

[Senate Bill 11](#) (Beall)

Date: 07/14/15

Program: Motor Vehicle Fuel and Diesel Fuel Tax

Sponsor: Author

Revenue and Taxation Code Sections 7360, 7361.2, 7653.2, 60050, 60050.2, and 60201.4.

Effective: Immediately but operative 61 days after enactment

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***This analysis is limited to the provisions which impact the Board of Equalization (BOE).***

**Summary:** Among its provisions, imposes a \$0.12 per gallon gasoline tax, changes the diesel fuel base rate to \$0.13 per gallon and imposes an additional \$0.22 per gallon diesel fuel surtax. The bill also eliminates the fuel tax swap revenue neutrality adjustment, but the fuel tax rates would be adjusted for inflation beginning January 1, 2019, and every 3 years thereafter. An equivalent rate one-time floor stock tax is also imposed.

**Summary of Amendments:** Among other things, the amendments since the previous analysis (1) increase the proposed gasoline tax from \$0.10 to \$0.12 per gallon, (2) decrease the proposed diesel fuel base rate from \$0.18 to \$0.13 per gallon and (3) increase the additional diesel fuel surtax from \$0.12 to \$0.22 per gallon. The bill also eliminates the fuel tax swap revenue neutrality adjustment, but the BOE would adjust the fuel tax rate for inflation beginning January 1, 2019, and every 3 years thereafter.

**Purpose:** To create a long-term funding source for the state, counties, and cities to address road maintenance needs.

**Fiscal Impact Summary:** Total excise tax revenues increase by \$1.608 billion in fiscal year (FY) 2015-16, and \$3.127 billion in FY 2016-17. Additional aeronautic account revenues attributable to aviation gasoline amount to \$1.0 million in FY 2015-16 and \$1.9 million in FY 2016-17.<sup>1</sup>

**Existing Law:** The existing Motor Vehicle Fuel Tax Law (MVFTL)<sup>2</sup> and the Diesel Fuel Tax Law<sup>3</sup> impose excise tax on gasoline and diesel fuel when any of the following events occur:

- Removal at the refinery or terminal rack
- Entry into the state
- Sale to an unlicensed person.

For FY 2015-16, the gasoline excise tax rate is set at \$0.30 per gallon, and at \$0.13 per gallon on diesel fuel.<sup>4</sup>

Currently, as part of the “fuel tax swap” measures, since July 1, 2010, retail sales of gasoline are exempt from the state’s 6% General Fund rate. These provisions also increased the sales and use tax rate on retail diesel fuel sales and purchases to offset the loss related to the diesel fuel excise tax rate reduction, resulting in the additional sales and use tax rates detailed below (fuel tax swap).

Under the MVFTL, the Metropolitan Transportation Commission (Commission) has the authority to levy a local tax on gasoline to fund transportation projects.<sup>5</sup> The Commission is made up of nine Bay Area members that include the City and County of San Francisco, and the counties of Alameda, Contra Costa, Marin, Napa, San Mateo, Santa Clara, Solano, and Sonoma.

<sup>1</sup> “Aviation gasoline” as defined in Revenue and Taxation Code (RTC ) Section 7306 means all special grades of gasoline that are suitable for use in aviation reciprocating engines.

<sup>2</sup> Part 2 (commencing with Section 7301) of Division 2 of the RTC.

<sup>3</sup> Part 31 (commencing with Section 60001) of Division 2 of the RTC.

<sup>4</sup> The rate was set, as required by statute, at the Board of Equalization (BOE) hearing on February 24, 2015:

<http://www.boe.ca.gov/meetings/pdf/2015/022415-022615M.pdf>

<sup>5</sup> Chapter 12 (commencing with Section 8500) of Part 2 of Division 2 of the RTC.

Additionally, the Local Motor Vehicle Fuel Taxation Law<sup>6</sup> authorizes counties to impose countywide excise taxes on gasoline at increments of one cent per gallon, provided a majority of the voters approve the proposition. The funds collected must be used only for purposes authorized by Article XIX of the California Constitution, such as transportation planning and construction. To date, however, no county imposes a local fuel tax under this authority.

Locally-imposed sales and use tax ordinances include provisions identical to those contained in Part 1 (commencing with Section 6001) relating to sales and use tax. The sales and use tax law provides that the excise tax on gasoline is included in the base for computation of sales and use tax.<sup>7</sup> The excise tax imposed on diesel fuel is *not* subject to sales or use tax.<sup>8</sup>

In addition, federal law imposes additional per gallon taxes on gasoline and diesel fuel of \$0.184 and \$0.244, respectively.

**The fuel tax swap:** In 2010, the Legislature enacted two “fuel tax swap” measures<sup>9</sup> that changed the imposition and rates of state taxes on gasoline and diesel fuel, and require the BOE to determine the appropriate excise tax rate adjustments to maintain revenue neutrality. The gasoline tax changes became operative on July 1, 2010, and the diesel fuel tax changes became operative July 1, 2011.

These provisions<sup>10</sup> exempt sales and purchases of gasoline from the state General Fund portion of the sales and use tax rate. To offset the revenue loss related to this partial exemption, except for aviation gasoline, the law increased the gasoline excise tax rate from \$0.18 per gallon to \$0.353 per gallon.<sup>11</sup> Conversely, the statute<sup>12</sup> reduced the diesel fuel excise tax rate from \$0.18 to \$0.13 per gallon but increased<sup>13</sup> the sales and use tax rate on diesel fuel sales and purchases to offset the loss related to the diesel fuel excise tax rate reduction, resulting in the following rates:

1.87% effective July 1, 2011

2.17% effective July 1, 2012

1.94% effective July 1, 2013

1.75% effective July 1, 2014, and thereafter.

The fuel tax swap provisions require the BOE to maintain revenue neutrality so that the revenues derived from the increased gasoline excise tax and the increased diesel sales and use tax equals the revenues that would have been derived had the gasoline sales and use tax partial exemption and the diesel fuel excise tax reduction, respectively, not occurred.

RTC Sections 7360 and 60050 require the BOE to adjust the gasoline and diesel fuel excise tax rates, to maintain revenue neutrality. For gasoline, the BOE determines: (1) whether the sales and use tax revenue loss related to the partial exemption was fully offset by the adjusted rate, and (2) the projected sales and use tax revenue loss for the next FY, considering forecasted gasoline prices and consumption.

For diesel fuel, the BOE determines: (1) whether the revenue gain from the increased sales and use tax rate on diesel fuel sales and purchases was fully offset by the adjusted diesel fuel excise tax rate, and (2) the projected sales and use tax revenue gain for the next FY, considering forecasted diesel fuel prices and consumption.

<sup>6</sup> Part 4 (commencing with Section 9501) of Division 2 of the RTC.

<sup>7</sup> Bradley-Burns Uniform Local Sales and Use Tax which is allocated to cities and counties (Part 1.5, commencing with Section 7200) and voter approved Transactions and Use Tax levied at varying rates by some cities, counties, and special taxing jurisdictions in various cities and counties within the state and which are distributed to those local agencies (Parts 1.6 and 1.7, commencing with Section 7251).

<sup>8</sup> Section 6011(b)(3), defines “sales price,” and Section 6012(a)(4) defines “gross receipts.”

<sup>9</sup> [ABx8 6](#), (Ch. 11, Stats. 2010) and [SB 70](#) (Ch. 9, Stats. 2010). These provisions were re-enacted in 2011 by [AB 105](#) (Ch. 6, Statutes 2011).

<sup>10</sup> RTC Section 6357.7.

<sup>11</sup> RTC Section 7360. Aviation gasoline continues to be taxed at \$0.18 per gallon, as this fuel was already exempt from sales and use tax and therefore was excluded from the fuel tax swap gasoline excise tax rate increase.

<sup>12</sup> RTC Section 60050.

<sup>13</sup> RTC Sections 6051.8 and 6201.8.

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By March 1 each year, the BOE must determine the rate adjustments that apply the following July 1.

**Proposed Law:** With respect to gasoline, this bill amends RTC Section 7360 to impose an additional \$0.12 per gallon tax on gasoline on and after the 61<sup>st</sup> day after the bill's effective date. The bill also deletes the revenue neutrality provisions of the current fuel tax swap, but retains the additional fuel tax swap excise tax of \$0.173. The base rate of \$0.18 is left untouched.

The bill also amends RTC Section 60050 to impose an additional \$0.22 per gallon tax on diesel fuel on and after the 61<sup>st</sup> day after the bill's effective date. The diesel fuel base excise tax rate of \$0.18 is amended to \$0.13 per gallon.

Beginning January 1, 2019, and every three years thereafter, both the gasoline and diesel fuel excise tax rates are recomputed by an inflation adjustment factor. The BOE computes the rate changes based on information provided by the Department of Finance, beginning August 1, 2018, and August 1 of every third year thereafter.

Sections 7361.2 and 60050.2 impose a one-time floor stock tax of \$0.12 and \$0.22 per gallon, respectively, for the storage of tax-paid gasoline or diesel fuel intended for sale and held by the supplier, wholesaler, or retailer owning 1,000 or more gallons on the 61<sup>st</sup> day after the bill's effective date.

Sections 7653.2 and 60201.4 require the floor stock tax return to be filed with the BOE on the 121<sup>st</sup> day after the bill's effective date. The floor stock tax return reports the number of gallons of gasoline or diesel fuel held by the supplier, wholesaler, or retailer owning 1,000 or more gallons on the 61<sup>st</sup> day after the bill's effective date. Funds are made payable to the Controller.

The bill adds Chapter 2 (commencing with Section 2030) to Division 3 of the Streets and Highway Code to among other things, establish the Road Maintenance and Rehabilitation Account and the Trade Corridors Improvement Fund, both of which account for the deposit of the additional gasoline and diesel fuel excise taxes imposed by this bill. The additional fuel excise tax funds would be used to address deferred maintenance on state highways and local streets and roads.

This bill contains an urgency clause and becomes effective immediately, but the tax increases have a delayed operative date of 61 days.

**Background:** In 1990, voters approved Proposition 111 which, among other things, increased the tax rate on most motor vehicle fuels from \$0.09 to \$0.14 per gallon, effective August 1, 1990. Further, on January 1, 1991, and each January 1 thereafter through 1994, the excise tax increased by \$0.01 per gallon to the current \$0.18 per gallon.<sup>14</sup>

In 2000, the California Legislature changed the point of taxation up the chain of distribution from the first distribution of the fuel to the removal of the fuel from the refinery or terminal rack. The legislation also provided for a floor stock tax and a backup tax, which applies to the sale and/or delivery of gasoline into the fuel tank of a motor vehicle on which the tax has not been paid or the tax on the fuel has been refunded.<sup>15</sup>

Upon enactment of the fuel tax swap in March 2010, the gasoline excise tax rate was increased and included a floor stock tax, which is a way to equalize the excise tax paid on fuel held in inventory by a supplier, wholesaler or retailer prior to the effective date of a tax increase and fuel purchased after the tax increase. Since the diesel fuel excise tax rate was decreased, there was no need for a floor stock tax.

**In General:** The fuel tax swap requires the BOE to determine the excise tax rates for gasoline and diesel fuel on an annual basis. The legislation set the excise tax rate for the first year of the swap and required the BOE to adopt a "revenue-neutral" excise tax rate for each ensuing FY. The calculation requires the BOE staff to develop a forecast of both consumption and price for both gasoline and diesel fuel. Staff works closely with Department of Finance (DOF) and adopts DOF's consumption forecasts.

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<sup>14</sup> Senate Constitutional Amendment 1 (Proposition 111) in the June direct primary election, made operative Assembly Bill 471 (Ch. 106, Stats. 1989) and Senate Bill 300 (Ch. 105, St. ats. 1989).

<sup>15</sup> Assembly Bill 2114 (Ch. 1053, Longville).

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BOE's rate calculation also takes into account the "true-up" portion, which is the one-year look-back period to determine the difference between what was estimated for the previous FY and what was actually collected.

Since enactment of the "fuel tax swap," the BOE has adjusted the gasoline excise tax rates to maintain the required revenue neutrality through incremental increases and decreases as follows:

July 1, 2011: Increase of \$0.004

July 1, 2012: Increase of \$0.003

July 1, 2013: Increase of \$0.035

July 1, 2014: Decrease of \$0.035

July 1, 2015: Decrease of \$0.060

The BOE adjusted the diesel fuel excise tax rate with both increases and decreases, as follows:

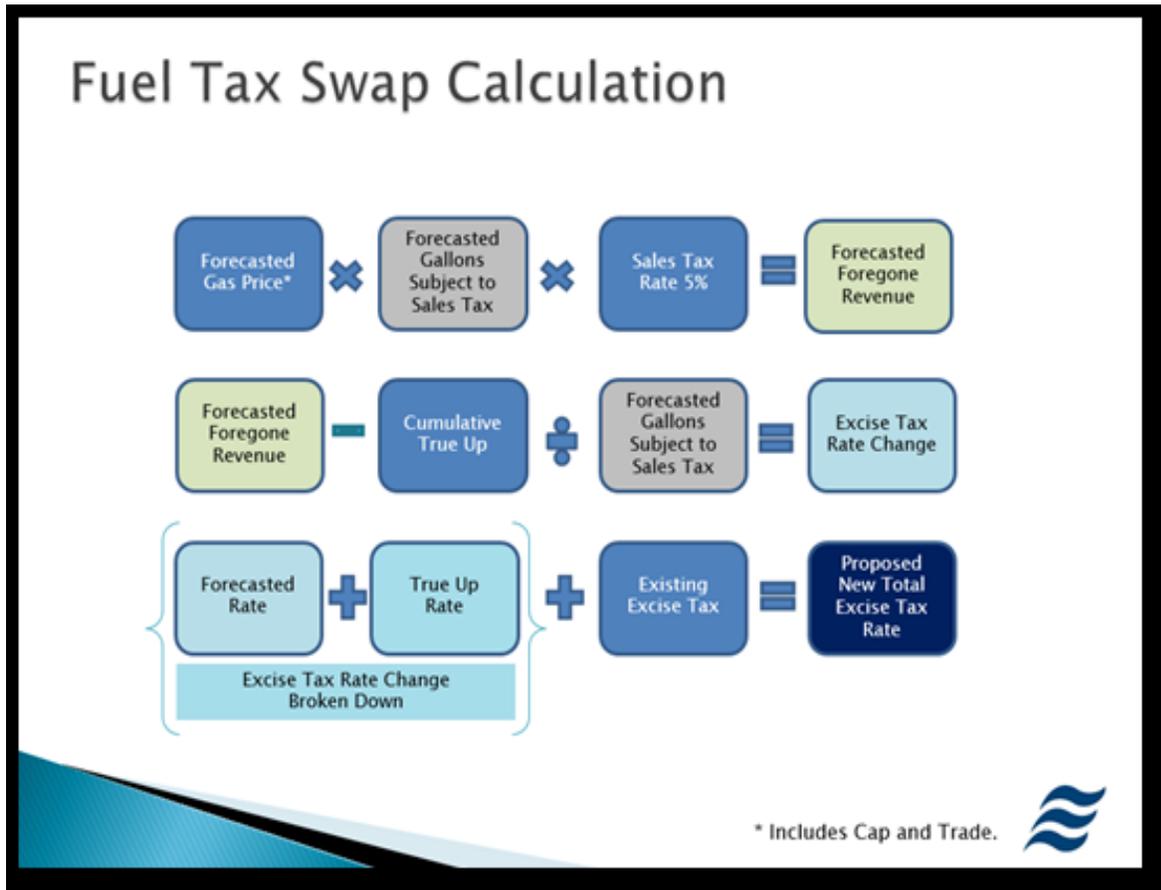
July 1, 2012 : Decrease of \$0.03

July 1, 2013: Retain July 1, 2012 rate

July 1, 2014: Increase of \$0.01

July 1, 2015: Increase of \$0.02

The following chart depicts the fuel tax swap calculation:



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## Commentary:

1. **Effect of the bill.** Governor Brown called a Special Session of the Legislature to enact permanent and sustainable funding, repair the state's transportation and critical infrastructure, and complement local infrastructure efforts. This bill creates a permanent funding source for state and local government to address road maintenance through an additional \$0.12 per gallon tax on gasoline and an additional \$0.22 per gallon tax on diesel fuel. Overall, gasoline excise taxes increase from the FY 2015-16 rate of \$0.30 to \$0.473 per gallon, and diesel fuel excise taxes increase from the FY 2015-16 rate of \$0.13 to \$0.35 per gallon.
2. **The July 14, 2015 amendments** increase the proposed gasoline tax from \$0.10 to \$0.12 per gallon, delete the fuel tax swap revenue neutrality adjustment and changes the adjusted gasoline excise tax rate in effect for FY 2015-16 from \$0.12 to \$0.173, permanently decrease the proposed diesel fuel base rate from \$0.18 to \$0.13 per gallon, increase the additional diesel fuel surtax from \$0.12 to \$0.22 per gallon, and eliminate the fuel tax swap revenue neutrality adjustment. This bill now indexes the fuel tax rates for inflation beginning January 1, 2019, and every 3 years thereafter.
3. **Delayed operative date.** The bill contains an urgency clause and is effective immediately, but the proposed surtaxes are operative 61 days after the bill's effective date. However, a more cost effective delayed operative date would be the *first day of the calendar quarter* following 90 days from the bill's effective date since gasoline and diesel fuel excise taxes are paid on a calendar month basis, and the International Fuel Tax Agreement (IFTA) returns are due quarterly.<sup>16</sup> Administrative costs are higher if the tax rate changes take effect in the middle of a month or a quarter and BOE requires "split" returns filed for a partial monthly period.
4. **Floor stock tax provisions.** A floor stock tax equalizes the excise tax paid on those fuel gallons held in inventory by a supplier, wholesaler or retailer prior to the effective date of a tax increase and those gallons purchased after the tax increase. Having a large fuel inventory before a tax rate increase takes effect can bring about a small windfall to a seller, who can raise the selling price of the fuel purchased prior to the increase and attribute the price increase to the tax rate increase. Since this bill contains a sizeable gasoline and diesel fuel excise tax rate increase, a floor stock tax is imposed on those persons owning 1,000 or more gallons on the 61<sup>st</sup> day after the bill's effective date. Floor stock tax returns are due to BOE on the 121<sup>st</sup> day after the effective date.
5. **The gasoline excise surtax increases the tax on aviation gasoline (AvGas).** AvGas is currently taxed at \$0.18 per gallon under the MVFTL. This bill imposes an additional tax on gasoline and directs those funds to a newly created road maintenance account. Federal Aviation Administration policy is clear that revenues derived from aviation fuel sales must go toward airport funding.<sup>17</sup> In order to comply with FAA revenue use policies, the author may wish to either exempt aviation fuel from the excise tax increase proposed by this bill, or direct the AvGas proceeds to the proper aeronautics account. BOE staff are available to assist the author's office.

An AvGas floor stock tax could also be costly to administer. The floor stock tax would be imposed on retailers owning 1,000 or more gallons. In general, AvGas is used in smaller propeller driven airplanes, as opposed to aircraft powered by jet fuel. If this bill does not exempt AvGas, then the various airports throughout the state that sell AvGas would be affected. Since AvGas is not currently subject to the California sales tax, the BOE may have difficulty identifying and registering the many small airports that offer AvGas for retail sale. As such, a floor stock tax on AvGas could add

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<sup>16</sup> The International Fuel Tax Agreement (IFTA) is an agreement among states and Canadian provinces to simplify the reporting of fuel use taxes by interstate motor carriers. The purpose of IFTA is to establish and maintain the concept of one fuel use license for carriers operating qualified motor vehicles interstate. An IFTA license allows a taxpayer to file one tax report to cover all member jurisdictions.

<sup>17</sup> In 1999, the FAA's [Revenue Use Policy](#) implemented the restricted use of airport revenue by airport operators that have accepted Federal assistance. On December 8, 2014, the FAA adopted an [amendment to its Revenue Use Policy](#) and clarified requirements for the use of tax proceeds from aviation fuel by airport operators that have accepted federal assistance.

additional costs specific to this product.

- 6. This bill essentially makes permanent the fuel tax swap provisions.** Although this bill deletes the fuel tax swap revenue neutrality adjustment provisions, it does not make any changes to the gasoline sales tax exemption nor does it change the current 1.75% sales surtax on diesel fuel. The bill also changes the additional gasoline excise tax from the current \$0.12 back to the original \$0.173 imposed during the first year of the fuel tax swap. The diesel fuel tax base rate of \$0.18, that was reduced to \$0.13 with the fuel tax swap and is adjusted annually, is permanently changed to \$0.13. Except for the diesel fuel sales surtax rate of 1.75%, which was 1.87% during the first year, this bill essentially reverts back to the sales and excise tax rates that were in effect during the first year of the fuel tax swap.
- 7. Floor stock tax difference.** The bill changes the additional gasoline excise tax from the current \$0.12 to \$0.173, a difference of \$0.053. This excise tax increase is not taken into account in the gasoline floor stock tax of \$0.12. In order to capture the total additional excise tax rate increase, the author may wish to consider increasing the floor stock tax to \$0.173 per gallon.
- 8. Lack of reconciliation.** This bill does not reconcile any remaining over- or under-collection of excise taxes resulting from the FY 2014-15 and FY 2015-16 (prior to the new legislation's effective date) excise tax rate setting required by the fuel tax swap. Under current law, BOE staff annually recommend an excise tax rate for gasoline and diesel fuel to ensure that the state did not collect any more in taxes than it would have collected under the tax structure in place prior to the 2010 fuel tax swap legislation. The BOE compares revenues actually received with the revenues originally projected to determine the difference. The difference from the prior fiscal year is reconciled when setting the coming fiscal year's excise tax rate. For example, if the BOE originally projected that an excise tax rate of \$0.10 would bring in \$100 worth of revenue (the amount necessary for revenue neutrality), but it brought in only \$90, the BOE would have under-collected by \$10 and would have to make up the difference in the coming year's excise tax rate setting. This bill changes the excise tax rates and removes the revenue neutrality provisions, but does not reconcile remaining discrepancies for FY 2014-15 and the part of FY 2015-16 before the new legislation takes effect. As a result, there may be over- or under-collection of the gasoline and diesel fuel excise taxes that remains unreconciled. However, as the price of fuel is very volatile, BOE staff would not be able to accurately project this revenue impact until after this bill has gone into effect and tax rates are changed.
- 9. The BOE currently co-administers the state's excise tax on gasoline with the Controller.** The BOE handles various gasoline tax administrative functions including, but not limited to: identifying and notifying taxpayers, developing floor stock tax returns, revising existing returns, modifying computer programming, carrying out compliance and audit efforts to ensure proper reporting, revising publications, and increasing investigative activities. However, the Controller processes gasoline tax payments and refunds.
- 10. Local jurisdictions should see an increase in sales and use tax revenues.** Existing Sales and Use Tax Law expressly includes within the definition of "gross receipts" and "sales price" the amount of any tax imposed by the state under the MVFTL.<sup>18</sup> Accordingly, retailers are required to include within their computation of sales or use tax on their sales or purchases of gasoline, any state excise tax. Therefore an increase in gasoline tax results in an increase in sales and use tax revenues. Although the fuel tax swap provides a state General Fund sales and use tax exemption on gasoline sales, a statewide base sales and use tax rate of 2.25% that is dedicated to local governments will continue to apply (with higher tax rates in certain districts with voter-approved district tax rates).  
Accordingly, under this bill, the proposed \$0.12 excise tax increase on each gallon of gasoline generates additional local sales and use tax revenue, with additional amounts for those districts imposing district taxes.

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<sup>18</sup> RTC Sections 6011 (sales price) and 6012 (gross receipts).

**11. Technical suggestion.** The BOE is responsible for tax administration of the diesel fuel tax, including return processing, return payments, and collections. As such, Section 60201.4 should be amended to specify that return remittances should be made payable to the BOE, not the Controller.

**60201.4.** On or before the 121st ~~date~~ *day* after the effective date of the act adding this section, each person subject to the storage tax imposed under Section 60050.2 shall prepare and file with the board, in a form prescribed by the board, a return showing the total number of gallons of tax-paid diesel fuel owned by the person on the 61st ~~date~~ *day* after the effective date of the act adding this section, the amount of the storage tax, and any other information that the board deems necessary for the proper administration of this part. The return shall be accompanied by a remittance payable to the ~~Controller~~ board in the amount of tax due.

**12. Related bills.** [SB 16](#) (Beall) imposes an additional \$0.10 per gallon gasoline tax and \$0.12 per gallon tax on diesel fuel, for five years, with an equivalent rate one-time floor stock tax. SB 16 is currently in the Senate third reading file. [SB 321](#) (Beall) authorizes the BOE to make specified adjustments to the gasoline tax swap using a five-year average fuel price estimate, and more frequent rate adjustments on an annual basis or at a six-month interval, under specified conditions. SB 321 was amended and passed out of the Assembly Revenue and Taxation committee. [SB 433](#) (Berryhill) requires the DOF, instead of the BOE, to determine the annual excise tax rate adjustment for gasoline and diesel fuel under the fuel tax swap provisions for the FYs 2016-17 through 2020-21. SB 433 was held on suspense in the Assembly Revenue and Taxation committee.

**Administrative Costs:** BOE administrative costs related to this bill are major. The BOE must immediately modify computer programming, revise publications, process additional returns and payments, carry out compliance and audit efforts to ensure proper reporting, and increase investigative activities. Additionally, BOE staff must identify and register additional taxpayers related to the floor stock tax. These costs are estimated to be \$3.4 million for FY 2015-16, \$1.8 million for FY 2016-17, \$1.5 million for FY 2017-18, and \$1.3 million for FY 2018-19 and ongoing.

## Revenue Impact:

**Background, Methodology, and Assumptions.** This bill contains an urgency measure and is effective immediately. However the proposed tax increases become operative 61 days after the effective date. Since this a special session bill, for revenue estimation purposes staff assumes the Governor has until October 11, 2015 to sign or veto bills, and a January 1, 2016 implementation date. Gasoline and diesel consumption is proportional to days of the fiscal year. Floor stock tax returns are due 121 days after the effective date.

DOF forecasts 14.742 billion gallons of gasoline to be consumed on roads in each of the next two FYs. DOF staff forecasts 2.624 billion gallons of diesel to be consumed on roads in FY 2015-16 and 2.679 billion gallons in FY 2016-17. BOE staff assumed a price elasticity of -0.1 for gasoline and -0.2 for diesel and applied them to the consumption figures.<sup>19</sup>

**Floor Stock Taxes.** The bill imposes floor stock taxes of \$0.12 for gasoline and \$0.22 for diesel for suppliers, wholesalers and retailers owning more than 1,000 gallons.

For revenue estimation purposes, BOE staff assumes that the portion of gasoline sold for consumption on roads (98%) is an accurate estimate of numbers of gallons of gasoline and diesel owned by suppliers, wholesalers and retailers owning more than 1,000 gallons. Staff also assumes an average inventory of 3.5 days of gasoline and diesel (two deliveries per week).

<sup>19</sup> The general price elasticity of demand formula is:  $e_p = (Q_1 - Q_2) / ((Q_1 + Q_2) / 2) / (P_1 - P_2) / ((P_1 + P_2) / 2)$ , where P = price and Q = sales. For a range of price elasticities, see *The upside hedge value of California's global warming policy given uncertain future oil prices*, James Fine, Christopher Busch, Remy Garderet, 2012.

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### **Gasoline Revenues**

This bill increases the gasoline tax by \$0.173 per gallon. Revenues increase by \$1.312 billion in FY 2015-16 (half-year impact, including \$16.6 million in floor stock revenues). Revenues increase by \$2.542 billion in FY 2016-17, the first fiscal year for which the bill is in effect for an entire year.

### **Diesel Fuel Revenues**

The diesel fuel excise tax increases by \$0.22 per gallon. Revenues increase by \$296 million in FY 2015-16 (half-year impact, including \$5.4 million in floor stock revenues). Revenues increase by \$584 million in FY 2016-17, the first fiscal year for which the bill is in effect for an entire year.

### **Aviation Gasoline**

The tax rate increases \$0.12 per gallon on AvGas. AvGas use is very small compared to on-road gasoline usage. Total AvGas revenues increase by \$1.0 million (including floor stock taxes) for FY 2015-16, and \$1.9 million in FY 2016-17.

**Consumer Price Index (CPI) Adjustment.** The DOF is forecasting a 6.5% increase in the California CPI over the three FYs 2014-15 to 2017-18. This implies a \$0.03 increase in the gasoline tax rate and a \$0.02 increase in the diesel tax rate starting in FY 2018-19.

**Qualifying Remarks.** This analysis only considers revenue impacts for fuel excise taxes administered by the BOE. With the exception of forecasting price elasticity impacts, this revenue estimate does not account for any changes in economic activity that may or may not result from enactment of the proposed law.

This revenue estimate does not account for any direct or indirect effects as a result of the elimination of the fuel tax swap revenue neutrality provision, or for the 5% sales and use tax exemption for gasoline that remains in effect, or for the 1.75% sales and use surtax on diesel that also remains in effect.