Testimony on Motor Fuel Tax Provisions of Sub. HB 62

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Good morning Chairman McColley, Vice Chair Uecker and Ranking Member Antonio, my name is Aaron Strahota and I am Director of Business Development for Speedway and I would like to take a moment to comment on the motor fuel tax provisions in the transportation budget (Sub. HB 62) presently pending before this committee.

Speedway operates the second largest company-owned and operated convenience store chain in the United States. Our company has a long history and deep roots in Ohio. Speedway's corporate offices are located in Enon, Ohio just west of Springfield in Clark County. Our Ohio store count stands at 495 and we employ 7,560 with an annual payroll exceeding $230 million.

Under the House-passed version of HB 62, the state's current 28-cent per gallon motor fuel tax is slated to increase 10.7 cents per gallon phased in over two years, while the current diesel fuel tax is slated to increase 20 cents per gallon over three years. Whenever a state proposes to increase the motor fuel tax, Speedway evaluates the proposed increases using several factors.

One: What will be the impact on product demand? Generally, any planned increase in the motor fuel tax is expected to have a demand impact on the underlying products, which may vary dramatically based upon the corresponding rates in the surrounding states. In other words, will the proposed increase make the overall price for the impacted products uncompetitive relative to what the price for such products may be in neighboring states?

Two: Will electric and other alternative fuel vehicles pay their fair share of any proposed tax burden imposed on transportation or does the tax unfairly burden our products? and;

Third: Does the proposed increase in the motor fuels tax have any element of future automatic increases such as increases tied to an inflationary index?

The proposed 38% (10.7-cent per gallon) increase in the state gasoline tax, while not desired, keeps Ohio on par with our neighboring states and we commend the House for recognizing that an 18-cent per gallon (64%) increase would not be in line with neighboring states and would have the potential to cause significant impact to Ohio businesses. Speedway would urge you to consider whether the proposed increase can be further reduced to minimize the harm. On the other hand, the proposed 20-cent per gallon (71%) increase in the diesel fuel tax rate makes Ohio's diesel fuel tax rate greater than some surrounding states is expected to have a much larger impact upon your Ohio businesses. If left unchanged, this total 48-cent per gallon diesel fuel tax rate would result in a loss of diesel fuel volumes across our footprint in Ohio because of the unique nature of the diesel fuel markets.

Lessons learned from the Indiana experience are helpful. In Indiana, the diesel tax that went into effect July 1, 2017 made that state's tax the fourth highest rate on the sale of diesel fuel in the continental U.S. and the highest of all their neighboring states. At the time of the Indiana tax increase, Speedway was in the process of expanding many of our existing stores to add Commercial Fueling Lanes (CFLs) featuring a separate diesel island with three to six truck diesel fueling lanes. These stores with CFLs were becoming a major growth engine for our company, comprising nearly half of our new convenience store construction. Think of these stores as a truck stop but without some of the amenities like showers or truck maintenance services. These assets fill an existing void in the retail diesel market and have been a major success for Speedway.

Our CFLs attract all types of trucking customers, but we focus primarily on attracting small-to-mid-size regional fleets that use interstate and intrastate routes. These customers are highly price sensitive and make their fuel purchasing decisions based on the lowest retail price on an interstate basis. Because of the increase in the Indiana diesel tax, our Indiana CFLs were immediately impacted as their pricing was no longer competitive with surrounding states.

Prior to the Indiana diesel tax increase, we had just completed two new CFLs, rebuilt an existing CFL and added diesel lanes to one of our convenience store locations. As a direct result of this tax increase, our diesel volume at these locations decreased on average 41%, equal to 2 million gallons of diesel fuel per month. Not only were our recent projects underperforming, we abandoned all plans for diesel expansion in Indiana for 2017 and beyond, including six planned future diesel projects. The estimated capital to be invested for these projects was nearly $37 million. We currently have no plans to invest in CFLs in Indiana and have shifted that capital investment to neighboring states. Additionally, because of the decreased diesel fuel volumes and lower resulting sales of merchandise inside the CFLs, Speedway is now paying less sales and income taxes to the state at our CFL locations.

For additional perspective, each new CFL requires 30-40 permanent jobs at the store, as well as the construction jobs to build it. These stores also support local jobs for maintenance technicians, marketing and inventory specialists and field operations managers. These new jobs that were planned for Indiana obviously never materialized as a direct result of the increased diesel tax. These are excellent jobs that provide medical and dental benefits, the potential to earn bonuses, and a 401k program with a company match. We are proud to provide long-term career opportunities for our employees.

I mention the Indiana example as a cautionary example for Ohio. Tax rates need to be in line with other states in the region for Ohio businesses to thrive and compete. We own and operate 28 of these stores in Ohio and currently have two active projects under construction and are concerned that the proposed diesel fuel tax increase will harm these locations. If passed, Ohio would have the fourth highest diesel tax of all states and, except for Pennsylvania, will be higher than all neighboring states. This is very important because interstate truckers have many choices on where to fuel. In fact, because of their large fuel tank capacity, they can fuel well outside of Ohio’s neighboring states. Those states include Wisconsin, Illinois, Tennessee and Virginia and they all have a lower diesel tax rate

Regarding our second factor, we are comfortable with the provisions that levy an annual surcharge to register alternative fuel vehicles, like electric, compressed natural gas (CNG) and hybrids, with the proceeds going toward road and bridge construction and maintenance. While the alternative fuel vehicles remain a small segment of the vehicle fleet in Ohio, we expect continued growth in this niche segment.

Last, we commend the House and encourage the Senate to refrain from indexing motor fuel taxes to inflation. Motor fuel taxes that automatically increase without any legislative oversight or justification by the Administration is not good policy.

Thank you for the opportunity to add Speedway’s perspective to this important issue of motor fuel tax policy and I welcome any questions you may have.