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Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsor: Sen. Rulli

Local Impact Statement Procedure Required: Yes

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Highlights

State sales tax electric vehicle exemption

- Authorizing a sales tax exemption through December 31, 2031, for the retail sale or lease of certain electric vehicles would reduce state tax revenues between \$55 million and \$70 million per year in the next few fiscal years. Revenue losses would likely grow in future years, but the bill has codified caps on qualifying vehicle prices that may limit the tax exemption's applicability.
- The state tax revenue loss would be shared by the state General Revenue Fund (GRF, 96.64%), the Local Government Fund (LGF, 1.66%), and the Public Library Fund (PLF, 1.70%). Funds deposited into the LGF and PLF are distributed to counties, municipalities, townships, and public libraries according to statutory formulas and decisions by county budget commissions.

Electric Vehicle Retooling and New Equipment Acquisition Program

- The bill appropriates \$15.0 million from the GRF to provide grants in each of FY 2022 and FY 2023 for this program under the Department of Development (DEV). The agency will incur marginal costs for administering the grant program and producing an annual report.

Electric Vehicle Training and Modernization Program

- Also under the DEV budget, the bill appropriates \$10.0 million from the GRF in each fiscal year to provide grants under the Electric Vehicle Training and Modernization Program. The funding will be used to provide payments to training providers and individuals enrolled in qualified training and certification programs.

- A training provider may seek up to a maximum \$25,000 reimbursement under the Modernization Program for each of the eligible categories of costs detailed in the bill. Individuals in training programs may apply to training providers for maximum grants of \$3,000, \$15,000, or up to the total cost of the program's education expenses depending on the circumstances specified in the bill.

Electric Vehicle Incentive Program

- The bill appropriates \$750,000 from the GRF under the DEV budget to cover its costs in running the various aspects of the Electric Vehicle Incentive Program. Other entities involved with the program include the Department of Taxation, and DriveOhio, the state's public-private collaboration to expand Ohio's smart mobility capacity and infrastructure.
- Part of these costs will be for developing and maintaining a dashboard displaying the location of electric vehicle sales subject to the bill's new state sales tax exemption and the total number of such sales.

Transportation electrification programs

- Authorizing electric utilities to implement transportation electrification programs would eventually create a new monthly rider on customer bills, but the annual costs to state agencies and political subdivisions would likely be minimal.

Detailed Analysis

State sales tax electric vehicle exemption

The bill authorizes a limited state sales tax exemption for the retail sale or lease of certain electric vehicles (EVs).¹ The exemption applies to new or used battery electric motor vehicles and new plug-in hybrid electric motor vehicles purchased or leased from a motor vehicle dealer from the first day of the fourth month after the bill's 90-day effective date or January 1, 2023, whichever is sooner, to December 31, 2031. The exemption does not apply to sales taxes levied by counties and transit authorities, nor does it apply to the purchase or lease of a used plug-in hybrid electric vehicle.

The sales tax exemption is capped as follows:

- \$2,000 for the sale or lease of a new battery electric motor vehicle;
- \$1,000 for the sale or lease of a used battery electric motor vehicle; and
- \$1,000 for the sale or lease of a new plug-in hybrid electric motor vehicle.

Since the current state sales tax rate is 5.75%, the bill effectively exempts \$17,391 of the purchase price for a used battery electric motor vehicle or new plug-in hybrid electric motor

¹ Vehicle types eligible for this new exemption are defined in continuing law, R.C. 4501.01. "Battery electric motor vehicle" means a passenger car powered wholly by a battery cell energy system that can be recharged via an external source of electricity. "Plug-in hybrid electric motor vehicle" means a passenger car powered in part by a battery cell energy system that can be recharged via an external source of electricity.

vehicle, and it effectively exempts \$34,783 of the purchase price for a new battery electric motor vehicle. The cap does not increase over the nine-year duration specified in the bill.

The temporary sales tax exemption does not apply to all electric vehicles sold or leased. If the vehicle is purchased for a business use, the business must operate in Ohio. If the vehicle is purchased for nonbusiness use, the bill limits the exemption to those vehicles below a set manufacturer's suggested retail price (MSRP): up to \$80,000 for a van, pick-up truck, or SUV and up to \$55,000 for any other passenger vehicle. The MSRP threshold does not increase over the nine-year duration specified in the bill. However, the Accelerating Ohio's Automotive Industry Task Force ("Task Force") created by the bill may make recommendations to the General Assembly to increase the sales tax exemption or the qualifying MSRP values.

Fiscal effect

Absent an increase in the MSRP threshold, the bill might preclude the majority of available new models from qualifying from the sales tax exemption by the year 2031. In the earliest years of the sales tax exemption, between 40,000 and 50,000 vehicle purchases could benefit from the bill. Under this scenario, state sales tax receipts would be reduced between \$55 million and \$70 million, annually. Revenue losses would begin in FY 2023 and extend to FY 2032, with the revenue loss in that final year amounting to roughly half of a full year's loss.

The revenue losses could fluctuate significantly over the nine-year (approximate) duration specified in the bill. Many new electric vehicles are already priced above the eligible threshold, so tax revenue losses may accelerate as lower priced models gain more market share. Future prices of electric vehicles are uncertain. Demand appears to be growing, but is generally influenced by the availability of federal tax credits; and supply of EVs is expected to increase dramatically due to announced large investments by auto manufacturers and battery suppliers, which would tend to reduce future EV prices. For purposes of this fiscal note, LBO assumes an average price inflation of 4%. To the extent future prices exceed this assumption, estimated revenue losses from the bill would be higher.

The majority (96.64%) of any tax revenue losses would be borne by the GRF. The remaining tax revenue losses would be borne by two local government funds, the Local Government Fund (LGF) and Public Library Fund (PLF). The LGF and PLF each receive transfers equal to 1.66% of GRF tax receipts under codified law, but the PLF receives 1.70% of GRF tax revenue during the current biennium due to an uncoded provision of H.B. 110. Under the illustrative scenario shown above, the share of the foregone revenue to the two funds could range between \$0.9 million and \$1.2 million per year.

Permissive county and transit authorities' sales taxes share the state sales tax base. However, the bill uniquely applies this sales tax exemption to the state sales tax, but not to R.C. 5739.021 (permissive county sales tax) or R.C. 5739.023 (permissive transit authority sales tax). Thus, the bill precludes a loss of sales tax revenue to these local governments.

The Tax Commissioner must administer this new sales tax exemption. Among other things, the bill requires the Commissioner to compile a list of battery electric motor vehicles and plug-in hybrid electric motor vehicles eligible for the exemption and subsequently publish that list on the Department of Taxation's (TAX's) website. TAX must update the list at least once per year. LBO staff assume that these additional expenditures would be absorbed within TAX's existing budget.

Electric Vehicle Retooling and New Equipment Acquisition Program

The bill appropriates \$15.0 million to GRF line item 195574, Electric Vehicle Retooling and Equipment Program, to provide grants in each of FY 2022 and FY 2023. The grant amount under the Electric Vehicle Retooling and New Equipment Acquisition Program cannot exceed \$1.5 million, nor exceed 50% of the cost the original equipment manufacturer or supplier included in the grant application. This grant supports the purchase of necessary equipment to produce parts or components for battery electric motor vehicles or plug-in hybrid electric motor vehicles or to assemble these vehicles, including equipment necessary for retooling an existing facility or establishing a new facility to produce parts or components for or assemble electric vehicles. If a manufacturer or supplier is not in compliance with any requirements under the Retooling Program, the bill enables the Director of the Department of Development (DEV) to charge the recipient for the unamortized value of a grant if the DEV Director determines that the manufacturer or supplier is not in compliance with any requirements under the program. The Department of Development will incur the cost for administering the grant program and producing an annual report required under the bill.

Electric Vehicle Training and Modernization Program

The bill appropriates \$10.0 million to GRF line item 195575, Electric Vehicle Training and Modernization Program, for the Department of Development to administer the program and fund reimbursements in each of FY 2022 and FY 2023. Under the bill, a training provider may seek up to a maximum \$25,000 reimbursement under the Modernization Program for each of the following categories of costs:

- Acquiring new equipment for use by students, apprentices, employees, and instructors in a training program;
- Providing training for instructors on a new or updated training program curriculum, including safety standards and best practices for instructing the curriculum;
- Providing marketing, outreach, or recruiting activities designed to encourage individuals to enroll or participate in a training program;
- Installing, modifying, or upgrading a service facility, charging station, or equipment used to repair, service, or perform maintenance on electric vehicles;
- Providing grants to Ohio residents who enroll as students or apprentices or participate as employees in a training program.

Individuals may apply to training providers for grants of various amounts. Specifically, the grant amounts outlined in the bill are as follows: (1) up to \$3,000 if enrolled as a student in an electric vehicle training certificate or credential training program and has previously received an automotive technician certificate or credential, (2) up to \$15,000 if enrolled as a student in an electric vehicle training certificate or credential training program and has not previously received a certificate or credential, (3) an amount up to the total cost of a program's education expenses if enrolled as an apprentice in an electric vehicle infrastructure certificate or credential training program, and (4) a maximum of \$3,000, but not exceeding the total cost of the program if an employee of a motor vehicle dealer or manufacturer.

Electric Vehicle Incentive Program

The bill appropriates \$750,000 to GRF line item 195418, Electric Vehicle Incentive Program, to cover administrative costs incurred for stimulating efforts to increase electric vehicle production in Ohio. While the program is to be administered by DEV, it also encompasses oversight of the state sales tax exemption authorized by the bill (see “**State sales tax electric vehicle exemption**,” above), which is to be administered by TAX. The appropriation is also to be used to cover the cost of the new electric vehicle dashboard administered by DriveOhio, the state’s public-private collaboration to build smart mobility infrastructure.

According to DriveOhio, it will potentially incur costs ranging from \$10,000 to \$50,000 to create and ongoing costs to maintain the electric vehicle state sales tax exemption dashboard displaying the location of electric vehicle sales subject to the bill’s new state sales tax exemption and the total number of such sales. If DriveOhio ceases to exist, the Ohio Department of Transportation (ODOT) will be responsible for the maintenance of the dashboard so long as ODOT maintains the alternative fuels dashboard as well. Otherwise, DEV is to maintain the electric vehicle state sales tax exemption dashboard.

Accelerating Ohio’s Automotive Industry Task Force

DriveOhio will incur administrative costs for supporting the 27-member Accelerating Ohio’s Automotive Industry Task Force. The Task Force is responsible for (1) preparing a plan for electric vehicle product adoption and an economic impact study evaluating the electric vehicle product market, (2) determining, at least biennially, if adjustments are warranted for the (a) sales tax exemption amounts for the retail sale or lease of battery electric motor vehicles or plug-in hybrid electric vehicles and (b) maximum amount for MSRP, (3) completing other duties related to electric vehicles such as training and training centers, product and workforce inventory, research and development, and infrastructure, and (4) generating an annual report. Task Force members will receive travel reimbursement for mileage, which is currently 55¢/mile.

Transportation electrification programs

The bill permits electric distribution utilities (EDUs) to develop programs to promote, prepare for, and support transportation electrification within the EDU’s certified territory. The programs must be developed as part of the EDU’s electric security plan under the competitive retail electric service law.

The bill specifies that the Public Utilities Commission of Ohio (PUCO) must approve an EDU’s transportation electrification programs if the programs meet the program requirements enumerated by the bill. If an EDU’s programs are approved, PUCO must authorize cost recovery of all prudently incurred costs, including electric grid infrastructure costs, for the programs. Costs approved for recovery must be recovered through a mechanism established in a distribution rate case under the utility ratemaking law or a distribution rider under the EDU’s electric security plan.

Fiscal effect

Approximately 86% of Ohio’s electric utility customers are served by an EDU, and the bill will create a charge on their future electric bills enabling the utility to recover costs incurred for the transportation electrification program. The new electric bill rider would be imposed during a future rate case proceeding before PUCO. Since the bill incorporates this new ratepayer charge into an existing process for determining base distribution rates or the standard service offer

made available to electric customers, LBO assumes PUCO will bear those additional duties within its existing budget resources.

LBO cannot predict the scope and details of future programs implemented by utilities. Presently, AEP Ohio levies a “Smart City Rider” to recover costs associated with technology demonstration projects for electric vehicle charging stations and microgrids. Among other things, the proceeds from the rider enable AEP Ohio to operate an EV charging station rebate program for up to 375 network-connected, smart EV charging stations. The program costs ratepayers about \$3.3 million per year, and the monthly charge is between 12¢ and 62¢ per month, respectively, for residential and nonresidential customers.