

# REFORM CALIFORNIA

## California Gas Tax Hike Will Cost Typical California Family \$779.28 More Per Year

California politicians are misrepresenting the true cost of living impact that will result from their car and gas tax hikes that started going into effect November 1, 2017. Worse, California media has failed to properly report on the cost increases.

To illustrate the increase costs that a typical family of four would see under the car and gas tax hikes, Reform California prepared an analysis to illustrate the kinds of price impacts that could be seen.

### **Cost of Fuel Increase: \$405 per year**

This is the one that the media has focused on, but most of the media gets the true cost increase completely wrong. While the gas tax went up by 12 cents a gallon November 1, the gas tax hike legislation contains a hidden tax by changing how taxes are assessed per gallon of gas. As a result, the true increase in gas-tax-per-gallon will be 19.5 cents – and it will automatically increase thereafter.

The average family has 2.1 cars. For our illustration of a typical California family, let's round that down to just 2 cars using 20 gallons per week (filling up the tank once per car per week). For a two-driver family, that's an extra \$405 per year.

### **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.

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 \$35,000 or more (Jeep Wrangler). For this family, that's an extra \$250 per year.

### **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.

### **Rolling Back the Car and Gas Tax Hikes**

These increased costs of living for California families can and should be avoided by repealing the car and gas tax hikes Sacramento politicians recently enacted. Reform California is working with a coalition of reformers to qualify a citizens initiative that would roll back the car and gas tax hikes. Signature collection commences in late November and if 584,000 voters sign the petition the item will be placed on the November 2018 ballot for a vote.

For more information visit [www.stopthecartax.org](http://www.stopthecartax.org)

# **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>