

Date of Hearing: March 28, 2022

ASSEMBLY COMMITTEE ON TRANSPORTATION

Laura Friedman, Chair

AB 1638 (Kiley) – As Introduced January 12, 2022

SUBJECT: Motor Vehicle Fuel Tax Law: suspension of tax

SUMMARY: Suspends the excise tax on gasoline for six months and backfills the loss of revenue with General Fund dollars equivalent to one-half of the amount of gasoline taxes collected in the 2020-21 fiscal year.

EXISTING LAW:

- 1) Levies a per gallon gasoline excise tax at multiple different instances such as on sales of gasoline at the pump, transporting fuel over state lines, and storing.
- 2) In general, gasoline excise taxes are spent on road maintenance and transportation infrastructure as provided for in the Constitution.

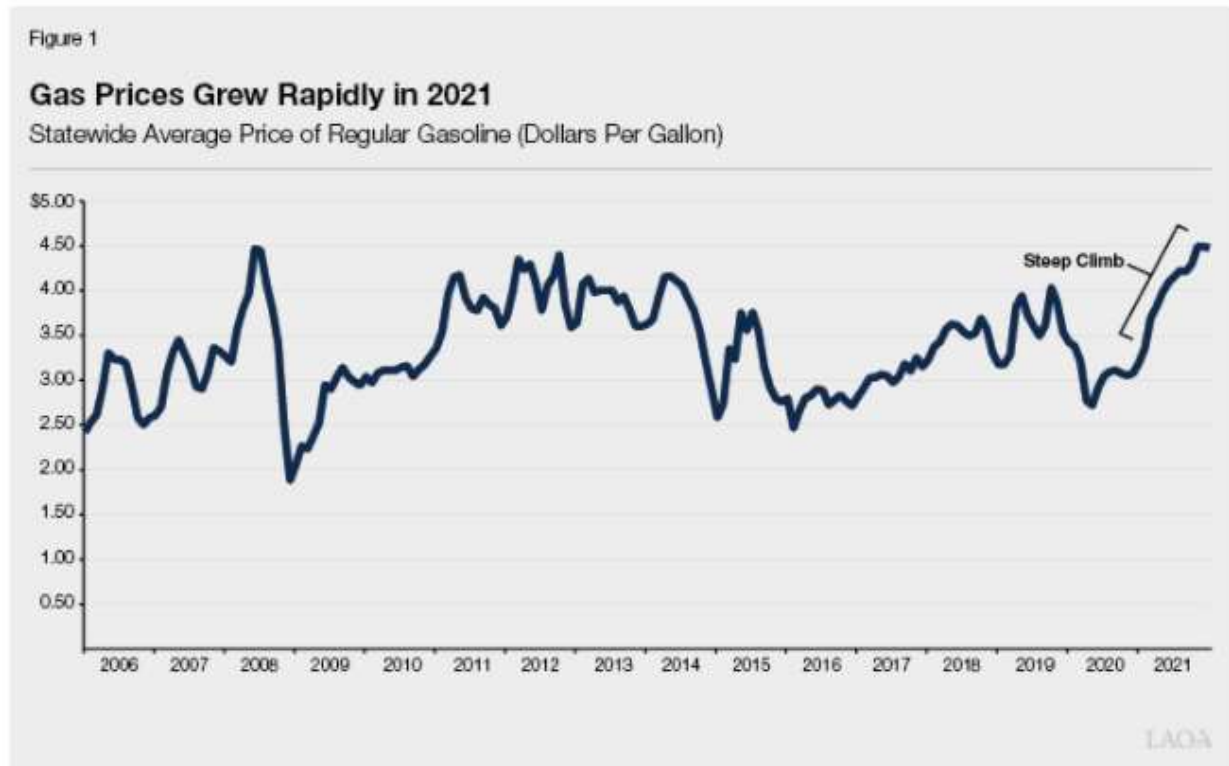
FISCAL EFFECT: Unknown

COMMENTS:

Californians, especially those who are low-income, are being hit hard by rising inflation and high gas prices. The state collects excise taxes on various transportation fuels such as gasoline, diesel, and aviation fuels. In 2021-22, the excise tax rate is 51.1 cents per gallon on gasoline.

The Administration estimates that the state's fuel excise taxes (gasoline and diesel) will raise \$8.8 billion in 2021-22. Roughly two-thirds of these revenues remain at the state level. Most of this funding supports state highway maintenance, rehabilitation, and improvements, with a smaller amount supporting state programs that fund both state-led and local-led highway and transit improvements. The remaining one-third goes directly to cities and counties to support local street and road maintenance and rehabilitation.

Gas Prices Have Reached an All Time High. According to the Legislative Analyst's Office gasoline prices declined from \$4.04 per gallon in October 2019 to \$2.69 per gallon in May 2020. Prices then rose to \$3.02 per gallon by July 2020 and remained around that level through the rest of 2020. In 2021, prices rose rapidly, reaching \$4.51 per gallon in November as shown in the figure below. Currently, gas prices in some parts of California exceed \$6 per gallon.



Staff Comments:

This bill attempts to provide some relief to Californians by providing a six-month tax break on vehicle fuel taxes, however:

No Guarantee that Tax Break Would Result in Lower Consumer Gas Prices. Available evidence suggests that lower excise taxes could result in lower retail prices. However, the exact effect on retail prices is uncertain, and it is unclear how much of the tax holiday, if any, would be passed through to prices at the pump and actually benefit consumers.

Does Not Address Larger Problems. A tax holiday does not address larger problems such as price gouging by gas suppliers, ensuring money goes back to consumers, or making viable alternatives such as electric vehicles affordable to lower income people, or helping to improve the state's transit system.

Backfill Amount Would Not Entirely Cover Lost Revenues. The projected amount of gas excise tax revenues that would be lost during a six month holiday is approximately \$4.04 billion. This bill proposes to backfill the lost revenues with General Fund dollars equivalent to one-half of the amount of gas tax revenues collected in 2020-21, which amounts to \$3.27 billion. This would leave a shortfall of nearly \$800 million—effectively reducing the amount of funding available for transportation projects.

Less Funding for Future Highway Projects. A loss of nearly \$1 billion in revenue in 2022-23 would reduce funding for future transportation projects. The California Department of Transportation (Caltrans) plans such projects well in advance, so changes in 2022-23 revenue would likely affect funding for projects around 2024-25. Due to the State Highway Account's

estimated beginning balance of \$3 billion in 2022-23, the revenue loss would not affect projects planned for 2022-23 or 2023-24.

Six-Month Holiday Would Make Hit Hard When Tax Is Restored. This bill proposes very temporary tax relief and when it expires—six months after taking effect—the financial hit will be significant to Californians and could come at a time when most people are still struggling financially and inflation is still high.

Sets A Bad Precedent. Drivers of internal combustion engine vehicles will always be sensitive to gas prices. This bill would set the precedent of the state eliminating the excise gas tax when gas prices increase. While the state is fortunate to have excess General Fund revenues this year so that it could backfill the temporary tax suspension, this has rarely been the case during the state's history.

Gann Limit Interaction. Voters approved Proposition 4, which established the constitutional state appropriations (Gann) limit in 1979. Proposition 111 (1990) amended the 1979 Gann limit to exclude several categories of appropriations, including those financed by various transportation-related taxes and fees. Specifically, Section 9 of Article XIII B of the Constitution excludes from the limit appropriations of (1) motor vehicle fuels taxes at a rate of more than 9 cents per gallon, (2) sales and use taxes collected on that increment of motor vehicle fuels taxes, and (3) weight fees on commercial vehicles that exceed those in effect on January 1, 1990. Proposition 111 also amended the 1979 Gann limit to exclude appropriations for all qualified capital outlay projects, which are defined in the Government Code (Section 7914) as fixed assets, including land and construction, with a useful life of 10 or more years and a value which equals or exceeds \$100,000.

Section 5 of AB 1638 transfers General Fund moneys to backfill specified reductions in fuel taxes. To ensure that capital outlay projects funded from these General Fund resources are appropriately accounted for under the state appropriations limit, the committee may wish to consider clarifying amendments directing that these backfill funds are used for transportation projects that meet the requirements of qualified capital outlay projects under Section 7914 of the Government Code.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file

Opposition

None on file

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