From: Rebecca Long
To: Rebecca Long
Date: 07/24/09 10:32 AM
Subject: Local Street & Road Funds Shall be Repaid

Update

Partnership Legislative Committee:

Good news, or at least a silver lining: the version of the budget passed by the Senate made a last-minute change to require that the local gas tax funds, known as HUTA, for Highway Users Tax Account, will now be borrowed rather than simply taken outright. Repayment will be made in equal portions over the next 10 years. It is not known yet whether the agreement requires that the funds be repaid with interest nor when the repayment will begin. The budget provides for a $985M transfer this year and another $745M in FY 2010-11.

Click on the URL below for a summary of the Bay Area transportation impacts from the budget agreement.

http://www.mtc.ca.gov/legislation/state_budget_7-09.htm

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Proposed Funding Measures That May Affect Transportation

Implementing a carbon tax would have benefits well beyond the obvious environmental benefits in the form of lower taxes in the future, assuming some revenues go to offset the current budget deficit and pay down debt.

Implementation

A carbon tax on the surface and air transportation sectors has the benefit of being relatively easy to implement from an administrative perspective.

The government sets a price per ton on carbon or carbon dioxide equivalent, then translates it into a tax on gas, diesel and fuel oil. Because the proposed carbon tax makes using dirty transportation fuels more expensive, it will encourage 'carbon-shifting' behavior and, thus, reduce consumption and increase energy-efficient transportation modes (i.e. a shift to mass transit).

Administratively, the proposed carbon tax is essentially a fuels tax and is an easy tax to administer. For surface transport, the tax would be imposed through the same mechanism now used for the state excise tax. For airlines, it would be only slightly more complicated. To minimize leakage, a one to two-person office could monitor flights, passengers, and destinations in order to calculate fuel burn, or to just use fuel "need" documentation that airlines must calculate for every flight in their flight plan or similar documentation.

A carbon tax as proposed herein could be implemented either as a stand alone pollution tax or alongside a carbon tax and trade system (either state or region-wide, or, ideally, a national cap and trade system). The advantage of the proposed tax as a complementary policy is that the expected price on carbon under a cap and trade regime is not going to be high enough to drive change in the transportation sector. Even the proposed carbon tax on its own is probably not high enough to drive significant changes in household transportation decision-making. But a cap and trade system and a carbon tax as proposed on fuels would bring about the kind of changes in household decision-making that would help the nation and state reach its greenhouse gas emission reduction goals.

In California, where transportation represents a much greater percentage of carbon emissions than it does nationwide, this would represent an important step forward in addressing the externalities in the transportation sector. Furthermore, California is not planning to include transportation fuels in the cap and trade system until 2015, so a carbon tax could help fill this gap and drive transportation sector changes in the meantime.

Carbon Tax Revenues

We estimate carbon tax revenues of $5 to $10 billion per year with a carbon tax of $20 per ton of CO2e. The revenues generated from the carbon tax will go to the General Fund to help offset the state's current budget deficit, with an as-yet undetermined portion dedicated to increasing the earned income tax credit for lower income households.

By using some revenue to offset taxes paid by lower income households and fund the budget deficit, the proposed carbon tax program will address the regressivity issue and create an additional benefit over and above the environmental benefit. Specifically, the carbon tax will reduce the economic cost that income taxes impose on the economy and reduce the deficit. Personal and corporate income taxes and payroll taxes distort, or reduce, the efficiency of an economy, because they reduce incentives to work, save or invest. By reducing the deficit, the carbon tax will pay for reductions in future taxes, because a smaller state deficit lowers the government's future interest costs, resulting in less tax revenue in the future to pay for interest on state debt.

Potential Concerns

Regressivity is a major economic and political concern. Most middle- and low-income households spend a larger percentage of their income on gasoline (and other fuels and electricity) than do wealthy households. The top 20% of U.S. households spend just 2.3% of their after-tax income on gasoline; the percentage for the lowest "quintile," 9.1%, is four times as high. Clearly, imposing a gasoline tax or, by implication, a carbon tax, *without tax-shifting or an earned income tax credit,* would have a disproportionate percentage impact on lower-income families. However, as noted above, this issue can be addressed in part through the targeted use of tax revenues.

From an environmental standpoint, the major concern is over the certainty of emissions reductions. Since a carbon tax relies on a price signal rather than an emissions cap to discourage carbon emissions, the carbon tax program would not provide a guaranteed quantity of emission reductions. Over time, the tax could be increased in order to induce a greater reduction in carbon emissions, but without a high degree of certainty of the actual outcome. Implementing the tax in conjunction with a cap and trade program could help address this issue.

Concerns about 'carbon leakage', the tendency for energy-intensive industries such as energy generation or manufacturing to migrate from states with a carbon tax to those without a carbon tax, would be mitigated under the proposed carbon tax. Transportation is one of the most carbon-intensive sectors, but with the least tendency to cause 'leakage'. The transportation sector cannot be moved to other states or regions with lower energy costs, and fuels for use in California are generally purchased in-state. Air transportation and trucking could cause some problems, as operators could make an effort to purchase fuel outside of California, but this issue can be fairly easily mitigated, monitored and controlled.

Support and Precedents

The carbon tax has the support of a broad array of industry leaders, economists and environmentalists (see Carbon Center website for complete list[3]). Last December, Rex Tillerson, the CEO of Exxonmobil, supported the idea of a carbon tax. He also said that he hoped that the revenues from a carbon tax would be used to lower other taxes.

Because of the link with global warming, a carbon tax is sometimes assumed to require an international administration, but that is not necessary. The EU considered a carbon tax covering its member states prior to starting its version of cap and trading in 2005, but many EU countries have enacted their own carbon tax programs and other countries are following their lead.[4]

Different forms of gas or fuel taxes, which are a type of carbon tax, exist in many countries and many states in the U.S.

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[3] http://www.carboncenter.org

[4] Numerous EU countries have a carbon tax. In 1991, Sweden enacted a carbon tax, placing a tax of $100 per ton on the use of oil, coal, natural gas, and other fossil fuels used in domestic travel. Industrial users paid 25-50% of the rate, and certain high-energy industries such as commercial horticulture, mining, manufacturing, pulp and paper industry were fully exempted. In 1997 Sweden raised the tax to $150 per ton of CO_2 and raised it again in 2007.

Finland, the Netherlands and Norway also introduced carbon taxes in the 1990s. Finland was the first to introduce the tax, even though it emits only 0.3 per cent of the world's carbon emissions. In 1993, the UK imposed the Fuel Price Escalator, an incrementally-increasing tax on retail petroleum. Italy introduced a carbon tax in 1998.

In February of 2008, British Columbia became the first jurisdiction in North America to implement a carbon tax of 2.4 cents per liter at the pump. Unlike previous proposals, legislation will keep the pending carbon tax revenue neutral by reducing corporate and income taxes at an equivalent rate.

Attachment Six

Memo from Mark Watts Re: Carbon Tax Proposal

Smith, Watts & Company, LLC.

Consulting and Governmental Relations

August 7, 2009

TO: Transportation clients

FROM: Mark Watts

SUBJECT: California Commission on THE 21st Century Economy

The California Commission on the 21st Century Economy has been working since early this year on addressing the volatility in the current state taxation structure that many believe has been at the heart of the recent budget deficits confronting the state. The commission was charged by the Governor (see Executive Order S-03-09, March 2009, and S-15-09, July 2009) to review and suggest changes to the tax structure for state and local taxes that will produce revenue streams that will be more stable and reflective of the California Economy. The Governor has requested that the commission complete its work by September 20; following submittal of the recommendations, the Governor has also announced that he will call a special session of the Legislature to consider the recommended package, on an "up or down" vote by the Legislature.

Through a series of open meetings, the commission has developed two tax structure proposals, the first of which is generally reflective of the sense of the majority of the commission, while the second, the so-called "Blue Plan", has been offered by a minority group lead by Fred Keeley, former Assembly Member and current Treasurer of Santa Cruz County.

As the commission works to complete its mission, the common approach emerging in both plans is to reduce tax rates or eliminate specific taxes, and on a revenue neutral basis, establish a new tax, referred to as the business net receipts tax (BNRT), which is modeled on the VAT tax approach used in many nations in Europe. However, the "Blue Plan", put forward by Keeley would also impose a new "pollution tax" on gasoline, at 18 cents per gallon.

Concerns

There are some very alarming aspects to both plans for the transportation industry as the commissioners continue the tax review process. First, a key component of both packages is the elimination of the state (not local) sales tax. The commission has apparently overlooked the fact that significant resources for California's transportation funding as it is presently configured rely on the state sales tax:

- Proposition 42 – state sales tax on motor fuels; funds STIP, Local Roads and Transit;
- Public Transportation Account – state sales tax on diesel sales, state sales tax on 9 cents of gas tax;
- Mass transit "spillover" – Sales tax on fuels during gas prices spike episodes;

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The other developing concern is that the second tax package, the Blue Plan, would impose a pollution tax on cars that is essentially an 18 cents per gallon new tax on gas, but the revenues would be deposited into the General Fund at a time when it is well documented that our core transportation programs are woefully underfunded.

To provide a simplified overview of how these tax packages would be presented, I have prepared the following chart:

Personal Income Tax	Corporate Tax	State Sales Tax		New Tax	"Blue Plan"
• Fewer brackets • Keep standard deduction • Retain other key deductions such as mortgage, property tax	• Eliminate	• Eliminate	Supplement with: Revenue Neutral	• Business Net Receipts	• 18 cents gas tax to General fund

Advocacy

To ensure that the Commissioners are fully cognizant of the concerns developing within the transportation industry in reaction to these proposals, I plan to develop a letter to submit to the commission laying out the technical flaws in their unfolding, preferred approach. I have already met with one of the commissioners who saw that clearly the commission had not considered the impacts on transportation funding of what they are developing. That commissioner provided some advice on how to approach the submittal of written testimony.

Additionally, I will be convening a session here in Sacramento of transportation advocacy groups to map out a plan.

Attachment Seven

Email from DeAnn Baker Re: Carbon Tax Proposal

Kiana Buss

From: DeAnn Baker

Sent: Tuesday, August 18, 2009 2:55 PM

To: Legislative Services

Subject: Tax Commission Working Group Update

I wanted to provide you with an update on the Tax Commission Working Group led by Fred Keeley this morning. We moved from a combination of a pollution/severance tax to a straight 18-cent gas tax. The proposal will be drafted by Leg Counsel for consideration at the next meeting scheduled for August 25. This would raise approximately $3 billion and would be in addition to the existing 18-cent tax. It would be divided as follows:

$1 billion State (Caltrans) for Article XIX purposes
$1 billion Local for Article XIX purposes
$400 million GF relief for GO transportation related debt service of a prospective nature (not retroactive)
$600 million for rebates to low-income drivers to reverse the regressive nature of the tax.

I realize this is considered politically DOA, but it was important to be there to shape the outcome of the proposal that will be drafted. Several Senate budget staffers were present (i.e. Gayle Miller, Brian Annis, Carrie Cornwell, etc.), as well as leg counsel. The direction of the Chair was that they were not treading into constitutional changes only statutory.

We also discussed the impact of the shift to the BNRT tax on Prop 42. I raised our concern about the impact on realignment and Prop 172 revenues as well. Apparently, they are talking about eliminating only the State's portion of the sales tax that flows to the general fund, thus it would not have an impact on those programs. Another working group is hashing out the details of that proposal.