annual registration increased from 2002 to 2006, average purchase price was falling. In the few years leading up to the recession, new registration levels generally fell and purchase price bounced around just below \$650,000. Post-2008 recession, new registration levels were fairly flat, around 30 per year; however, purchase price was increasing. The change from 2010 to 2011 was a small increase. The change from 2011 to 2012 was very strong (\$493,000 and \$615,000, respectively).



In the two years where the excise cap has been in effect, new registration was on par with pre-recession levels. Purchase price for both years were higher than historical levels. The average net purchase price in 2014 was just under \$780,000. This average is 60 percent higher than the low in 2010 (around \$476,000).

Table 6 summarizes how new registrations and net purchase price has changed since 2011. The table shows that new registrations from 2012 to 2013 almost doubled. This increase is striking given the year-on-year changes in 2011 and 2012. 2014 continued the growth with new registration increasing by 22%. The analysis attributes this growth in registration to the excise cap. The baseline scenario estimates new registrations in 2013 and 2014 increasing but at a pace more comparable to 2011 and 2012 (7% per annum).

The average net purchase price shows stronger than expected growth in 2012 and 2014 but not in 2013. Given the historic year-on-year variation in price, the baseline scenario assumes that prices would have increased but not as quickly as observed. It also attributes some of the strong price growth to the excise cap. Purchase prices for 2013 and 2014 in the baseline are also estimated to grow at roughly 7% per annum.

Table 6. Boats Valued \$400,000 and Greater: Actual and Baseline

Year	Actual				Baseline	
	New Registration		Ave Net Purchase Price		Count	Price
	Count	Yr-on-Yr Change	Price	Yr-on-Yr Change		
2011	29	4%	\$493	4%		
2012	31	7%	\$615	25%		
2013	60	94%	\$669	9%	33	\$679
2014	73	22%	\$777	16%	36	\$727

Based on the table above, the excise cap resulted in a net loss to VET revenue from the \$400,000 and greater boat value category. The estimated total loss is approximately \$434,000 over the two years. This loss arises because the increase in registrations is not large enough to offset the lower effective excise rate. Table 7 summarizes the change in VET revenue under the actual and baseline scenarios.

Table 7: Change in VET Revenue for Vessels Valued \$400,000 and Greater

Year	Actual	Baseline	Change to VET revenue
2013	\$900,000	\$1,120,350	-\$220,350
2014	\$1,095,000	\$1,308,600	-\$213,600
Total	\$1,995,000	\$2,428,950	-\$433,950

Net Impact to VET Revenue

The net impact of the excise cap on VET revenue is \$588,000.⁵ VET revenue loss in 2013 was around \$152,000, and then the loss increased in 2014 to \$434,000. The excise cap appears to have positively impacted the number of newly registered, high-valued boats in Maryland. Most of this increase is estimated for boats with a net purchase price greater than \$400,000. Over the two years, this value category is estimated to have nearly doubled, resulting in over 60 additional registrations. In contrast the impact on vessels valued between \$350,000 and \$399,999, is mixed. New registrations over the two years are slightly lower due to some individuals switching to a higher valued boat due to the excise savings.

Despite the overall increase on new registrations, VET revenue is lower. This net loss is due to the increase in registration not being large enough to offset the lower effective tax rate. In order for impact to VET revenue to be neutral, almost 80 additional registrations of vessels valued over \$400,000 are needed. For vessels valued between \$350,000 and \$399,999, the cap has a much smaller impact on the effective tax rate. As a result, less than 10 additional registrations between 2013 and 2014 would have been needed for the cap to be revenue neutral.

⁵ As noted in an earlier footnote, the analysis was not able to determine if the cap has an effect on new registrations for vessels valued between \$300,000 and \$350,000. Assuming the cap did not impact the level of new registrations, the net loss of VET revenue was approximately \$55,000 over two years.

Estimating the Impact of the Excise Cap on Maryland's Economy

While the excise cap resulted in a net loss to VET revenue, the analysis estimates that the cap has an overall positive impact on the total number of boats registering in Maryland. Each additional registration represents a new vessel being used in Maryland.

To estimate how the change in new registrations impacts the State's economy, the analysis estimates the economic gain from the boating trip expenditures associated with each new registration. The analysis focuses on the change associated with registrations for vessels valued \$400,000 and higher. It does not account for changes in boats valued between \$350,000 and \$399,999, because the change in 2013 and 2014 of new registrations nearly cancels each other out.

The increase in boating registrations is assumed to lead to increased boating activity. To estimate how expenditures associated with boating activity impact the economy, the analysis relies on estimates of boat trip frequency and boat trip spending.

The Maryland DNR recently sponsored a survey of individuals that own high valued boat.⁶ In this study, Maryland boat owners reported taking an average of 25 trips per year. This figure is consistent with an earlier survey of Maryland boat owners, where the mean number of trips per boater ranged between 24 and 27 annually.⁷

The DNR study did not include information on trip spending patterns. As a result, this analysis conducted a literature review focused on economic impact studies of recreational boating.⁸ One of the most recent studies was conducted in 2012 in Virginia. Following this study's approach, this analysis applies an average expenditure of \$1,500 per boating trip. Table 8 summarizes how trip expenses are allocated.

⁶ Responsive Management, 2015. *Boat Owner Opinions on Factors Influencing their Decisions on Which States in Which to Register Their Boat.*

⁷ Lipton, Doug and Scott Miller. 1993. *Recreational Boating in Maryland: An Economic Impact Study.* Prepared for the Marine Trades Association of Maryland and the Boating Administration, Maryland Department of Natural Resources.

⁸ Harding, David, et. al. 2009. *Florida Boating Access Facilities Inventory and Economic Study.* August 2009
Lipton, Douglas. *Boating 2000: A Survey of Boater Spending in Maryland – A Maryland Sea Grant Report.*
Murray, Thomas. *Assessment of the Economic Impacts of Recreational Boating in Virginia.* December 2012
Starbuck, Kimberly; Lipsky, Andrew, et. al. 2012 *Northeast Recreational Boater Survey: A Socioeconomic and Spatial Characterization of Recreational Boating in Coastal and Ocean Waters of the Northeast United States.* December 2013.

Table 8. Allocation of Trip Expenses

Expense type	Share of Trip Expenses	Expense
Groceries	12%	\$185
Boat Fuel Costs	29%	\$440
Fishing Supplies	16%	\$245
Boat Launch	3%	\$45
Equipment Rental	0.80%	\$10
Other Boat Supplies	18%	\$275
Lodging	4%	\$65
Restaurant	10%	\$155
Other	5%	\$80

The analysis estimates that in 2013 boat trip spending increased by nearly \$1.1 million and \$1.4 million in 2014. This increase reflects the additional boat registration, plus each new registration raises trip spending by roughly \$39,000 per year. Table 9 summarizes how this increase in boat trip spending flows through the Maryland economy. In 2013, trip spending supported approximately 16 full-time equivalent jobs and contributed \$1.1 million to the State's economy. In 2014, these impacts were slightly higher as a result of more boat purchases. Nearly 20 full-time equivalent jobs and almost \$1.4 million in economic growth occurred.

Table 9. Impact of Boat Trips on Maryland's Economy

	2013	2014	Total
Employment	16	20	36
Total Income (\$'000)	\$630	\$660	\$1,290
Total Output (\$'000)	\$1,130	\$1,430	\$2,560

Conclusions

Based on the above analysis, the \$15,000 tax cap on the vessel excise tax had the following effects.

- The growth in new registrations for vessels with a net purchase price of \$400,000 or greater was much stronger than an expected. This increase is likely due to the excise cap. This increase in new registrations, however, was not enough to offset the loss in VET revenue as a result of the cap lowering the per-vessel tax collection.
- The cap's impact on new registrations of vessels valued between \$350,000 and \$399,999 is mixed. After an initial drop in 2013, the analysis finds that the cap may have led to an increase in the number of new registrations in 2014. Again, the net impact on VET revenue is estimated to be negative.
- The total loss in VET revenue due to the tax cap is approximately \$588,000 over two calendar years (2013 and 2014).
- While the tax cap had a negative impact on VET revenue, the increase in new registrations does have a positive impact on the Maryland economy through increased boating activity.
- The increase in new registration may have generated over \$1 million in direct spending in the Maryland economy that has a multiplier effect lifting output by nearly \$2.5 million over two years.

Appendix 4

Boater Attitude Survey Findings

Available Upon Request