



OHIO LEGISLATIVE SERVICE COMMISSION

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Fiscal Note & Local Impact Statement

Bill: S.B. 113 of the 132nd G.A.

Status: As Introduced

Sponsor: Sen. Coley

Local Impact Statement Procedure Required: No

Subject: Shifting transportation project funding from \$0.28 per gallon motor fuel tax toward per-vehicle fees

State Fiscal Highlights

- The bill would increase the Registrar of Motor Vehicles' and the Department of Taxation's administrative costs to implement and administer the fuel tax reduction card program. Any increase in such costs likely would be paid from the Department of Public Safety's line item 762321, Operating Expense – BMV (Fund 5TM0) and the Department of Taxation's line item 110622, Motor Fuel Tax Administration (Fund 5V70).
- The bill would impose additional annual registration fees of \$149 for a noncommercial vehicle and \$684 for a commercial vehicle, but a fuel tax reduction card would be issued with registration documents to allow consumers to claim a credit of \$0.28 per gallon of fuel purchased using the card,¹ beginning on January 1, 2020. The additional annual fees under the bill are estimated to generate slightly more than the state motor fuel tax (MFT) receipts per year.
- All revenues from the additional registration fees would be credited to a newly created fund, the Motor Fuel Tax Abatement Fund, and be used in the same manner as revenue from the state MFT. The overall fiscal impact on the state funding related to transportation infrastructure under the bill is very roughly revenue neutral.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

The bill would shift most of the funding of state and local transportation projects from reliance on fuel excise taxes to per-vehicle fees, starting January 1, 2020. It would do this by imposing additional registration fees on motor vehicles, to be used for the transportation projects, and provide for issuance of fuel tax reduction cards that would

¹ The credit of \$0.28 per gallon will be made against the current state per-gallon MFT by lowering the price of motor fuel purchased using the fuel tax reduction card at the pump.

lower the price of motor fuel by \$0.28 per gallon, the current MFT rate. Under the bill, the additional per-vehicle registration fees are set at \$149 for noncommercial motor vehicles and \$684 for commercial motor vehicles. The bill specifies that all revenues from the additional registration fees must be credited to a newly created fund, the Motor Fuel Tax Abatement Fund, and be used in the same manner as revenue from the state MFT.

The bill requires the Registrar of Motor Vehicles to issue a fuel tax reduction card with registration of vehicles in Ohio and to sell to owners of vehicles registered elsewhere. For gallons of fuel purchased using the fuel tax reduction cards, motor fuel dealers could claim that amount as a credit against the excise tax of the same amount which they would otherwise owe. Fuel not purchased using a fuel tax reduction card, such as that bought for out-of-state vehicles for which a card was not purchased, would continue to be subject to the \$0.28 per gallon excise tax.

The bill requires the Registrar to adopt necessary rules to implement and administer the fuel tax reduction card program, including provisions governing the grounds for cancellation of a fuel tax reduction card; the replacement of a damaged, defective, lost, mutilated, or stolen card; the grounds for seizure of a card by a law enforcement officer; and the appeal procedure related to the card. The bill requires the Tax Commissioner, in consultation with the Registrar, to adopt any necessary rules to implement the requirements under this bill, including establishing the criteria related to the equipment to process motor fuel tax reduction cards. The bill also specifies that the Commissioner must take any measures necessary to prevent the fraudulent use of such cards. The bill specifies penalties for any person who violates the use of the fuel tax reduction cards. The bill also requires retailers to submit specific monthly reports to motor fuel dealers and the Tax Commissioner.

Fiscal effect

The bill would increase the Registrar of Motor Vehicles' and the Department of Taxation's administrative costs to implement and administer the fuel tax reduction card program. LSC does not have an estimate of the potential magnitude of such costs due to lack of information on the costs of producing fuel tax reduction cards generally and the likely dependence of such costs on decisions made by the agencies about how to implement and administer the fuel tax reduction card program. Any increase in such costs likely would be paid from the Department of Public Safety's line item 762321, Operating Expense – BMV (Fund 5TM0) and the Department of Taxation's line item 110622, Motor Fuel Tax Administration (Fund 5V70). The bill would have no direct fiscal impact on local governments.

The overall fiscal impact on state funding related to transportation infrastructure under the bill is delayed until the second half of FY 2020, and is very roughly revenue neutral. Based on net MFT receipts in FY 2017 and the total number of vehicle registrations in FY 2016, the additional annual fees of \$149 for a noncommercial vehicle and \$684 for a commercial vehicle under the bill are estimated to generate slightly more

than the state MFT receipts per year. In FY 2017, the state collected about \$1.88 billion in net MFT revenue.² Tax forms for the tax do not require a breakdown of gallons purchased by residents and by nonresidents of Ohio. The tax is collected at the dealer rather than the retail level. Plausibly, much of the revenue is from taxes on motor fuel purchased by Ohioans. In FY 2016, a total of 10.9 million vehicles were registered in Ohio, approximately 10.3 million noncommercial vehicles (8.7 million passenger cars and 1.6 million noncommercial trucks) and about 0.6 million commercial trucks. Also, the estimates imply that approximately 80% of the revenue from the new registration fees would be generated by the additional tax on noncommercial vehicles (passenger cars and noncommercial trucks) and the remaining 20% would be raised by the tax on commercial vehicles. The estimates do not include current state motor vehicle license tax, permissive local taxes, and other fees.

Whether the system of additional per-vehicle fees would raise more or less money for transportation projects than the current system of per-gallon excise taxes would clearly depend on relationships among numbers of noncommercial and commercial vehicles, vehicle miles driven, and vehicle fuel efficiency, as well as numbers of out-of-state vehicles for which fuel tax reduction cards are purchased. Increases in vehicle fuel efficiency would tend to cause a system of per-vehicle fees to raise more revenue relative to the current system. More electric vehicles would augment this tendency, though such vehicles seem likely to remain a small part of the vehicle fleet for years into the future.

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² This was the amount collected by the state net of refunds. Net MFT revenue has varied since FY 2012 from a low of \$1.68 billion (FY 2012) to a high of \$1.88 billion (FY 2017).