



SACRAMENTO UPDATE

February 5, 2010
SU03 -10

Tax swap on fuels taking form

The legislature may act as early as next week to plug a \$6 billion hole in the current year budget. A large part of that solution may come from a proposal put forth by the governor to replace the sales tax on gas with a 10.8 cent increase in the gasoline excise tax. This proposal would eliminate approximately \$1.5 billion in funding for public transit. Over time, it would also reduce funding for improvements to state highways and local streets and roads by hundreds of millions of dollars per year since, unlike Prop. 42 sales taxes on gas, the excise tax would *not* increase along with the cost of gas. Part of the reason for this swap is that the sales tax is part of the general fund. General fund spending dictates what education receives under Proposition 98. By moving the sales tax to the excise tax on gasoline, approximately \$800 million is saved because Proposition 98 is based on sales tax, and since sales tax is reduced, the amount required to fulfill Proposition 98 is reduced. Got that? Further, since the swap is revenue neutral, a bill to make this change can be passed with a majority vote as opposed to a 2/3'rds vote for tax increases.

The details are sketchy and change often, but below are a summary of what is being discussed:

- Eliminate the gasoline sales tax (about 18 cents/gallon);
- Create a statewide user fee on gasoline (of about 18 cents/gallon), and that would be indexed (i.e. it may have an escalator tied to inflation or something similar);
- The revenue generated by the gasoline user fee would be divided as follows:
 - 30% STIP
 - 30% SHOPP
 - 40% Local Streets and Roads

- The sales tax on diesel fuel would be retained. Estimates are that this diesel tax will produce about \$313 million in 2010. There is nothing certain yet about how this money would be spent, but leadership would like to see at least a portion go to transit;
- The entire proposal could be passed by majority vote of the Senate and Assembly and would create about \$2 billion in general fund savings in the current budget;

We should have full details next week and will keep you updated.

Politics

The Senate Rules Committee voted to move the nomination of Senator Able Maldonado for Lt. Governor to the senate floor. A vote by the full Senate could occur next week. It is uncertain how the Assembly may treat his nomination. Unless Maldonado is rejected by either house, he would serve for the remainder of the year. He will need to run in 2010 to maintain the position if approved.

The U.S Senate race for the republican nomination is heating up. Take a look at "demon sheep" video that has gained nationwide attention (both good and bad).

<http://www.youtube.com/watch?v=KRY7wBuCcBY>

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