



METROPOLITAN  
TRANSPORTATION  
COMMISSION

Agenda Item 2c(i)

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*Memorandum*

TO: Legislation Committee

DATE: May 4, 2012

FR: Executive Director

W. I. 1131

RE: SB 1396 (Dutton): Fuel Tax Cap

**Background**

SB 1396 (Dutton) — a two-thirds vote urgency measure — caps the state's gasoline excise tax at 35.7 cents per gallon and exempts gasoline purchases above \$4 per gallon from the sales tax. For diesel, the bill exempts purchases above \$4 per gallon from the sales and use tax and sets the cap at \$3.52 per gallon (excluding the diesel excise tax and the sales tax), which brings \$3.52 to a \$4 per gallon.

**Recommendation: Oppose**

**Discussion**

California's gasoline excise tax has two components: a flat 18-cent per gallon rate that has been in existence since 1994 and a new *adjustable* rate (currently set at 17.7 cents per gallon) that is required to be adjusted each year so that it generates equivalent revenue to what would have been generated by the state-imposed sales tax. The Board of Equalization is responsible for making this adjustment. The last increase of 0.4 cents was made on July 1, 2011. The next scheduled increase of 0.3 cents is scheduled to go into effect on July 1, 2012. An SB 1396 fact sheet promises motorists \$1 in savings each time they fill up their tank when gas jumps to \$5 per gallon. Savings to the consumer would likely be more than offset, however, by higher vehicle maintenance costs from driving on poor roads. Assuming that Californians want to prevent their local streets and highways from deteriorating, when road repairs are eventually scheduled, the costs are likely to be far higher than they would have been if funds had been available for regular maintenance.

***Bill Would Cut Public Transit Funding by About \$54 million***

The cap on diesel would have a particularly acute impact on state funding for public transit, which is now derived solely from the sales tax on diesel fuel. We estimate that for every 10 cents that diesel prices rise above \$4, the bill would reduce the PTA funding by foregoing \$17.6 million that would be generated without the cap. Based on current average diesel prices of \$4.35 per gallon, SB 1396 would reduce Public Transportation Account (PTA) funding by about \$54 million per year. For State Transit Assistance (STA), the impact would be a \$34 million cut statewide, including a \$12.6 million hit on Bay Area STA funding.

***Cap on Gasoline Excise Tax Would Reduce State and Local Transportation Funding***

SB 1396 limits excise tax generations to about \$2.6 billion per year and precludes a scheduled increase from 17.7 per gallon to 18 per gallon next July — amounting to a \$44 million cut in funding in FY 2012-13. Funding would be distributed 44 percent to the State Transportation Improvement Program, 44 percent to cities and counties for local roads and 12 percent to Caltrans for the State Highway Operation and Protection Program (SHOPP).

**Potential Loss in Funding Statewide from Proposed Gas Tax Cap (Dollars in millions)**

Increment of Increase	0.3 cents per gallon (scheduled for July 1)	0.5 cents per gallon	1 cent per gallon
Revenue Loss	\$44.2	\$73.6	\$147.3
Local Street & Road Repairs	\$19.4	\$32.4	\$64.8
Transportation Capital Improvements STIP)	\$19.4	\$32.4	\$64.8
Highway Maintenance (SHOPP)	\$5.3	\$8.8	\$17.7

**Impact on Local Optional Sales Taxes & TDA Funding**

SB 1396 would also impact revenue generated by local optional sales taxes in our region, affecting seven Bay Area counties, as well as Transportation Development Act (TDA) funding in all nine counties. At current prices, the impact would be about \$8.2 million in local/regional funds, as shown below.

Potential Reduction in Local Funding From Partial Sales Tax Exemption Dollars in Thousands		
	For every 10 cents above \$4 cap	Based on Statewide average prices as of 4/24/12*
Bay Area TDA Funding (Transit Operations)	\$737	\$1,974
AB 1107 Sales Taxes (Alameda, Contra Costa & S.F.)	\$573	\$1,534
Local Voter-Approved Sales Taxes (7 counties)	\$1,763	\$4,724
Total Loss to Region	\$3,072	8,233

\*Source: AAA website showed gasoline averaging \$4.28 per gallon and diesel averaging \$4.35 per gallon. Consumption factors based on California Board of Equalization data.

California’s revenue stream for transportation is wholly inadequate. According to the recent *2011 Statewide Transportation Needs Assessment* compiled by the California Transportation Commission, current funds provide *less than 50 percent* of what is needed to maintain and operate the system in a state of good repair, let alone add new capacity to handle the anticipated population growth over the next 10 years. We recommend a position to firmly oppose this bill.

**Known Positions**

**Support**

Howard Jarvis Taxpayer Association

**Oppose**

Associated General Contractors  
California State Association of Counties  
League of California Cities



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Steve Heminger