California Secure Transportation Energy Partnership

January 29, 2009

TO: Members of the Commission on the 21st Century Economy
Governor Schwarzenegger
President Pro Tempore Steinberg
Speaker Karen Bass

FROM: John Boesel, President and CEO, CALSTART
On Behalf of the CalSTEP Partners

RE: Recommendations for the Commission on the 21st Century Economy

The creation of the bipartisan Commission on the 21st Century Economy to reexamine and update California's revenue laws represents a very important step toward securing the state's long-term health and prosperity. On behalf of the California Secure Transportation Energy Partnership (CalSTEP), itself a blue ribbon committee formed to provide guidance to California on transportation energy policy, and CALSTART, an organization dedicated to the growth of the clean transportation technologies industry, I would like to offer a suggestion for the Commission's consideration: By imposing a **variable fee or surcharge on gasoline, California could alleviate its serious budgetary problems while also achieving important environmental policy goals.**

California faces a severe budgetary crisis that requires immediate attention. In the short term, the state needs increased revenues, spending cuts, or both. In the longer term, some restructuring of revenue laws is needed, and the state may want to consider the creation of a "rainy day fund" to deal with particularly difficult years and market conditions. At the same time, California has set strong targets for reductions in greenhouse gases, criteria emissions, and petroleum dependence, and recent reports suggest that meeting these targets is critical from an economic and environmental standpoint.[1] A variable surcharge on gasoline that moves inversely with the price of oil could help address the state's budgetary problems while also driving reductions in the state's emissions and petroleum dependence.

Basic Idea: Create a Variable Transportation Fuel Surcharge

California could implement a variable transportation fuel surcharge that moves inversely with the price of oil. This surcharge would help the state achieve many fiscal, economic, and environmental policy goals:

- **Address budgetary issues** through the use of fee revenues for the deficit in the short term and the creation of a "rainy day fund" in the long term
- **Drive reductions in transportation sector emissions** by providing price signals to consumers that encourage more efficient transportation choices
- **Reduce the state's petroleum dependence** by encouraging reductions in travel and increased use of clean and efficient alternatives
- **Encourage the development of clean transportation technologies** by stabilizing the price of gasoline and diesel, thereby providing consistent, long-term price signals for investors and entrepreneurs

[1] See Karl, Fredrich and David Roland-Holst, "California Climate Risk and Response." Next 10, November, 2008. [online] http://www.next10.org/pdf/report_CCRR/California_Climate_Risk_and_Response.pdf; Hall, Jane, et al. "The Benefits of Meeting Federal Clean Air Standards in the South Coast and San Joaquin Valley Air Basins." November 2008. [online] http://business.fullerton.edu/centers/iees/reports/Benefits%20of%20Meeting%20Clean%20Air%20Standards.pdf

California Secure Transportation Energy Partnership

Fuel Diversity
Efficient Vehicles
Smart Growth & Transit

Background: CalSTEP's Original Proposal and Potential Modifications

The idea of using a gas tax or fee to achieve various policy goals is not new. Retail gasoline prices do not reflect the full social value of petroleum consumption. Imposing a tax or fee on gasoline is therefore attractive because it corrects a market failure in addition to providing a revenue source.

In its original 2007 Action Plan, CalSTEP recommended that the state implement an Energy Security Tax Relief and Realignment program (ESTRR) that would effectively create a price floor on gasoline. As originally proposed, the program would couple a revenue-neutral Foreign Oil Security fee with some form of tax rebate or credit for California taxpayers. The fee would be variable, creating a slowly increasing floor on the price of gasoline. If prices were to rise above the floor, the fee would disappear. This option would provide consumers and investors with the price signals necessary to drive reductions in transportation emissions and petroleum dependence, while remaining revenue neutral to avoid placing undue burden on California's economy and taxpayers. Additional information about ESTRR can be found in the CalSTEP Action Plan, available at this website: http://calstep.weststart.net/

Given the state's current budgetary crisis, we believe a modified version of this proposal is more appropriate. Rather than directly refunding consumers through a tax rebate or credit, the state could use the revenues to address the budget deficit and create some sort of fund for use in future budgetary crises. We believe this may be politically viable when compared with the options currently being discussed for addressing the deficit, including sales tax increases and severe service cuts.

Professor Severin Borenstein of U.C. Berkeley recently wrote an editorial and a white paper proposing a Fuel Price Stabilization Program (FPSP) that does exactly this. While CalSTEP has not reviewed the details of the proposed FPSP, we endorse the general concept and believe it is worthy of further consideration. The full FPSP proposal includes additional program elements to lessen revenue volatility. The details of Borenstein's proposal are available from U.C. Berkeley's Center for the Study of Energy Markets, at this website:
http://www.ucei.berkeley.edu/PDF/csemwp182.pdf

Conclusion: Fuel Surcharge Achieves Multiple Policy Goals

The current situation suggests that California needs new and different revenue sources. A tax or fee on transportation fuels could provide a significant portion of these revenues while also encouraging smarter and more sustainable consumer choices and technology investments in California. As the Commission on the 21st Century Economy looks at options for updating California's revenue laws, we encourage a focus on options, such as a fuel surcharge, that can simultaneously address other policy problems.