

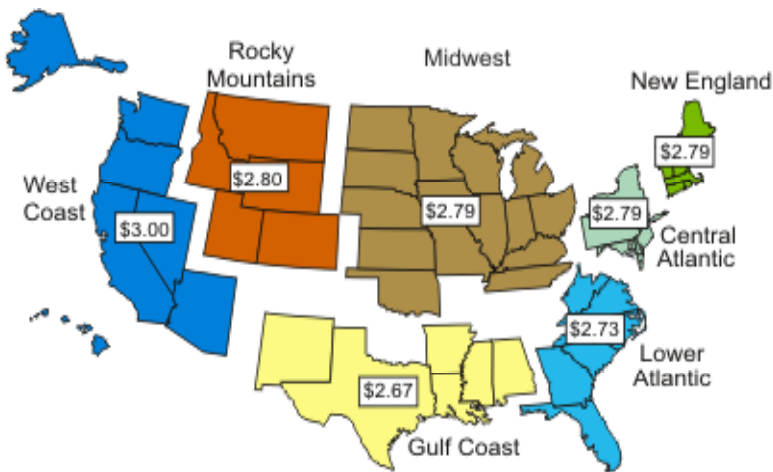


Issue Brief:
California Compared—Fuel Taxes and Fees

California Compared - Fuel Taxes and Fees

Why are California Gasoline Prices Higher and more Variable than other States?

Although price levels rise and fall over time, Energy Information Administration (EIA) (U.S. Department of Energy) data indicate that average retail gasoline prices are routinely significantly higher in California:



Source: Energy Information Administration, EIA-878, Motor Gasoline Price Survey

One Reason -- Taxes and Fees

Current California fuel tax policy, coupled with other California specific policies and circumstances, directly results in California having the highest fuel prices in the nation. California boasts one of the nation's highest combined (federal, state, local) gasoline taxes, 28% higher than the national average.¹ California state gasoline taxes alone are 43 percent higher than the national average of state gasoline taxes. Californians pay both the excise tax on gas and the sales tax as well. The following table shows various federal, state and local taxes applied to fuel purchased. The figures represent weighted averages to balance out differences across jurisdictions within states, and where a percentage sales tax is applied the figure represents a snapshot of April 1, 2009 prices as reported by AAA.

According to API, CA has the second highest taxes on gasoline in the nation.² The top five states for higher taxes in order are:

1. New York
2. California
3. Washington
4. Connecticut
5. Florida

The lowest is Alaska with no state taxes only the federal excise tax of 18.4 cents per gallon (cpg). For diesel, Hawaii and Connecticut move to the top of the list, bumping New York and California to third and fourth respectively.

“California prices are higher and more variable than prices in other States...while gasoline prices, and oil prices in general, are currently high throughout the United States and even worldwide, California has been hit particularly hard. California prices are typically higher than the U.S. average, and thus the run-up this year began from a higher level. In addition, California retail prices often exhibit more volatility than other areas when markets tighten. This year is no exception, as the average retail price in California has risen about 58 cents since the beginning of this year, and stands at \$2.56 per gallon, almost 33 cents higher than the national average....California has historically seen some of the highest, and most volatile, gasoline prices in the United States. The reasons for the striking differences in the behavior of California gasoline prices, as compared to those in other parts of the United States, are numerous.... Several major factors contribute to the problem.”

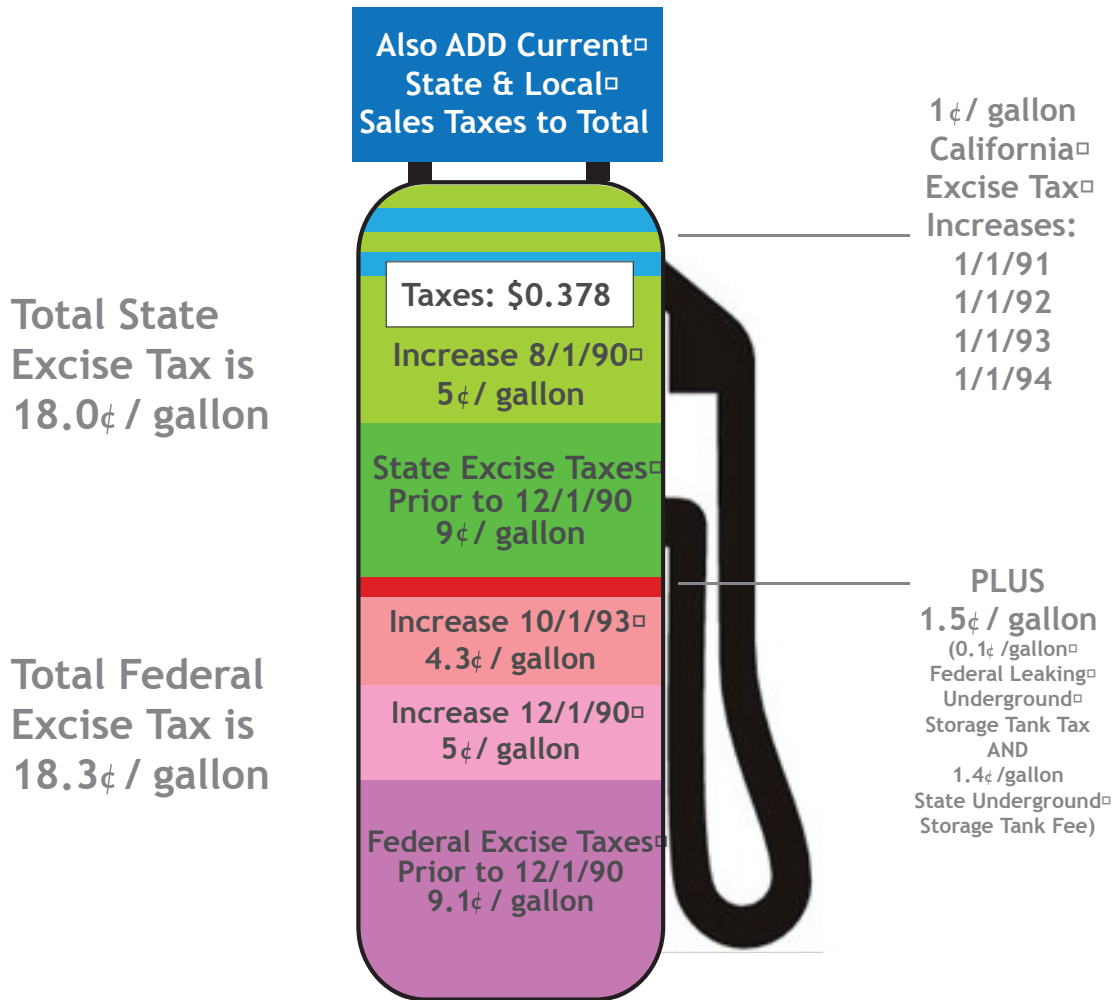
- John Cook, U.S. Department of Energy³

¹ American Petroleum Institute, January 2009 State Motor Fuel Excise Tax Report, January 2009.

² API State Gasoline Tax Report Summary (April 2009). Available online here: www.api.org/statistics/fueltaxes/index.cfm.

³ Statement of John Cook, Director, Petroleum Division, Energy Information Administration, U.S. Department of Energy, before the Subcommittee on Energy and Resources, Committee on Government Reform, U.S. House of Representatives, May 9, 2005

California Gasoline Tax

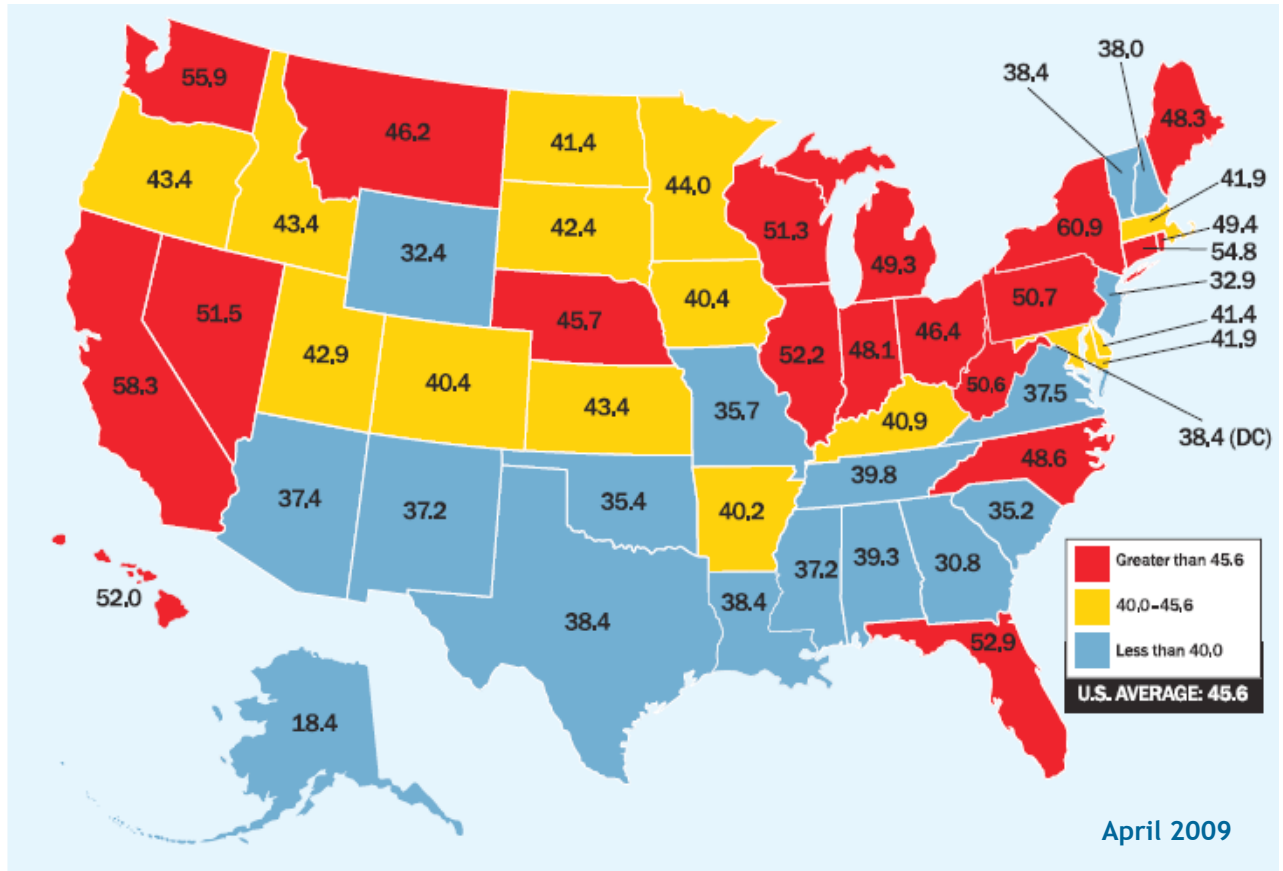


In addition to the Motor Vehicle Fuel Tax, other California Fuel Taxes and Fees:

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|---|--|
| Aircraft Jet Fuel Tax | Underground Storage Tank Maintenance Fee |
| Childhood Lead Poisoning Prevention Fee | Kerosene & Stove Oil Use Fuel Tax |
| Diesel Fuel Tax | Liquid Petroleum Gas Use Fuel Tax |
| International Fuel Tax Agreement (IFTA) including California Interstate User Diesel Fuel Tax (DI) Program | Compressed Natural Gas Use Fuel Tax |
| Oil Spill Prevention and Administration Fee | Liquid Natural Gas Use Fuel Tax |
| Oil Spill Response Fee | Alcohol Fuels Use Fuel Tax |
| | Annual Flat Rate Tax |

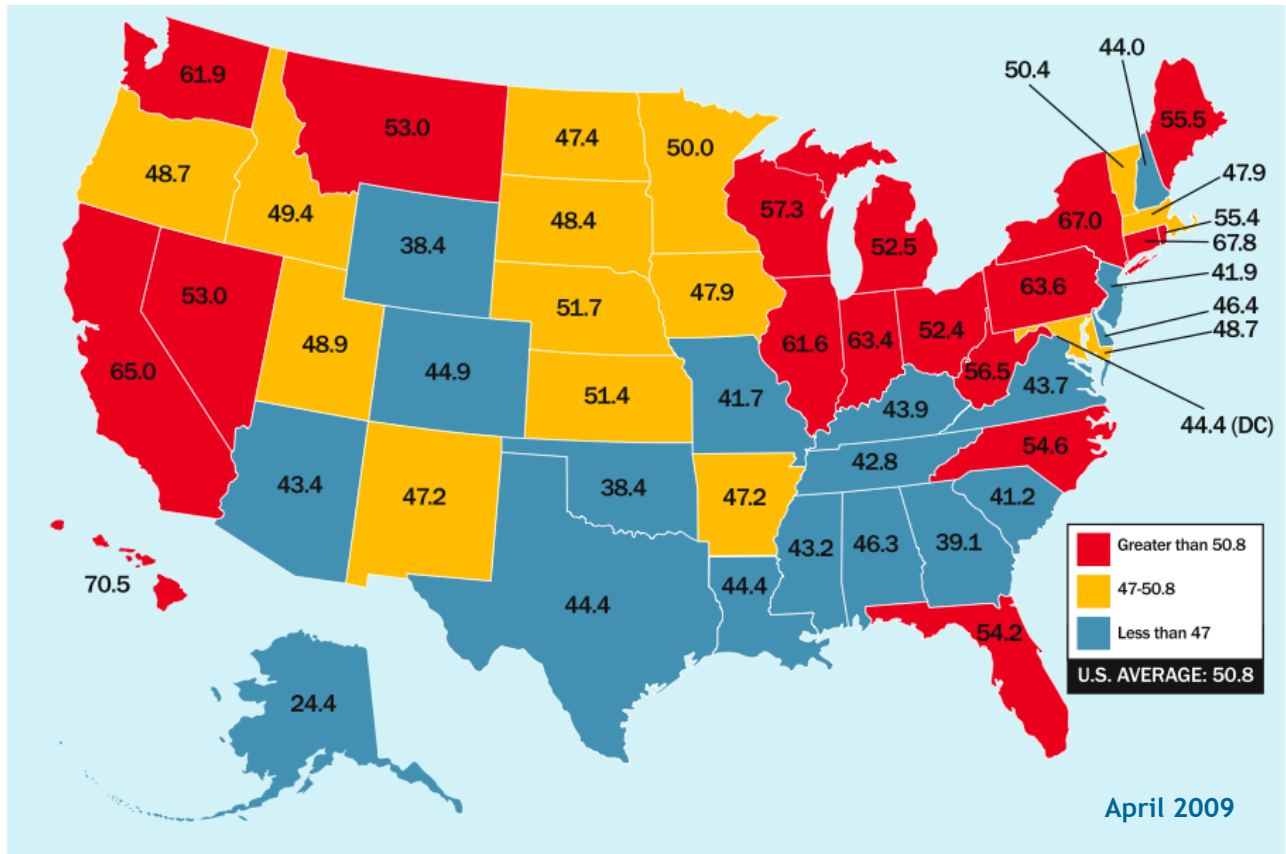
Gasoline Taxes

Combined Local, State and Federal (cents per gallon)



Diesel Taxes

Combined Local, State and Federal (cents per gallon)



What are the Impacts of Fuel Taxes, Surcharges and Other Fees on the Price and Availability of Fuel in California?

While businesses know the impact of higher fuel costs on everything from prices at the pump to cost of their goods and services, California gasoline consumers are seriously, and negatively, impacted by increases in the price of gasoline. The necessity of commuting patterns and reality of current transportation infrastructure and employment location prevents most consumers from significantly changing their consumption behavior. Even at \$3.50 per gallon, California consumers purchased only 4.5% less fuel.⁴ Many drivers, especially commuters, simply cannot change their driving patterns without significant negative economic ramifications to their families.

What are some of the Costs of CA being Different?

- How much extra does it cost the average CA family?

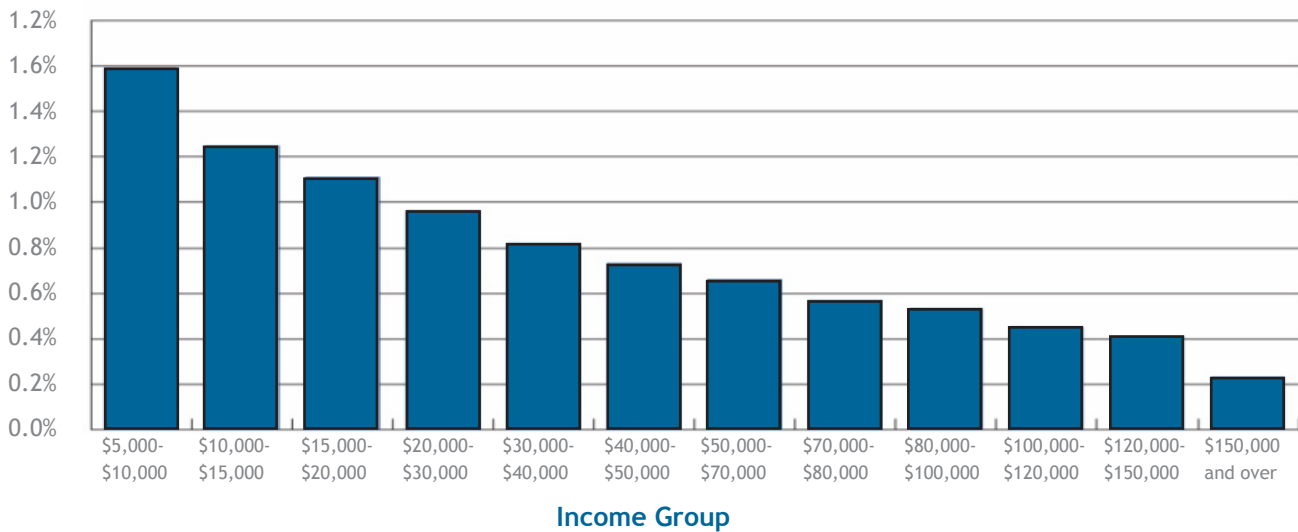
In terms of household expenditures on gasoline and oil, average California households spend over \$1,000 per year on fuel taxes and average an estimated \$277 more per year in gasoline taxes than the average American household.⁵

- Regressive Nature of Impacts on Lower-Income Families

Higher per unit fuel costs disproportionately affect lower-income families. There are too many long standing structural barriers that prohibit lower-income families from significantly reducing their levels of fuel consumption. Lower-income families spend more on transportation as a proportion of their expenditures. They are, therefore, disproportionately impacted by increases in energy costs. Higher fuel costs, taxes and other price increases are regressive because lower-income families are particularly vulnerable to higher gasoline prices.

“Gasoline taxes hit lower-income motorists the hardest.”⁶

Percentage of Income Spent on Gasoline Taxes (US)



Source: Tax Foundation, Bureau of Labor Statistics

⁴ California State Board of Equalization, *Net Taxable Gasoline Gallons*, April 30, 2008.

⁵ Experian and The Tax Foundation

⁶ Williams, J. (2007) *Paying at the Pump: Gasoline Taxes in America*. The Tax Foundation (p. 17).

⁷ Power, Meg (2008). *The Burden of FY 2008 Residential Energy Bills on Low-Income Consumers*, *Economic Opportunity Studies*. Available online: www.opportunitystudies.org/repository/File/energy_affordability/Forecast_Burdens_08.pdf.

Furthermore, if fuel costs increase, then the cost of transportation for trucks, trains or planes that move goods across the state also increase. Widespread stories through the spring and summer of 2008 demonstrated how when gasoline prices were over \$4 per gallon, average consumers watched their grocery bills climb since the transportation costs to bring groceries to the stores also increased.

Effect on Small Businesses Owners

Smaller businesses do not have economies of scale and, therefore, are disproportionately affected by increases in energy prices. Larger businesses are more able to absorb cost increases by distributing a larger portion to consumers. Cost increases also take up a larger proportion of small businesses' budgets. This can contribute to lower market competitiveness, which can stifle economic robustness. Paying some of the highest state fuel taxes in the country, California small businesses are at an economic disadvantage compared to the rest of the country. The increased cost of fuel to business and cost of living hurts Californians to a greater degree than the assumed benefits that come from higher taxes.

Geographical Areas most impacted by California fuel standard costs

Inland California regions most impacted by higher fuel costs, such as the Central Valley and Inland Empire, are also those most affected by the current economic and housing downturn and will likely take longest to recover. Since California depends on tankers as its major means of receiving fuel, these inland areas will have even higher prices due to transportation needs from the ports. Removed from central business districts and major urban areas, residents in these areas often commute long distances to work, making them more vulnerable to fuel price spikes and volatility in the supply chain, exacerbating an already financially burdened population. Recovery during the recession will take even longer with the additional burden of fuel price volatility, especially in these costlier markets inland.

Fueling California has commissioned the Orange County Business Council (OCBC) to analyze the policy decisions that impact fuel resources in California through examining research on policies, taxes and government requirements regarding current and alternative fuels in California. The results will provide policymakers, media and community members with information about the economic impact of California's policy regime regarding traditional and alternative fuels. The analysis will determine "what makes California different" than other states on how it approaches policymaking on fuel resources for our modern economy.

OCBC's research team is headed up by Dr. Wallace Walrod and researchers from top California universities, including Dr. Randall Crane from University of California, Los Angeles; Dr. Roger Morton from California State University Long Beach; and Dr. Marlon Boarnet from University of California, Irvine. The anticipated release date of the study is July 2009.

The overarching question proposed in Fueling California's research is "Why do California drivers consistently pay more for fuels than people in other states?"

A series of related factors account for the high cost of gasoline, diesel, and jet fuel in the State. Besides fuel taxes and fees, there are other factors that contribute to regional and even local differences in gasoline prices:

- Currently, Californians pay between five and fifteen cents extra per gallon in gasoline according to the California Air Resources Board due to the special blends required in the state
- California has among the most demanding set of environmental fuel policies in the world, leading to a myriad of distinct fuel standards.

These standards tend to add to the cost of producing, storing, and distributing gasoline.

- California is a "fuel island" and has no pipelines linking it to petroleum or crude oil supplies.

This means all fuel must be imported in tankers, which are costly, slower and prone to accident. California prices are higher and more variable than prices in other States because there are relatively few supply sources of its unique blend of gasoline outside the State.

- The state's refining capacity has stagnated for decades despite a rapidly growing demand for gasoline.

“The region uses a unique gasoline that is difficult and expensive to make, and as a result, the number of other suppliers who can provide product to the State are limited.”

- John Cook, U.S. Department of Energy⁸

California refineries need to be running near full capacity to meet the State's gasoline demand. If more than one of its refineries experiences operating problems at the same time, California's gasoline supply may become very tight and prices can soar.

- California's "differentiated" fuel standards cause a continual risk of "supply outages".

Any event or disruption that slows or stops production of gasoline for even a short time, such as planned or unplanned refinery maintenance or the refinery shutdowns that occur due to natural disasters, can disrupt fuel supplies and send prices soaring, an increasingly common occurrence since 2000. Specifically, global price spikes in 2002-2003, 2006, and 2008 caused California fuel prices to skyrocket significantly higher and longer than other states. Even when supplies can be obtained from some Gulf Coast and foreign refineries, they can take a relatively long time to arrive due to California's substantial distance from those sources. The farther away the necessary relief supplies are, the higher and longer the price spike will be.

“While the California refinery system supplies most of region’s needs, the refinery system runs near its capacity limits, which means there is little excess capability in the region to respond to unexpected shortfalls.”

- John Cook, U.S. Department of Energy⁸

“California is isolated from and lies a great distance from other supply sources (e.g., 14 days’ travel by tanker from the Gulf Coast), which prevents a rapid resolution to any supply/demand imbalances”

- John Cook, U.S. Department of Energy⁸

⁸ *Statement of John Cook, Director, Petroleum Division, Energy Information Administration, U.S. Department of Energy, before the Subcommittee on Energy and Resources, Committee on Government Reform, U.S. House of Representatives, May 9, 2005*

