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My View: Gas surcharge could help deficit, environment

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California is faced with an unprecedented budget crisis. The state is also committed to significant reductions in greenhouse gases that cause climate change. Meanwhile, the price of gasoline is plunging as the world economic slowdown cuts oil demand. At the intersection of these three situations lies an opportunity.

The state can take a big step toward solving the budget crisis, and avoid a giant step backward on climate change, by putting a floor under the price of gasoline. There's no doubt that the \$4-plus prices we experienced last summer caused a painful crunch for many households, but the economy has adjusted to prices substantially above the low-\$2 range where they are now heading.

If the state were to put in a sliding-scale gasoline surcharge, it could stabilize gasoline prices at levels that a few months ago would have been celebrated by consumers and still go a long way toward filling the state's budget crater. It would also head off the return to gas-guzzling SUVs that will no doubt result if prices stay at current levels.

Here's how it would work: The state would set a gasoline surcharge that moves inversely with the price of oil. Targeting an oil price of \$85 per barrel would mean that gasoline prices would stabilize around \$3 per gallon. If the price of oil increased, the surcharge would automatically decline so that gas prices would stay about constant. If the price of oil went above \$85, the surcharge would automatically disappear.

The surcharge would be based on world oil prices, not the local price of gasoline, so California refiners would have no incentive to raise wholesale gasoline prices to capture some of the surcharge revenue.

What can the state get out of this? More than \$10 billion. That's how much the surcharge would likely raise in the first year, which would greatly reduce the deficit. The best forecasts are that oil prices will gradually rise, so the revenue would probably decline over the next few years, though oil prices are hard to predict.

But the surcharge would support another important goal in stabilizing gasoline prices. It would signal to consumers and automakers the continued importance of using fuel efficiently to minimize greenhouse gas emissions. In the short run, it would encourage those habits we've developed over the last year: leaving the SUV in the garage whenever possible, driving the family's smaller car, car-pooling, walking and taking public transit.

In the long run, it would avert the surge in demand for gas guzzlers that is otherwise certain to

follow low-\$2 gasoline. And a gas price that more accurately reflects its full cost, including greenhouse gases, would encourage better land-use planning and shorter commutes.

Does a gas surcharge fall disproportionately on the poor? Yes. But compared with the alternative plan being pushed in the Capitol – draconian cuts in government services and an increase in sales taxes – this would hurt the poor a lot less. If the budget hole starts to close, and we are lucky enough to see oil prices stay low, it would make sense to continue the surcharge but use some of the revenue to reduce income taxes on poorer families.

The other likely concern is that the revenue stream from such a surcharge would be unpredictable. That's true. Volatile oil prices would cause volatile surcharge revenues, but on the other hand, it would reduce the volatility of gas prices and allow better planning on energy costs.

In the short run, the surcharge would bring in substantial revenues, but in the longer run, the revenues are uncertain. That makes it a poor way to fund the operating budget year by year but a natural way to pay for the "rainy day" fund that everyone in Sacramento says we need but no one sees a way to pay for.

There's not much positive economic news these days, but falling oil prices are a rare bright spot. California has an opportunity to harness a slice of that benefit to patch a large part of the state's budget hole while preventing the state's climate change policy from being derailed. Any attempt to raise revenues will no doubt be opposed by some in Sacramento. Still, I hope that the governor and most legislators have the vision and courage to see this opportunity and grab it.

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