Agenda Item 2e

METROPOLITAN
TRANSPORTATION
COMMISSION

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Memorandum

TO: Legislation Committee

DATE: April 3, 2015

FR: Executive Director

W. I. 1131

RE: SB 321 (Beall):Variable Gas Tax Rate Adjustment

Background

SB 321 (Beall) is an urgency bill designed to reduce dramatic swings in transportation funding that follow significant changes in the price of gasoline. Under current law, the state Board of Equalization (BOE) must take action before March 1 of each year to set an excise tax rate for the subsequent fiscal year that will generate the equivalent amount of revenue as would have been generated by a sales tax on gasoline. This system worked relatively well when gasoline prices stayed within a fairly narrow band from 2011 to 2013. However, the dramatic drop in fuel prices that occurred from April 2014 to January 2015 (peaking at $4.25, then dropping to a low of $2.44) — followed by the now rapid rise in prices — underscores the challenge of relying on a forecast to set the tax rate. SB 321 takes a more conservative approach by basing the rate on four years of price history with a one-year forecast.

Whereas the current methodology led BOE staff to recommend a 7.5-cent cut to the gas tax last February — equivalent to a cut of almost $1 billion in funding — under the proposed approach the cut would be softened to just 3.4 cents, *less than half.* On the other hand, whereas price increases in 2013 led BOE to *increase* the rate by 3.5 cents, then drop it back down again the next year, under the proposed approach the rate would have remained almost unchanged, with a dip of just 1 percent.

Recommendation: Support

Discussion

Because this legislation will substantially reduce volatility in transportation funding, while still ensuring that transportation funds keep pace with the growth in the price of fuel over the long-term, we recommend a support position.

Known Positions

Support
California State Association of Counties
League of California Cities
Riverside County Transportation Commission

Oppose
None on file

Steve Heminger

SH: RL
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