

June 18, 2018

# Initiative Constitutional Amendment: Fuel and Vehicle Taxes

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L E G I S L A T I V E   A N A L Y S T ' S   O F F I C E

Presented to:

Senate Committee on Transportation and Housing

Hon. Jim Beall, Chair

Assembly Committee on Transportation

Hon. Jim Frazier, Chair

Assembly Committee on Revenue and Taxation

Hon. Autumn R. Burke, Chair





## LAO Role in Initiative Process

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### **Fiscal Analysis Prior to Signature Collection**

- State law requires our office, alongside the Department of Finance, to prepare an impartial fiscal analysis of each initiative.
- State law requires this analysis to provide an estimate of the measure's fiscal impact on state and local governments.
- A summary of the fiscal impact is included on petitions that are circulated for signatures.



### **Analysis After Measure Receives Sufficient Signatures to Qualify for the Ballot**

- State law requires our office to provide impartial analyses of all statewide ballot propositions for the statewide voter information guide.
- This analysis includes a description of the measure and its fiscal effects.
- We are currently in the process of preparing these materials for initiatives that have qualified—or have a reasonable likelihood of qualifying—for the November 2018 ballot.



## Background



### Legislative Approval of State Taxes

- Legislature can only pass a new tax or increase an existing tax with a two-thirds vote.
- Some charges referred to as fees fall under the constitutional definition of a tax.



### State Fuel and Vehicle Taxes

- The state currently charges excise and sales taxes on gasoline and diesel fuel, as well as certain taxes on vehicles. The State Constitution requires the associated revenues be spent on transportation purposes, except for vehicle license fee revenues.
- Chapter 5 of 2017 (SB 1, Beall) recently increased fuel taxes and created new vehicle taxes, mainly to fund highway and road maintenance and repair, as well as transit programs.

#### Senate Bill 1 Revenues

	Tax Rates		Annual Revenues (In Billions)	
	Prior Rates	New Rates	2018-19	2020-21
<b>Gasoline Taxes</b>				
Excise (base)	18 cents	30 cents	\$1.9	\$2.1
Excise (add-on)	varied <sup>a</sup>	17.3 cents	— <sup>b</sup>	0.2
<b>Diesel Taxes</b>				
Excise	varied <sup>c</sup>	36 cents	0.7	0.7
Sales	1.75 percent	5.75 percent	0.3	0.4
<b>Vehicle Taxes</b>				
Transportation improvement fee	—	\$25 to \$175	1.5	1.6
Zero-emission vehicle fee	—	\$100	— <sup>b</sup>	— <sup>d</sup>
<b>Totals</b>			<b>\$4.4</b>	<b>\$5.1</b>

<sup>a</sup> Set annually based on prices. Current rate is 11.7 cents but rate has ranged from 9.8 cents to 21.5 cents in the past.  
<sup>b</sup> New rate not yet in effect.  
<sup>c</sup> Set annually based on prices. Most recent rate was 16 cents but rate had ranged from 10 cents to 18 cents in the past.  
<sup>d</sup> \$48 million.



## Proposal

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### **Requires Legislature to Get Voter Approval for Fuel and Vehicle Taxes**

- Applies to taxes on the sale, storage, use, and consumption of gasoline and diesel fuel.
- Also applies to taxes paid for the privilege of operating a vehicle on public highways, such as vehicle license fees and transportation improvement fees.



### **Eliminates Recently Enacted Fuel and Vehicle Taxes**

- Applies to any such fuel and vehicle taxes enacted between January 1, 2017 and the date the measure takes effect in December 2018.



## Fiscal Effects

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### **Eliminates Tax Revenues From SB 1**

- In 2018-19, reduces revenues from \$4.4 billion to \$2 billion—a \$2.4 billion decrease. In future years, revenue reduction of roughly \$5 billion annually.
- Funding reductions mainly would affect highway and road maintenance and repair programs, as well as transit programs.



### **Makes Passage of Fuel and Vehicle Taxes More Difficult**

- Voter approval requirement could mean less revenue than otherwise.
- But the amount of reduction is unknown, as it would depend on future actions by the Legislature and voters.