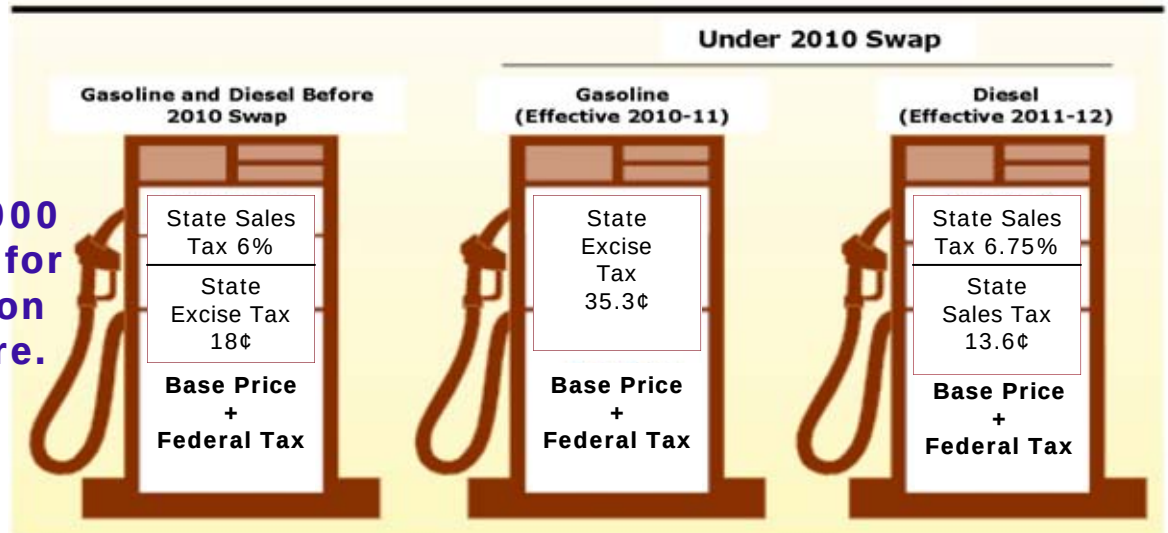


ISSUE: Gas Tax Swap

Recently, the Legislature enacted a package of changes known as the “fuel tax swap” to achieve General Fund relief. However, the passage of ballot measures (Proposition 22 and Proposition 26) in November 2010 potentially undoes portions of the tax swap package.

In response to these ballot measures, the Governor’s January 2011–12 budget proposes statutory changes to recapture the use of transportation funds to help balance the state’s budget. Absent legislative action to reenact the tax swap, the excise tax increase would be repealed by Prop 26 in November 2011, but the sales tax it replaced—which supports local streets and roads and STIP funding—would not necessarily be reinstated. In addition, absent legislative action to address the passage of these two measures, a large portion of the \$1.6 billion in General Fund relief assumed in the *2010–11 Budget Act* will probably be undone. Similarly, General Fund relief anticipated in 2011–12 and future years would also not occur.

The Impact of the Fuel Tax Swap on State Gasoline *



At Risk—18,000 jobs per \$1B for transportation infrastructure.

***Revenue Neutral—The Gas Tax Swap is NOT a new tax**

SOLUTION: Governor’s Proposal

Proposal Would Reenact the Provisions of the Tax Swap. The Governor’s January 2011-12 Budget proposes statutory changes to ensure that the General Fund receives about the same level of benefit from transportation as was planned for the current and budget years from the tax swap and the *2010–11 Budget Act*. Specifically, the Governor proposes to reenact the fuel tax swap provisions with a two-thirds vote to prevent the swap from being repealed under Proposition 26 in November 2011. His proposal also maintains about the same level of funding for transit programs, including providing \$330 million to STA in 2011–12 by directing new diesel sales tax revenues from the tax swap to this program.

Tax Swap Maintained Funding Levels for Local Roads and Highway Projects. In addition to providing General Fund relief, the new excise tax revenues from the swap also provided funding to “backfill” gasoline sales tax revenues that would have been provided under the old funding system to local agencies for their streets and roads programs. Funding for the State Transportation Improvement Program, which previously came from the sales tax, was also maintained at approximately the same levels that had previously been provided.

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