The Grinch That Stole Christmas: California's Working Families Face $650 to $800 Cost-of-Living Increase with the Gas and Car Tax Hikes

California's Overall Cost-of-Living Will Increase for All

Regressive and Costly Gas and Car Tax Hit Working Poor the Hardest

CALIFORNIA POLICY CENTER

REFORM CALIFORNIA

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Executive Summary

- California's poverty rate is 20.6 percent, the highest in the nation. In a recent poll, 47% of Californians considered themselves "working poor."[1]

- California politicians are misrepresenting the true cost of living impact that will result from their car and gas tax hikes. This issue is timely as a Yes vote on Proposition 6 this November would repeal the recently-imposed gas and car tax hikes.

- Using "averages" to evaluate the impact of the car and gas tax hikes on the working poor understate the true impact on their cost-of-living which is why modeling the impact of car and gas tax hikes for low-income families is important.

- With the new gas tax and car tax hikes in place, a "average" two-car family will pay at least $1500 in taxes a year.[2] When adjusting for the "average" tax rate, a two-car "average" family must earn almost $2000 in pre-tax earnings just to pay their California car and gas taxes.[3]

- For a low-income family, it is different. A typical two-car low-income family may pay $1800 in taxes a year. Because low-income families are in a lower tax bracket, that two-car low-income family still must earn almost $2000 in pre-tax earnings just to pay their California car and gas taxes.

- Using the most conservative modeling, the latest gas tax and car tax hikes alone will force a family of four to pay anywhere between **roughly $650 and $800** more in tax and living expenses – depending on commute and consumption of goods and services impacted by fuel prices:

    - **Car and Gas Tax Hikes: $521.25 to $620.50**
    - **Food Purchases: $124.28**
    - **All other Purchases: $0 to ??? – though undeniably a higher cost of living**

- The cost impact is worse – due to increases in costs on other products and services. While this white paper documents the direct tax and increased food costs from the gas and car tax hikes, additional cost-of-living increases will most certainly be felt as the cost of fuel and vehicles increases with these taxes and the additional costs are passed on by businesses to their customers in the form of higher prices.

- The cost-of-living increases resulting from the new gas and car tax hikes will require sacrifices from working families. In fact, it almost wipes out what the average family spends on Christmas each year ($935.58) – according to the National Retail Federation.

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[1] Public Religion Research Institute's 2018 California Workers Survey
[2] Legislative Analysts Office – Primer on California's Transportation System, June 2018
[3] "What's the Average American's Tax Rate?" USA Today, March 10, 2017

Why Working Families Are Hit Hardest by Gas Tax Increases

Averages used by state agencies can be very deceptive when evaluating the impact of gas and car tax hikes on "working families" or families that earn less than the median income in their community.

Studies suggest drivers from poorer families tend to drive more than more affluent families because of the nature of the work they perform and the need to move farther away from job centers in search of more affordable housing.

California state government lumps all drivers into one big average (merging in retirees with cars, students with cars, etc.) to report that the "average" Californian drives 35 miles per day.[4]

But the average conceals the impacts to low-income families. Take these conclusions from various research institutes:

> **"poor commuters spend a much higher proportion of their wages on gas (8.6 versus 2.1 percent at $4/gal);"** – Urban Institute, Impact of Rising Gas Prices on Below Poverty Commuters, September 2008
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> **"As gas prices double, the increase in costs represents a disproportionate increase in the burden for below-poverty commuters—from $2/gal, the increase takes 4.3 percent of income from below-poverty commuters and 1.0 percent from those above poverty."** – Urban Institute, Impact of Rising Gas Prices on Below Poverty Commuters, September 2008
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> **"Commuting time has emerged as the single strongest factor in the odds of escaping poverty." –** Harvard University, The Impacts of Neighborhoods on Inter-Generational Mobility, 2015
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> **"As poor and minority residents shifted toward suburbs in the 2000s, their proximity to jobs fell more than for non-poor and white residents."** –Brookings Institution, The Growing Distance Between People and Jobs in Metropolitan America, 2015

As low-income workers seek jobs and seek more affordable housing, it adds up to longer commutes.

Many of these workers become what is called **"Super-Commuters"** – defined as any individual who travels 90 minutes or more to work each day.

According to a PEW study, **California has seen one of the biggest increases in Super-Commuters during 2010-2015 – with a 40% spike – and the trend is continuing**. For example, in Southern California, over 127,000 Super-Commuters drive from Riverside to Los Angeles for work every day.[5]

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[4] Legislative Analysts Office – Primer on California's Transportation System, June 2018
[5] Pew, "In Most States, The Spike in Super-Commuters," June 2017

Californians Pay $1 More Per Gallon This Year – Projected to Hit Nearly $2 More Per Gallon within 10 Years

In August 2018, California had the 2nd highest gasoline price among the states and DC, behind only Hawaii which requires its gas be shipped in tankers thus adding costs. The cost of California's gas is driven higher by excessive state taxes, mandates and fees.

The gas tax increase under SB1 will be at least 19.5 cents starting in July 2019. In addition, the gas tax hike legislation contains a hidden tax by changing how taxes are assessed per gallon of gas, thus allowing an even bigger increase. Finally, SB 1 also mandates the gas tax will automatically increase each year thereafter.

Here are the **current** and **projected** tax rates and mandate burdens per gallon of gas in California:

Federal Gas Tax:	**18.4 cents/gallon**
State Gas Taxes:	**58.3 cents/gallon**
Excise Tax -	47.3 cents/gallon
Storage Tank Tax -	2 cents/gallon
Sales Tax -	9 cents/gallon
Total Tax Burden:	**76.7 cents/gallon**
Blend Mandates	15 cents/gallon[6]
Cap and Trade (current):	11 cents/gallon[7]
Current Tax/Mandate Burden:	**$1.02 per gallon**
Cap and Trade (projected):	73 cents/gallon[8]
Projected Tax/Mandate Burden:	**$1.75 cents/gallon**

As of August 2018, the California premium above the average for the US other than California ($2.79) stands at 82.0 cents, **a 29.4% cost-of-living increased difference**. Californians **paid $1.06 a gallon more** than consumers in Alabama, the state with the lowest price.[9]

[6] Reason Foundation, Gasoline Prices: Conspiracy or Plot? March 2007
[7] Legislative Analyst's Office, Memo to Asm. Vince Fong, March 29, 2017
[8] Legislative Analyst's Office, Memo to Asm. Vince Fong, March 29, 2017
[9] Center for Jobs and the Economy, August 2018

Typical Working Family of Four Could See Cost-of-Living Increase by Roughly $650-$800 a Year

Sacramento politicians like to describe the recent gas and car tax hikes as mere “pennies” – but the real impact ads up to a substantial hit to working families. To illustrate the increase costs that a typical working family of four would see under the car and gas tax hikes, consider the following costs.

Cost of Vehicle Registration Increase: $250 per year

The car tax (vehicle registration assessment) goes into effect January 1, 2018 and many families are now getting the first notices of the increase in the mail. The amount of the car tax increase depends on the value of your car.

The average family has 2.1 cars. For our illustration of a typical California working family, let’s round that down to just 2 cars. Moreover, for our illustration for a typical California family, let’s set aside luxury cars like a Mercedes or BMW. Let’s suppose the family we study has a **Ford Fusion** and a **Jeep Wrangler** – pretty standard economical cars.

For this family, the car tax hike is $100 more for the car worth $25,000 or more (Ford Fusion) and $150 more for the car worth $35000 or more (Jeep Wrangler). For this family, that’s an extra $250 per year.

Note, because of the smaller size of these cars, these car tax costs do not include the “weight” fees charged to trucks driven by many individuals.

Option 1: Cost of Fuel Increase: $370.50 per year – longer commute family

For this example, we use the specific gas tank size installed in the two cars in our model. The Jeep Wrangler Gas Tank is 20 gallons and the Ford Fusion Gas Tank Size is 18 gallons. We will assume that this working family has a longer commute than the “average” family – requiring each car be filled up approximately once per week. Using average of 19 gallons per week between the two cars, for this two-driver family, that’s an **extra $370.50 in new gas taxes** per year. This is on TOP of the existing gas tax they already are assessed.

Option 2: Cost of Fuel Increase: $271.75 per year – “average” commute family

Even if you stick with the misleading “averages” touted by state politicians that lump all families despite income or proximity from jobs into one number, you can see a massive cost-of-living impact from the recent gas tax hike. The LAO estimates an “average” driver used 13.4 gallons of gas in 2016 per week. Assuming a two-car family, that still translates into an **extra $271.75 new gas taxes** per year. Again, this is on TOP of the existing gas tax they already are assessed.

Cost of Shipping and Cost of Goods Increase: At least $124.28 per year (food alone)

This is where the impact of the gas tax hike is really hidden as it is imposed on transportation companies using diesel and they in turn pass it on to consumers through price increases.

Transportation companies predominantly use diesel. Currently, diesel is taxed at 16 cents per gallon in California. Under the gas tax hike legislation, diesel will go up to 36 cents – and be subjected to another 4 percent increase in sales tax. Based on diesel prices in place when the tax went into effect, the taxes increased the cost of diesel by almost 10%.

Shopping at the mall or the market? All those products were shipped to those stores and the price has to account for higher transportation costs. Ordering from Amazon or want a delivery of a new washing machine? That also will result in higher delivery costs.

According to a study conducted by the European Union "The Impact of Oil Prices on Transport and Its Related Sectors," for every 10 percent increase in the price of fuel, there is a 1 percent increase in the price of transportation. That figure includes all forms of transportation – including fuel-efficient rail and maritime shipping. The same European Union report noted the portion of the cost of transportation to the total cost of goods can range from 1-10 percent depending on the item.

Items shipped on trucks will see a much bigger price impact. In 2013, Evans Distribution Systems produced a different projection looking specifically at trucking companies – noting that fuel costs comprise 25 percent of the total operating costs of trucking companies. A 10 percent increase in the price of fuel would equate to a 2.5 percent increase in the price of good trucked.

Some California companies are already bracing for much higher cost impacts. For example, a KSBY report (see below) features an expert projecting a 15 percent increase in the cost of transportation.

Of course, none of these projections include the increase vehicle registration assessment for vehicles used in the transport of these goods.

Based on the ranges outlined above and excluding the car tax portion, a conservative estimate is you can expect to pay between 1-2.5 percent more for goods that are shipped – which means everything.

Setting aside transportation of goods, the production of goods also requires the use of gas and diesel fuels. The gas tax hike legislation will increase costs of producing goods.

Modeling the price impact from increased fuel costs requires analysis and methodologies that track impacts by categories of goods. For this analysis let's look simply at food production where some reliable cost/price models exist.

Labor, water and fuel costs are the three top cost drivers for the cost of food goods. Fuel is bigger than you think. Nearly two thirds of machines on farms use diesel fuel. Worse, farm equipment is far less fuel-efficient. In fact, farm equipment like combines typically get just between four and six miles to the gallon on diesel.

A study published by the Center for Emerging Market Economies at Tufts University in 2010 shows fuel costs were roughly 7-8 percent of the cost of producing food (excluding transport to market). Price fluctuation correlation between changes in cost of diesel and the cost of food commodities ranges from .35 for chicken to a high of .86 for rice. Using these figures, a ten percent increase in the cost of diesel equates to a price increase of food goods by .7 to .8 percent per good.

For analysis of the impact of the gas and car tax hike on the cost of goods for our typical family, we will be exceedingly conservative by only accounting for the price impacts on food – assuming no other products are bought by the family during the year.

We will assume this family purchases what the USDA in 2013 calculated as a "moderate grocery bill" for a family of four totaling $239 per week.

Now let's take another conservative assumption that the increase transportation costs of 1-2.5 percent more and production costs of .7 to .8 percent more are rounded down to just 1 percent flat. Taking this very conservative average of 1 percent increase for cost of the good AND cost of the transportation, that's an extra $124.28 per year just for food.

Families buy more things than just food – and all of those other costs are not estimated here, but we can easily assume those products will also cost more.

KSBY - Diesel price increase expected to lead to higher prices for consumer goods

Farmer Projects a 15 Percent Increase from Gas Tax Hike

"So we are expecting about a 15 percent increase on the average per load," said Shawn Callaway, farmer.

He gets pumpkins transported from Oregon for his pumpkin patch and this year, he's had trouble finding a trucking company to bring a load. He says he can only imagine how much worse it will get once diesel prices go up.

"Everything from wood to lumber will be affected," Callaway said. "Coming in from northern Oregon, Washington, Montana, you just got all kinds of products, cardboard, paper all that stuff that's made elsewhere (and) comes into California I think will be fully affected by this diesel increase."

Callaway also grows Christmas trees up in Oregon and he's already anticipating he'll have to raise prices on those trees to make up for increased shipping costs.

"Some of these trees get into the larger sizes could be $10-$12," he said.

The prices on imported vegetables may also go up, with that cost ultimately being passed down to the consumer.

"So, starting in the first of the Spring is probably when we are really going to see more sticker shock stuff saying 'holy cow, this is, you know, huge,'" Callaway said.

Read More: http://www.ksby.com/story/36705174/diesel-price-increase-expected-to-lead-to-higher-prices-for-consumer-goods

About the Authors

California Policy Center
Will Swaim, President

The California Policy Center is an educational non-profit focused on public policies that aim to improve California's democracy and economy.
Will Swaim is President of the California Policy Center. He served most recently as editor of Watchdog.org, a national network of state-based investigative reporters, and vice president of journalism at Watchdog's nonprofit parent, the Washington, D.C.-based Franklin Center for Government & Public Integrity. Swaim began his journalism career as a business reporter in 1990, as managing editor and ultimately editor and publisher of the international business magazine, World Trade. A seventh-generation Californian, Swaim has written extensively about California business, media, politics and religion; is the winner of several print journalism awards and a Southern California Broadcasters Golden Mike award for public affairs commentary. He appears regularly on television and radio.

Reform California
Carl DeMaio, Chairman

Reform California is a 527 political action committee formed and funded by taxpayers who are fed up with the politicians and special interests in Sacramento that have imposed higher taxes, fees and mandates on Californians - resulting in a spike in our cost-of-living.

Founded in 2003, Reform California has a track record of success in defeating tax hikes on the ballot and qualifying and passing reform measures to hold government accountable.

At the age of 23, Carl DeMaio started his first company — the Performance Institute — to provide training and consulting solutions to help financially-troubled government entities cut costs while improving performance. DeMaio turned his business success into a life-long crusade to improve the performance, transparency, efficiency and accountability of government at all levels. DeMaio won a seat on the San Diego City Council in 2008 — and helped turn that city around from the brink of bankruptcy through his Roadmap to Recovery reform agenda.

DeMaio is now tackling state-wide fiscal reform policy in his new role as Chairman of Reform California - and as leader of the Yes on Prop 6 Gas Tax Repeal Initiative Campaign. DeMaio is also continuing to speak out on local issues, as co-host of his daily news and talk show in KOGO-AM 600.

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