

Memorandum

To : Ms. Kristine Cazadd
Interim Executive Director

Date: February 8, 2011

From : Robert Ingenito
Chief, Research and Statistics Section

Subject: FUEL TAX SWAP

FEBRUARY 22-24, 2011 Board Meeting

Current law (Revenue and Taxation Code sections 6357.7 and 7360, commonly referred to as the "fuel tax swap") requires the Board of Equalization (the Board) to determine the excise tax rate for motor vehicle fuel (MVF) on an annual basis. Specifically, the fuel tax swap eliminates the General Fund portion of the sales and use tax on MVF and raises the excise tax rate with the intent of raising the identical amount of revenue. Legislation set the excise rate on MVF at \$0.353 cents per gallon in 2010-11, and requires the Board to adopt a "revenue-neutral" excise tax rate for each ensuing fiscal year by the first of March.

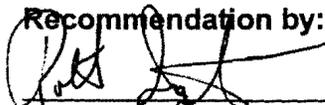
Staff has developed forecasts for both the price and consumption of MVF. These forecasts project that the General Fund portion of sales and use tax revenues would have been \$2.663 billion. Staff calculates that an excise tax of \$0.357 per gallon would generate the same amount of revenue.

Thus, staff recommends that the Board set the excise tax rate on MVF for the period July 1, 2011 through June 30, 2012 at \$0.357 per gallon, an increase of \$0.004 from the current rate of \$0.353.

RI:vs

cc: Mr. David Gau
Mr. Jeff McGuire
Ms. Margaret S. Shedd
Ms. Diane Olson
Mr. Lou Feletto
Ms. Susanne Buehler
Mr. Bill Benson, Jr.

Recommendation by:



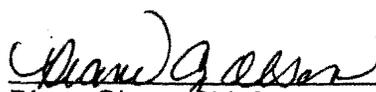
Robert Ingenito
Chief, Research and Statistics Section

Approved:



Ms. Kristine Cazadd
Interim Executive Director

Approved:



Diane Olson, Chief
Board Proceedings Division

BOARD APPROVED

at the 2/23/2011 Board Meeting