

CALIFORNIA

Transportation Experts Praise Proposed Fuel Tax Increases

by Paul Jones

Transportation experts praised the fuel tax increases passed by Democrats in early April, but some groups warned about the economic effects.

Transportation policy analysts say tying fuel tax raises to inflation and eliminating an annual price-based adjustment to fuel taxes would help stabilize revenues, while tax increases would generate funding without significantly affecting consumers' buying power. But critics warn that higher taxes would hit low-income Californians in particular by increasing the price of goods.

And while observers argued that the economy could benefit from higher spending on transportation infrastructure, experts said the new taxes are unlikely to be a panacea for the congestion plaguing the state's urban centers.

Impact of Higher Fuel Taxes

The bill, S.B. 1, was approved April 6 after two years of political deadlock over the issue. Gov. Jerry Brown (D) — a major advocate of the tax package — is likely to sign it soon. The measure would increase excise taxes on gasoline by 12 cents per gallon and on diesel by 20 cents per gallon, increase the sales tax on diesel by 4 cents, create a new annual fee based on a car's value, and impose a flat \$100 fee on electric vehicles. The package is projected to generate \$5.2 billion in annual revenue to help address the \$137 billion state and local transportation spending backlog. All of the increased levies, with the exception of the diesel sales tax increase, would be indexed to inflation.

California is the latest of several states to focus on higher gas taxes. Carl Davis, a transportation expert with the Institute on Taxation and Economic Policy, said S.B. 1's indexing of taxes and fees is an important reform that would allow incremental growth over time.

"It's a safe bet [that] if California had not enacted this reform, it would have lost more purchasing power," Davis said. "Asphalt, machinery, and labor will become more expensive over time." He noted that other states are enacting

automatic fuel tax adjustments — for example, Georgia has set tax rates to increase as vehicles' average fuel efficiency increases, to counter the lower number of gallons purchased by drivers per mile of road use.

S.B. 1 would eliminate some fuel tax revenue instability by ending the state's gas tax swap, according to Dario Frommer, a former chair of the California Transportation Commission. The swap reduced the sales tax on gasoline — revenue from which is statutorily restricted for transportation projects — and proportionally increased the motor vehicle fuel excise tax, allowing more of those tax dollars to be diverted to other spending priorities. The State Board of Equalization is required to keep the policy revenue-neutral by adjusting a portion of the excise tax each year to compensate for price fluctuations. S.B. 1 would reset that adjusted portion to its original 2010 rate of 17.3 cents per gallon, adjusted for inflation.

'It's a safe bet [that] if California had not enacted this reform, it would have lost more purchasing power,' Davis said.

"Uncertainty over what the funding levels would look like really wreaked havoc on the ability of transportation agencies to plan" under the gas tax swap, Frommer said, adding, "I think the Legislature and governor took a very courageous and important step" in eliminating the swap and stabilizing funding.

The state's fuel excise tax for gasoline would be around 39.8 cents per gallon, and the rate for diesel would be 36 cents per gallon. Davis said that based on a current American Petroleum Institute fuel tax ranking, the rate will be second only to Pennsylvania's once the excise tax increase kicks in. Critics warned that the size of the increase, in addition to the new vehicle fees, will have a regressive impact on poorer residents. But despite the additional burden on Californians, transportation experts were skeptical that the fuel tax increases will be large enough to have significant negative economic consequences.

"For the typical family that consumes a thousand gallons a year, it means an extra \$100 per year, or 30 cents a day," said Severin Borenstein, an economist at the University of California, Berkeley.

Borenstein said he doubts that the higher fuel taxes would increase business costs dramatically. He acknowledged that California's pump prices are on average 60 cents higher than prices in other states, but said, "I am chair of the Petroleum Market Advisory Committee to the [California Energy Commission], and I can say no company that is a consumer of gasoline has come before our committee complaining about that extra price differential."

Rich Matteis of the California Farm Bureau said his organization is concerned about the proposed diesel tax increase, arguing that the higher prices could increase the cost of transporting agricultural goods to market. Trucking companies got a concession in S.B. 1 that would allow them to delay replacing equipment to meet air quality standards, but farmers wouldn't get a similar offset. Trucking companies "will pass [the tax] on to the people who use their services, so that includes us," he said.

S.B. 1's vehicle fee is tiered, with the minimum fee being \$25 for cars worth less than \$5,000 and a maximum fee of \$175 for cars worth over \$60,000. And experts say they don't believe the bill's \$100 registration fee for zero-emission vehicles would be enough to deter purchases of electric cars. Liisa Ecola of the RAND Corp. said buyers of those vehicles tend to be wealthier. It's hard to see where a \$100 annual fee would affect that market very much, she said.

A representative with Tesla Motors Inc., which is based in California, said the company has no comment on the fee.

But David Wolfe of the Howard Jarvis Taxpayers Association warned that the bill's higher taxes and fee increases could negatively affect drivers and consumers. He said the elimination of the gas tax swap would reset the adjusted portion of the fuel excise tax to a rate higher than the current rate, meaning the cumulative excise tax increase would be as much as 19 cents per gallon, not 12 cents. Wolfe said the total cost of the tax and fee package for average Californians would be around \$275 per year. He

cited a projection by the Legislative Analyst's Office that showed California's existing auctioning of greenhouse gas emission credits to fuel sellers would create an additional increase to prices over time, ranging from 15 cents to 63 cents by 2021, depending on auctioned credits' costs. "Nobody wins here; there's going to be massive costs passed onto consumers," Wolfe said.

Republicans and tax groups argued that the bill's tax increases are unnecessary, and said state leaders have long diverted revenue intended for roads to other purposes. Instead of higher taxes, they said the state should have used revenue from its cap-and-trade credit auctions and directed back to road maintenance the roughly \$1 billion in annual truck weight fees that are diverted to pay down state debt. They urged funding to be drawn from the California Department of Transportation and the controversial high-speed rail project. S.B. 1's authors originally allocated some cap-and-trade revenues and truck weight fees to roads, but the final legislation has fewer concessions.

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S.B. 1 would require the Department of Transportation to divert to road repair \$100 million from its annual budget, and would allocate \$706 million from the state's general fund over three years to repay money previously diverted from transportation funds.

Infrastructure Improvements, Job Creation

Other business groups say the tax package is a breakthrough toward improving the state's infrastructure. The state chamber of commerce said the investment would pay off for businesses by facilitating commerce.

"Fixing our roads and improving transportation in the state is critical to California's economy and our job climate," according to a statement from chamber President and CEO Allan Zaremborg.

The Associated General Contractors of California hailed the legislation as a job creator, projecting it would create as many as 28,000 jobs for each \$1 billion spent on roads and other

infrastructure. However, Deb Niemeier — a civil infrastructure expert at the University of California, Davis — said those jobs would be short-term.

Lawmakers backing efforts to increase fuel taxes over the past year have also occasionally argued the legislation would help relieve congestion. But experts said reduction in congestion would likely be minimal.

‘Fixing our roads and improving transportation in the state is critical to California’s economy and our job climate,’ Zaremborg said.

“There are two ways to reduce congestion. One is to have road-pricing . . . charging people for the amount of road space they’re using. . . . The other option is to tank your economy,” Ecola said. She said some causes of congestion, such as major bottlenecks in an area, can be addressed with construction, but much of the problem is simply high demand.

Frommer said the legislation creates a Congestion Corridors Program that would invest in expansion of high-occupancy-vehicle lanes and projects to improve traffic flow to reduce gridlock. S.B. 1 allocates significant funding to mass transit, he noted.

Ecola, however, said mass transit projects generally don’t ease road congestion. “I tend to think of success [for mass transit] not in ameliorating congestion but giving people options,” she said.

Wolfe argued that S.B. 1’s allocations to mass transit and alternative transportation projects, such as bicycle lanes, undercut the new tax revenue’s economic return to motorists who pay it. On the other hand, Niemeier praised S.B. 1 for focusing more on alternative transportation, but said the legislation doesn’t go far enough.

“Why not pay cities to take roads out of service, and make them active transport [bicycling and walking paths] . . . or pay cities sufficient funds so they can run bigger transit services?” she asked, arguing that those changes would save residents time and money over the long term.

Other elements of the transportation package include legislation (A.B. 28) already signed by Brown, which would streamline some environmental review for transportation projects, and a constitutional amendment, A.C.A. 5, that will go to voters for approval to restrict use of S.B. 1 money for transportation. However, Wolfe said he believes that A.C.A. 5 lacks sufficient protections to ensure the new revenue goes to road repair. He said that under A.C.A. 5, more revenue intended for roads could be diverted, reducing the benefits to drivers.

“There’s nothing that prohibits at least the car [fee] revenue from going to high-speed rail, or being used to pay off future bonds that voters may approve,” Wolfe said. ■