



MAY 13, 2010

AGENDA ITEM # 12

SUMMARY REPORT OF STATE GAS TAX SWAP

Action Requested: Receive and file

Key Staff: Brian Williams, Executive Director

Recommendation

Receive and file this summary report of recent changes to State transportation funding.

Discussion

In March, Governor Schwarzenegger signed a two-bill package that fundamentally changes how State transportation funds are derived and distributed. ABX8 6 facilitates a revenue-neutral "swap" of motor fuel sales taxes and excise taxes. The swap has three key features:

- 1. State sales tax on gasoline (6% portion earmarked for General Fund) is repealed. Existing local-option sales taxes such as the 1/2-percent Measure A and 1/4-percent Transportation Development Act are not affected.
2. State gasoline excise tax (currently 18¢ per gallon) is increased by 17.3¢. The excise tax will be indexed annually to keep pace with revenues that would have been generated if the 6% State sales tax were still in affect.
3. State sales tax on diesel (currently 6%) is increased by 1.75 percent; while the diesel excise tax (currently 18¢ per gallon) is decreased to 13.6¢.

Table with 5 columns: Tax Category, Gas (Prior Breakout), Diesel (Prior Breakout), Gas (ABX8 6 Breakout), Diesel (ABX8 6 Breakout). Rows include Federal Fuel Tax, State Fuel Tax, State Sales Tax (General Fund, Fiscal Recovery Fund, Local Public Safety, Local Revenue Fund), and Local-option Sales Tax (.25 Local Transp Fund, .75 City/Co operations, Measure A).

This action effectively eliminates Prop. 42, which restricted the use of gasoline sales taxes for specified transportation purposes. Fuel excise taxes do not have the same level of protection in that they can more easily be loaned for non-transportation purposes. The swap provides relief to the General Fund of about \$1.1 billion per year, because a portion of the increased excise tax revenues will now be used for debt service on the State's transportation-related general obligation bonds. In 2006, voters were told that Prop 1B transportation bonds would increase State funding of transportation. By re-paying the Bonds with fuel taxes, however, Prop. 1B merely advanced—rather than enhanced—the availability of fuel tax revenues.

ABX8 9 stipulates how the fuel excise taxes and the diesel sales tax will ultimately be distributed:

- Debt service on transportation-related State bonds (\approx \$1.1 billion per year)
- 44% to State Transportation Improvement Program (STIP); 12% to State Highway Operation & Protection Program (SHOPP); 44% divided evenly among cities and counties based on current distribution formulas.

Net funding for local streets and roads will be mostly unaffected, and funding for the State highway system is increased somewhat. Cumulative State funding support for public transit, however, will be significantly reduced from historical levels, because the repeal of the 6% gasoline sales tax eliminates three revenue streams from the State's Public Transit Account (PTA):

1. "Spillover" funds that were realized when fuel prices grew at a faster pace than other goods.
2. The 20 percent of Prop. 42 funds previously earmarked for public transit.
3. Sales tax on the first 9¢ of the gasoline excise tax (Prop. 111 portion).

Analysts estimate that these three sources would have generated almost \$1.3 billion if in effect during the current fiscal year. The gas tax swap package cushions this hit with a one-time appropriation of \$400 million from the PTA for the current year and FY 2010-11 to help transit agencies avoid a portion of planned service and personnel cuts. Beginning in FY 2011-12, 75% of PTA revenues—from the enhanced sales tax on diesel fuel—will flow into the State Transit Assistance (STA) fund to provide operating support to local transit agencies. The other 25% will fund state transit programs. This is a change from the current 50/50 split. These funds will be supplemented with some funding from the State Highway Account for a total annual STA allocation to local transit operators of about \$350 million.

While the overall gas tax swap is revenue-neutral, there will be a net reduction in the "real" amount of annual State funding for transportation purposes. This net reduction falls almost exclusively on public transit in that most of the transportation funds that will now be used to pay debt service on transportation-related State general obligation bonds will be derived from sources previously earmarked for transit. The revenue-neutrality feature allowed the Legislature to approve the swap legislation package by simple majority vote.