



## Three Recommendations to Improve Impact of Ohio Motor Fuel Tax

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### Ohio's Motor Fuel Tax: Not a Sustainable Source, But Something to Grow From

Revenues from Ohio's motor fuel tax have barely increased since 2010,<sup>i</sup> and are expected to continue to flat line or decline as vehicles become more efficient and switch to alternative sources of fuel. As a result, contributions from the gas tax to the state's transportation budget will continue to diminish.

Despite its shrinking importance, the motor fuel tax is a long standing source and will remain an important resource for the Department of Transportation. To meet the demands on Ohio's transportation system, the state should modernize and maximize this resource.

### Three Policy Recommendations for Ohio's Motor Fuel Tax

1. Remove constitutional restrictions on the motor fuel tax through a legislatively-initiated statewide ballot.
2. Amend RC 7735.05 to direct the Department of Taxation to index the motor fuel tax to the rate of growth in transportation infrastructure costs.
3. Raise the motor fuel tax.

#### #1) Remove constitutional restrictions on the motor fuel tax through a legislatively-initiated statewide ballot

In 1947, twenty-two years after establishing a motor fuel tax, the state constitution was amended to limit the gas tax to the construction and maintenance of highways.<sup>ii</sup> This constitutional restriction made sense at the time—the post-war, modern highway system was being built and Ohio needed to ensure its manufacturers and businesses had access to the growing federal network.

But today, in 2016, Ohio's transportation system is multi-modal and the movement of goods and people are not limited to highways. Now, Ohio's economic competitiveness rests on its access to rail lines, deep water ports in Lake Erie and on the Ohio River, airports capable of receiving heavy cargo planes, and high quality public transportation that appeals to millennials and assists aging and disabled residents in accessing healthcare, shopping, family and friends.

- Twenty other states, including Michigan, New York, and Illinois, do not constitutionally limit their motor fuel tax to only highways and make modest allocations from the motor fuel tax for transit, aviation, ports, and rail.<sup>iii</sup>

#### #2) Amend RC 7735.05 to direct the Department of Taxation to index the motor fuel tax to the rate of growth in transportation infrastructure costs

Tying the gas tax to the cost of supplies and equipment that build and maintain Ohio's transportation system ensures a tight match between revenues and expenditures. Other states, such as Kentucky and West Virginia, "automate" the inflation adjustment to a portion of their motor fuel tax;<sup>iv</sup> meaning that the Tax Commissioner adjusts the rate as a matter of course in each transportation budget.



- There is strong precedent to index the gas tax to inflation: Ohio did until 1993.<sup>v</sup>
- The cost of supplies, equipment, and labor have increased; what cost ODOT \$1 in 2006 now costs the Department \$1.65.<sup>vi</sup>
- 16 states index their gas tax to inflation, including Kentucky and Florida.
- If Ohio's gas tax had been indexed since its last adjustment in 2005, Ohio would collect \$0.34 per gallon instead of \$0.28 gallon.

### #3) Increase the motor fuel tax

Raising the motor fuel tax and indexing it to the cost of inflation in infrastructure costs are not mutually exclusive; recently Georgia and Rhode Island undertook such reforms in one act.

- Ohio has not increased its motor fuel tax since 2005.
- Prior to 2005, Ohio routinely increased the motor fuel tax, including every year between 1981 and 1989, except 1984, 1985, and 1986.
- Even after the tax rate was decoupled from inflation (e.g. after 1993), the rate was adjusted four times: 1993, 2003, 2004, and 2005.

Since 2013, 15 states have increased taxes on motor fuel; 12 of those states raised the amount of taxes per gallon, which is how Ohio taxes (in comparison to assessing a sales tax).<sup>vii</sup>

- The average increase has been 6 cents per gallon.
- The Legislatures in Nebraska and Massachusetts both overrode gubernatorial vetoes to pass their tax increases.<sup>viii</sup>

See Appendix I for more information on each of the 12 states that have raised their motor fuel taxes since 2013.

### **Conclusion: The Motor Fuel Tax will remain an important source for the future of Ohio's transportation system**

Ohio cannot afford to not maintain its transportation system—commerce and business depend on it.

Removing constitutional restrictions will ensure the entire multi-modal system is adequately resourced; indexing the tax to inflation rates will automate adjustments and keep the state nimble and responsive to the changing economic environment. And raising the floor of the motor fuel tax will help Ohio regain lost ground.

Now is the time to invest in Ohio's multi-modal transportation system. The Ohio motor fuel tax is the not only source of revenue that can, or will, fund the modernization and diversification of Ohio's transportation system. But this tax has been in place for nearly a century<sup>ix</sup> and will remain one critical source among several for the next 100 years.



## Appendix I: States that have adjusted their Motor Fuel Tax since 2013

State and year the change was enacted	Gas Tax Increase per gallon <sup>x</sup>	Other adjustments
Georgia (2015)	6.7 cents; will be indexed in future	Increased other transportation-related fees
Idaho (2015)	7 cents	Instituted fee on electric and hybrid cars to generate new funding for bridges and roads; raised registration fees
Iowa (2015)	10 cents	-
Massachusetts (2013)	3 cents	-
Nebraska (2015)	6 cents	-
New Hampshire (2015)	4.2 cents	-
Rhode Island (2014)	1 cent; to be revisited every two years to adjust for inflation	Increased inspection fees
South Dakota (2015)	6 cents	Increased other transportation-related fees
Vermont (2013)	2 cents on diesel	Enacted sales tax on gasoline
Virginia (2013)	-	Charges registration fees for hybrid, electric, and alt-fuel vehicles
Utah (2015)	5 cents	Created 12% tax on the average wholesale price of fuel
Washington (2015)	11.9 cents	Increased other transportation-related fees
Wyoming (2013)	10 cents	-

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<sup>i</sup>[http://www.tax.ohio.gov/Portals/0/communications/publications/annual\\_reports/2014\\_annual\\_report/2014\\_AR\\_Section\\_2\\_Motor\\_Vehicle\\_Fuel\\_Tax.pdf](http://www.tax.ohio.gov/Portals/0/communications/publications/annual_reports/2014_annual_report/2014_AR_Section_2_Motor_Vehicle_Fuel_Tax.pdf) page 85, table 1

<sup>ii</sup><https://www.dot.state.oh.us/Divisions/Legislative/Documents/ODOT%20REPORT%20-%20Maintenance%20of%20Municipal%20Routes%203-11-11.pdf> page 4

<sup>iii</sup><http://www.brookings.edu/es/urban/publications/gastax.pdf> page 17

<sup>iv</sup><http://taxfoundation.org/blog/state-inflation-indexing-gasoline-taxes>

<sup>v</sup>[http://www.tax.ohio.gov/portals/0/communications/publications/brief\\_summaries/2005\\_brief\\_summary/motor\\_vehicle\\_fuel\\_tax.pdf](http://www.tax.ohio.gov/portals/0/communications/publications/brief_summaries/2005_brief_summary/motor_vehicle_fuel_tax.pdf) page 85

<sup>vi</sup><http://www.dot.state.oh.us/preservation/Documents/HomePageSlider/PreservationHomePageSlider1.html#>

<sup>vii</sup><http://www.transportationinvestment.org/2015/09/14/in-depth-reports-examine-15-recent-state-gas-tax-increases/>

<sup>viii</sup> The Nebraska governor and legislative majority were Republican. The Massachusetts General Assembly were Democratic and the Governor Republican.

<sup>ix</sup> Ohio's first motor fuel tax was enacted in 1925. It was 2 cents per gallon at the time.

<sup>x</sup>[http://www.tax.ohio.gov/Portals/0/communications/publications/annual\\_reports/2014\\_annual\\_report/2014\\_AR\\_Section\\_2\\_Motor\\_Vehicle\\_Fuel\\_Tax.pdf](http://www.tax.ohio.gov/Portals/0/communications/publications/annual_reports/2014_annual_report/2014_AR_Section_2_Motor_Vehicle_Fuel_Tax.pdf)

<sup>x</sup> Ohio charges cents per gallon, not a sales tax