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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research
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Office

S.B. 277
134th General Assembly

Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsor: Sen. S. Huffman

Local Impact Statement Procedure Required: Yes

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Highlights

Fund	FY 2023	FY 2024	Future Years
Highway Operating Fund (Fund 7002)			
Revenue – ODOT	Loss of \$481 million	Loss of \$492 million	Increasing losses through FY 2027
Gasoline Excise Tax Fund (for distribution to counties, municipalities, and townships)			
Revenue – Counties	Loss of \$146 million	Loss of \$150 million	Increasing losses through FY 2027
Revenue – Municipalities	Loss of \$169 million	Loss of \$173 million	Increasing losses through FY 2027
Revenue – Townships	Loss of \$79 million	Loss of \$81 million	Increasing losses through FY 2027
Waterways Safety Fund (Fund 7086)			
Revenue – DNR	Loss of \$8 million	Loss of \$8 million	Increasing losses through FY 2027

Fund	FY 2023	FY 2024	Future Years
Wildlife Boater Angler Fund (Fund 5P20)			
Revenue – DNR	Loss of \$1 million	Loss of \$1 million	Increasing losses through FY 2027

Note: All revenue streams discussed in this fiscal note must be utilized to construct or maintain public roadways or for the support of agencies which administer public roadway maintenance. Revenue losses to political subdivisions reflect transfers from the state during each fiscal year, rather than revenue losses during the fiscal term of those political subdivisions.

- The bill reduces the tax rate on motor fuel purchased in Ohio to 28¢ per gallon, from July 1, 2022 through July 1, 2027.
- The bill eliminates supplemental registration fees paid by hybrid (\$100 annually) and plug-in electric (\$200 annually) vehicle registrants on all transactions between January 1, 2023 and January 1, 2028. This provision yields a roughly \$25 million revenue loss in FY 2028.
- Revenue losses from the bill will decrease transfers to the Highway Operating Fund (55%), as well as counties (16.7%), municipalities (19.3%), and townships (9.0%) around Ohio.
- The reduction in the amount of motor fuel tax (MFT) revenue deposited into the Highway Operating Fund (Fund 7002) means the Ohio Department of Transportation (ODOT) will need to adjust funding for state highway system preservation, new construction, and safety programs over the period the reduced MFT rate is in effect.
- The Waterways Safety Fund (Fund 7086) and the Wildlife Boater Angler Fund (Fund 5P20) used by the Department of Natural Resources will also see revenue losses since they receive distributions of MFT revenue.
- The Department of Public Safety’s Bureau of Motor Vehicles will incur one-time costs to reprogram information technology (IT) operations to implement the bill’s five-year suspension of the registration fees and to resume subsequently their collection and distribution.

Detailed Analysis

The bill temporarily reduces the per-gallon tax on motor fuel purchased in Ohio, and eliminates supplementary fees paid by registrants of hybrid and electric motor vehicles. More specifically, the per-gallon tax on motor fuel purchased during fiscal years 2023 through 2027 is reduced to 28¢ per gallon; current tax rates are 38.5¢ per gallon of gasoline and 47¢ per gallon of other motor fuels (primarily diesel). Supplementary registration fees, \$100 annually for hybrid vehicles and \$200 annually for plug-in electric vehicles, are also eliminated under the bill, for registrations processed during calendar years (CYs) 2023 through 2027.

Fiscal impact

The fiscal impact of S.B. 277 begins in FY 2023 and ends after FY 2028. The bill reduces total revenue collections by approximately \$884 million in FY 2023 and by \$904 million in

FY 2024.¹ The estimates are the sum of the bill's impact on vehicle registration revenue and motor fuel tax (MFT) revenue. As detailed in the "**Highlights**" table, the revenue impacts are mostly split between the Highway Operating Fund (Fund 7002, 55%) and the Gasoline Excise Tax Fund (Fund 7060, 45%).² All moneys transferred to Fund 7060 are subsequently distributed to political subdivisions via a codified formula. LBO estimates that between FY 2025 and FY 2027, the total revenue loss will increase approximately 0.8% per year, until the bill's provisions expire in FY 2028.

Ohio Department of Transportation

The Ohio Department of Transportation (ODOT) administers Fund 7002, which provides funding for agency operations and transportation research, planning, and infrastructure projects statewide. As the table above illustrates, the projected revenue loss to the Highway Operating Fund (Fund 7002) would be approximately \$481 million in FY 2023, and \$492 million in FY 2024. Future revenue losses until FY 2028 would increase by 0.8% annually.

It is difficult to say what adjustments to planned operating and construction program spending ODOT would make during the FY 2023-FY 2027 period as a result of the reduced state MFT revenue deposited into Fund 7002. As of this writing, ODOT was unable to give LBO such an assessment. Most of the state highway construction budget is allocated to state highway system preservation projects, local programs overseen by ODOT, major/new construction projects,³ and safety programs. In addition to state MFT receipts, ODOT's operating and construction budget is made up of allocations from the federal Highway Trust Fund, state highway bond proceeds, and other receipts, including money allocated to Ohio under various federal COVID-19-related relief and stimulus programs.

Political subdivisions

The bill reduces revenue to all political subdivisions who receive funding via highway user fees. During CY 2021, 928 municipalities and 1,308 townships received funding through state allocations of its MFT.⁴ LBO estimates the total revenue loss for all political subdivisions will amount to around \$394 million in FY 2023 and \$404 million in FY 2024; these totals will increase approximately 0.8% annually. Please note that the estimates provided in the "**Highlights**" table reflect transfers from the state during each state fiscal year, rather than revenue losses during the fiscal term of those political subdivisions.

The codified formula for distributing MFT revenue to political subdivisions was most recently revised in H.B. 62 of the 133rd General Assembly; revenue arising from an MFT rate exceeding 28¢ per gallon is distributed according to division (E) of section 5735.051 of the Revised Code. After the total amount of money to each type of subdivision has been calculated, each type of political subdivision has a different method to distribute their share of MFT revenue to

¹ Of these amounts, roughly \$11 million in FY 2023 and \$22 million in FY 2024 result from the registration fee reductions.

² Based on the codified formula, the Waterways Safety Fund and the Wildlife Boater Angler Fund, administered by the Department of Natural Resources, are also impacted.

³ <https://www.transportation.ohio.gov/programs/trac/resources/final-major-project-list-2022-2025>.

⁴ <https://tax.ohio.gov/wps/portal/gov/tax/government/resources/distributions-gas-draft>.

individual entities. The bullet points below summarize the main factors governing the distribution of MFT revenue to each type of political subdivision.

- **Counties** – Each county government receives an equal share of the total county distribution;
- **Municipalities** – Each municipality receives a share of the total municipal distribution amount, calculated by taking the ratio of the number of motor vehicles registered in that municipality divided by the total number of vehicles registered in all municipalities;
- **Townships** – MFT distributions to townships are based on the “formula amount”; township funds are distributed as follows: (i) 50% according to the ratio of the number of motor vehicles registered in each township divided by the total number of vehicles registered in all townships, and (ii) 50% according to the number of centerline miles within the boundaries of each township, divided by the total number of centerline miles in all townships.

Department of Public Safety

The Department of Public Safety’s Bureau of Motor Vehicles (BMV) is currently responsible for collecting the additional fee assessed for a hybrid or plug-in electric vehicle per registration year and transmitting it to the State Treasurer for distribution in the same manner as the motor fuel tax. The BMV will incur one-time costs to reprogram information technology (IT) operations in order to implement the five-year suspension of those fees. Presumably, the BMV will incur similar one-time IT costs at the end of the five-year period to resume fee collection and distribution.

Other state agencies

Revenue for two funds administered by the Department of Natural Resources (DNR), the Waterways Safety Fund (Fund 7086) and the Wildlife Boater Angler Fund (Fund 5P20), are also moderately impacted by the bill. These funds receive a set percentage, 0.875% and 0.125% respectively, of motor fuel tax revenue. The Department uses this MFT revenue to support boating access, boating regulation and safety, and restoration and management of fish populations. Transfers to the Tax Refund Fund (Fund 4250) and the Motor Fuel Tax Administration Fund (Fund 5V70) may also be impacted, though the changes will not impact the operation of state agencies.