



Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 261 of the 129th G.A.

Date: September 19, 2011

Status: As Introduced

Sponsor: Rep. R. McGregor

Local Impact Statement Procedure Required: Yes

Contents: To allow a credit against the personal income tax or commercial activity tax for the installation of an alternative fuel facility

State Fiscal Highlights

STATE FUND	FY 2012	FY 2013	FUTURE YEARS
General Revenue Fund			
Revenues	Loss, likely in the millions, potentially in the tens of millions of dollars	Loss, likely in the millions, potentially in the tens of millions of dollars	Losses through about FY 2017, likely in the millions, potentially in the tens of millions of dollars
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- Allowing a nonrefundable tax credit for the installation of an alternative fuel facility against the state personal income tax (PIT) and commercial activity tax (CAT) would reduce receipts from those taxes.
- The state GRF would bear the entire revenue loss under the PIT, due to the Local Government Fund (LGF) and the Public Library Fund (PLF) "freeze" in this biennium. Beginning in FY 2014, any reduction to PIT (and CAT) receipts would also reduce the amount distributed to the LGF and PLF.
- In FY 2012, 25% of revenue from the CAT is credited to the GRF and in the subsequent fiscal years 50% will be. The remaining revenue is used to reimburse school districts and other local governments for the reductions and phase-out of local taxes on tangible personal property. If CAT receipts are insufficient to make required reimbursements, the GRF is required to subsidize those reimbursements.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2011	FY 2012	FUTURE YEARS
Counties, Municipalities, Townships, Public Libraries			
Revenues	- 0 -	- 0 -	Potential loss through about FY 2017
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- Allowing a nonrefundable tax credit for the installation of an alternative fuel facility against the state PIT and the CAT would reduce receipts from those taxes.
- In this biennium, the state GRF would bear the entire revenue loss due to the LGF and the PLF "freeze". Beginning in FY 2014, any reduction to those tax receipts would also reduce the amount distributed to the LGF and the PLF.

Detailed Fiscal Analysis

The bill would allow a nonrefundable tax credit against the personal income tax (PIT) or commercial activity tax (CAT) for the installation of a "qualifying facility" for dispensing alternative fuels¹ placed into service in this state on or after the effective date of this bill and before January 1, 2015. The credit equals 30% of the total cost of purchasing, constructing, or installing tangible personal property to be incorporated into the qualifying facility, including any equipment or related items to be used for dispensing or storing alternative fuel. If the facility is a commercial facility, the taxpayer is permitted to claim the credit in equal portions over three years; if the facility is not commercial, the full amount of the credit may be claimed in one year. The bill specifies that the credit may also be claimed by a taxpayer that sells tangible personal property to an entity that is not subject to the PIT or the CAT, to be incorporated into a qualifying facility, in which case the credit is equal to the price of the property sold to the purchaser. The bill provides that if the credit amount exceeds the taxpayer's liability, the excess may be carried forward for use in future taxable years.

The taxpayer may not claim an installment of the CAT credit for any taxable year when the qualifying facility is removed from service, but the taxpayer may continue to apply any credit amount that may be carried over from the preceding taxable year.

Fiscal effect

The bill would reduce state PIT and CAT revenue. The amount of revenue loss in each taxable year would directly depend on the costs to purchase or construct an alternative fuel facility,² the number of facilities constructed, expenses to install any equipment or related items for dispensing or storing alternative fuel, and the amount of taxpayers' liabilities. The cost of one such facility would range between thousands of dollars to billions of dollars depending on the type of alternative fuel facility.³ The number of facilities constructed would depend on cost per facility and investors' beliefs

¹ The bill defines "alternative fuels" to include compressed or liquefied natural gas, liquefied petroleum gas, hydrogen, electricity, and "any liquid, if the percentage of ethanol in the liquid is at least eighty-five per cent," if the fuel is used to propel motor vehicles.

² According to data from the U.S. Department of Energy, there were 185 facilities providing alternative fuels in Ohio as of April 30, 2011.

³ According to a report published by the National Renewable Energy Laboratory (NREL), *Cost of Adding E85 Fueling Capability to Existing Gasoline Stations*, dated March 2008, the cost to add E85 equipment to existing gasoline stations ranged between \$2,300 and \$200,000. Based on another NREL report, *Hydrogen Infrastructure Transition Analysis*, dated January 2006, the estimated costs to build a hydrogen fueling station range between \$257 million and \$3.5 billion. NREL is a national laboratory of the U.S. Department of Energy, Office of Energy Efficiency and Renewable Energy.

about the demand for alternative fuels. The cost per facility is effectively reduced 30% by the proposed tax credit, ignoring the time value of money.

LSC economists are unaware of any research that could serve as a reliable basis for estimating any of these variables or the revenue loss from the proposed tax credit. Plausible scenarios yield revenue losses in the millions. Assuming, for example, that five ethanol fueling facilities were constructed in each of eight major cities in Ohio in FY 2012, at \$200,000 per facility, there would be about \$2.4 million in revenue loss over the three years. In addition, the 30% tax credit may provide an incentive for an electric car's owner to purchase a "plug-in" device for personal use. Based on U.S. Energy Information Administration data on electric vehicles, in 2009 there were 470 electric cars in Ohio. According to a report, *Plugging In: A Stakeholder Investment Guide for Public Electric-Vehicle Charging Infrastructure*, published by the Rocky Mountain Institute, dated July 2009, the estimated costs to install a charging station ranged between \$500 and \$7,000. In addition, a charging unit may be installed at an electric car owner's home for personal use for about \$1,000 per unit.⁴ Assuming 50% of the vehicle owners purchased such a device due to the effective discount arising from the tax credit, there would be about a \$70,500 revenue loss.

These scenarios suggest that a revenue loss in the millions is likely. LSC economists cannot rule out the possibility that the effective 30% discount would lead to significantly greater investments, leading to revenue losses significantly higher than those yielded by these illustrations.

Receipts from the PIT and a portion of CAT receipts are currently credited into the GRF. Under permanent law, a portion of GRF tax receipts are subsequently transferred to the LGF and PLF. However, Am. Sub. H.B. 153 of the 129th General Assembly, the operating budget act for FYs 2012 and 2013, temporarily provides for transfers of pre-determined amounts to the LGF and PLF.⁵ Thus, any decrease in those tax receipts during the biennium will affect the GRF only. Beginning in FY 2014, transfers to the LGF and PLF will resume based on a fixed percentage, but the applicable percentage is not yet known. The Tax Commissioner will determine, by July 5, 2013, the ratio of FY 2013 transfers to the respective funds to total FY 2013 GRF tax revenues.⁶ Subsequent transfers to the LGF and PLF will be based on those respective ratios.

Under current law, the GRF receives 25.0% of CAT revenues in FY 2012 and 50.0% in FY 2013 and thereafter. The remaining CAT receipts are used by the state to reimburse school districts and other local governments for the reductions and phase-out of local taxes on tangible personal property. Reimbursements for such purposes are

⁴ Estimated cost per at-home charging unit is based on a Wall Street Journal article, *GE, Siemens Set Challenge to Car Charger Start-Ups*, dated February 24, 2011.

⁵ Section 757.10 of Am. Sub. H.B. 153 of the 129th General Assembly.

⁶ R.C. 131.51.

deposited into the School District Tangible Property Tax Replacement Fund and the Local Government Tangible Property Tax Replacement Fund. Currently, the GRF is required to subsidize the required reimbursements if CAT receipts are insufficient. As a result, the GRF may bear additional revenue loss.

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