



January 29, 2010

To: Association Members
Friends of Public Transit

Fm: Joshua W. Shaw, Executive Director
Gus Khouri, Legislative Advocate

RE: GOVERNOR'S "GAS TAX SWAP" PROPOSAL

Currently, the state imposes an 18-cent per gallon tax on gasoline and diesel fuel (known as the gas tax). These monies are used for state highways and local streets and roads. The state also charges a sales tax on these fuels (Prop 42 for example), and the revenues are used for public transit and rail, as well as state highway expansion (STIP) and local street and road improvements.

The Governor's 2010-11 State Budget proposes a transportation funding "gas tax swap" which eliminates the sales tax on gasoline and diesel and increases the excise tax in order to provide General Fund relief and greater capacity to pay down bond debt service. According to the Legislative Analyst's Office, the state's current bond debt service is at 9 percent and climbing, well over the recommended threshold of 6 percent.

Furthermore, this proposal, eliminates funding for the Public Transportation Account (PTA), and is clearly designed to respond to the California Transit Association's litigation against the 2007-08 State Budget, *Shaw v. Chiang*, and as upheld by the California Supreme Court -- requiring the spillover revenues to be deposited in the PTA, and for those revenues to be spent on mass transportation purposes. As much as the law requires those revenues to be spent on transit if those revenues materialize, state law cannot force those tax revenues to be collected; the Governor proposes eliminating the tax source so he doesn't have to spend them on transit.

Impact of the Swap

The Governor's "gas tax swap" proposes to:

- Eliminate the state sales tax on fuel and make up most of the lost revenues with an increase in the per gallon gas tax. The gas tax increase would be capped so that in total motorists would not pay more than they do now in gas and sales tax combined. Motorists would be paying 5 cents less per gallon (the additional cent that was charged per the February 2009 budget will expire on June 30, 2011).
- Use the revenues from the gas tax increase to (1) pay debt service on transportation bonds (Prop 1B, Prop 116, Prop 1A?) and (2) fund state highways and local streets and roads at amounts equivalent to what each would receive under current law. The funding for state highways would be available for maintenance and rehabilitation (major repairs), in addition to expansion purposes.
- Completely eliminates funding for public transit and rail, accelerate bond debt-service expenditures and provide a tax cut. Using FY 2010-11 numbers, the proposal eliminates a total of \$1.586 billion from the four core sources of funding for the Public Transportation Account (PTA): sales tax on gasoline (\$315 million), spillover (\$897 million), sales tax on diesel (\$313 million), sales tax on 9 cents of the excise tax (\$61

- For 2010-11, the proposal would reduce fuel sales tax revenues by \$2.8 billion. The budget proposes to partially offset the revenue loss with a 10.8 cents per gallon gas tax increase, increasing the gas tax to 28.8 cents, which would generate about \$1.9 billion for the following:
 - \$629 million for state highways.
 - \$629 million for local roads.
 - \$675 million for debt service on transportation bonds. (The Governor would use an additional \$400 million in transportation funds to pay other General Fund debt-service costs.)
- As a result, there would be a net reduction in transportation revenues of about \$1 billion (\$976 million) in 2010-11 which would effectively provide California motorists a tax cut equivalent to about 5 cents per gallon at the pump.
- By eliminating the sales tax on gasoline and diesel, the Governor is creating a fixed, stagnant revenue stream that will rely solely on consumption. The state would no longer benefit from the fluctuation of gas prices which generate additional revenue for transportation purposes. In fact, the California State association of Counties estimates that while revenues from the sales tax on gasoline appreciate at 4%, the gas tax generates only 1%. While the proposal indexes the 10.8 on annual basis, it is not enough to keep pace with the revenue generated by the sales tax.
- Consequently, this proposal will have a negative impact on maintaining resources for transportation purposes given the ever increasing fuel efficiency of vehicles. This will undoubtedly have a severe impact on the SHOPP, STIP, and local streets and roads funding in the future.
- Funding for the STIP will shrink overall due to the elimination of transit funding. The California Transportation Commission (CTC) factors all revenues sources including the excise tax, sales tax on gasoline and diesel, spillover, and sales tax on 9 cents of the excise tax, into the development of the Fund Estimate. The Fund Estimate guides the CTC in developing the STIP. Without transit dollars, regional transportation planning or congestion management agencies will be left with the difficult task of potentially choosing to deprogram a highway project to fill the void for a transit project. For FY 2010-11, the PTA should receive nearly \$1.6 billion. The annual amount has traditionally been split 50/50 between the State Transit Assistance (STA) program (flexible funding for transit capital and operations) and state and regional programming side of the PTA, which includes the transit's STIP contribution. After deducting, costs for the intercity rail program (\$131 million) and other sundry expenses (Caltrans and CTC operations among other things), roughly \$600 million should be made available for the STIP from the PTA (this amount could only be spent on transit). Growth in the STIP will also be subdued because the annual growth rate of the excise tax is much less dynamic than the sales tax (1% vs. 4% respectively).