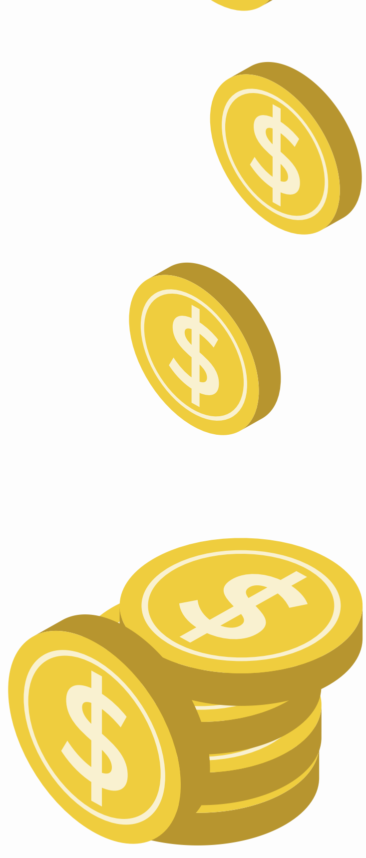
NICKEL AND DIMED:

Cell Phone Fees to Mattress Fees – How Californians' Money is Really Being Spent



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Introduction

California is an expensive place to live.

Median home prices are nearly triple the national average and have risen faster than wages. Rent has, too.[1] As the nearby table illustrates, California's personal and corporate income taxes are among the country's highest. Its sales tax is above average, and property taxes—reined-in by Proposition 13—are merely average. Fees for many occupational licenses are higher than they are in other states.[2] Tax and regulatory costs have left California's business environment ranked either forty-ninth or fiftieth.[3]

CALIFORNIA TAX REVENUE PER CAPITA

	Amount	Rank
Individual Income Tax	$ 2,137	5
Property Tax	1,607	20
Sales Tax	1,246	17
Corporate Income Tax	315	3

Note: All figures as of 2017. *Sources:* Janelle Cammenga. 2020. "State and Local Individual Income Tax Collections per Capita." The Tax Foundation. Accessed from https://taxfoundation.org/state-and-local-individual-income-taxes-per-capita-2020/ https://taxfoundation.org/state-property-taxes-per-capita-2020/; ---. 2020. "How Much Does Your State Collect in Property Taxes per Capita?" The Tax Foundation. Accessed from https://taxfoundation.org/state-property-taxes-per-capita-2020/; ---. 2020. "How Much Does Your State Collect in Sales Taxes per Capita?" The Tax Foundation. Accessed from https://taxfoundation.org/sales-taxes-per-capita-2020/; ---. 2020. "How Much Does Your State Collect in Corporate Income Taxes per Capita?" The Tax Foundation. Accessed from https://taxfoundation.org/state-corporate-income-tax-collections-per-capita-2020/.

The consequences are plain to see. When a 2019 survey asked if they "feel like you can afford to live in California," 43 percent of the state's voters and 61 percent of those under age 35 answered "no."[4] Sixty percent of Californians expect that today's children will be worse off financially than their parents.[5] Nearly 80 percent believe high taxes have compelled people to leave California.[6] They aren't wrong: the high cost of living and other stressors—including persistent homelessness, rising political hostility, and wildfires—drive hundreds of thousands to leave every year.[7] Countless businesses have already left, others plan to, and corporate executives express reluctance to expand or relocate to California.[8]

But the consequences are also dire. The California exodus is not merely a loss of people and businesses; it's also a shrinking tax base. The state's already-volatile budget cannot sustain further losses, particularly as public employee pension and healthcare costs escalate and bills for policymakers' ambitious programs come due.

In short, California's current path is not sustainable.

The state's survival is inextricably linked with reducing the cost to live and work there. While broad tax reforms in California are notoriously tricky, policymakers can offer much-needed relief to consumers by reducing the burden imposed by state and local government fees. Some are incidental, charged only when a consumer buys a particular product. But others are perpetual, charged monthly or annually. Either way, government fees "nickel and dime" consumers out of hundreds of dollars per year in a state that already boasts some of the nation's highest taxes.

Reform is long overdue. This study describes three types of fees paid by California consumers: *vehicle fees* charged by the Department of Motor Vehicles to register a new car or truck and to maintain registration after that; *cellular telephone fees* added to the price of monthly service by multiple state and local agencies; and *environmental fees* that raise the price of certain goods, like tires, electronic devices, electricity, and even mattresses. It also suggests multiple reforms that policymakers should consider. Three overarching objectives guide those reforms:

- **Transparency.** Consumers deserve to know the fees they owe and what government programs those fees subsidize.

- **Accountability.** Fees should be set by elected officials accountable to voters, not by civil servants beyond their reach. And no fee should be on "autopilot." Consumers should not have to subsidize programs that are unnecessary or ineffective.

- **Efficiency.** Consumers should pay for the cost of government services they benefit from, such as roads and highways, based on their usage. Consumers should not have to pay for services they don't use. Furthermore, they should not have to pay government fees for programs their already-high income, sales, property, and business taxes should be more than adequate to finance.

Implementing this study's recommendations will not solve all of California's problems. But it will bend the cost-of-living curve in the right direction. That, in turn, will help ensure that California's future looks like its past: as a place of unparalleled economic opportunity for millions of people.

Vehicle Fees

Owning and operating an automobile is not cheap. Besides the purchase price and loan interest, car and truck owners incur routine maintenance expenses that increase over time. Taxes, fees, and insurance raise the cost of ownership even higher.

That is especially true in California. The state's above-average sales taxes apply to the purchase price, adding hundreds—if not thousands—of dollars to the vehicle's cost. Average insurance premiums are among the highest in the country.[9] California's gasoline and diesel fuel taxes are the highest.[10] Many cities charge for parking and some, like Los Angeles, also levy a parking tax.

None of those expenses include the cost to register an automobile with the Department of Motor Vehicles ("DMV"), which charges consumers multiple state and local government fees. The nearby table describes the four primary state government fees charged whenever a consumer registers a vehicle in California.

PRIMARY CALIFORNIA VEHICLE REGISTRATION FEES IN 2021

	Type	Amount
Vehicle License Fee	Percentage rate	0.65 percent of purchase price or estimated value
Registration Fee	Flat rate	$64
Transportation Improvement Fee	Variable	$27 to $192
Highway Patrol Fee	Flat rate	$28

Notes: Some exceptions apply. For example, the DMV charges a $2 Vehicle License Fee for historical vehicles and horseless carriages, and certain groups (e.g., indigenous tribes and their members) are exempt from paying it. *Source:* California DMV.

Revenue from the four primary registration fees adds up to billions of dollars annually. It funds several government programs. According to the Legislative Analyst's Office, the Vehicle License Fee funds "a variety of health and human service programs and local public safety."[11] The Registration Fee, in contrast, subsidizes the DMV's budget, the Clean Transportation Program, and the Enhanced Fleet Modernization Program.[12] The Transportation Improvement Fee supports the State Highway Operation and Protection Program, other road maintenance projects, and rail investment. And appropriately enough, the Highway Patrol Fee subsidizes the California Highway Patrol.

There are other vehicle fees, of course. The DMV charges an $8 alternative fuel fee, a $1 fingerprint identification fee, and a $1 reflectorized license plate fee. If you purchase a clean air vehicle and want the state's official decal, it will cost $22. Starting with the 2020 model year, the DMV adds a $100 Road Improvement Fee to zero-emission vehicle registration renewals. Revenue from that fee subsidizes the State Highway Operation and Protection Program and other road projects.

Local governments and agencies levy additional vehicle fees. Air Quality Management District fees, which subsidize their efforts to reduce pollution, range from $1 to $19 and vary by district. A county-level fee that ranges from $1 to $6 supports programs that provide theft prevention education. It also subsidizes law enforcement agency efforts to reduce vehicle theft and DUIs. Agencies might charge additional fees for smog abatement and emergency highway services.

Combined, state and local vehicle registration fees add hundreds of dollars to the cost of purchasing a car or truck in California. The nearby table illustrates the approximate total amount to register the state's top-selling vehicles, the Honda Civic and Tesla Model 3, in the state's ten largest cities.[13]

ESTIMATED NEW VEHICLE REGISTRATION FEES IN CALIFORNIA'S TEN LARGEST CITIES, 2021

City	Honda Civic	Tesla Model 3
Los Angeles	$ 316	$ 523
San Diego	312	519
San Jose	326	533
San Francisco	325	532
Fresno	326	533
Sacramento	316	523
Long Beach	316	523
Oakland	327	534
Bakersfield	328	535
Anaheim	315	522
Average	**$ 321**	**$ 528**

Note: Figures are estimates and may vary based on zip code. *Source:* California DMV, "Calculate My Fees," available at https://www.dmv.ca.gov/portal/vehicle-registration/registration-fees/vehicle-registration-fee-calculator/calculate-my-fees/, using an assumed MSRP of $21,050 (Honda Civic) and $39,190 (Tesla Model 3).

Vehicle registration fees are not a one-time cost paid at the time of purchase. Because cars and trucks must be re-registered with the DMV every year, paying the fees is an aggravating annual ritual. Although the tax-deductible Vehicle License Fee declines over time as a vehicle depreciates, increases to other fees—or new fees—reduce consumer savings.

Notably, the fees described above do not include the cost of a license to drive an automobile. In most cases that is $37, not including driver education and testing expenses.

Overall, California consumers pay more to register and operate a car or truck than consumers in some other states. The gasoline tax in Texas is about 40 cents less per gallon, and vehicle registration fees are also significantly lower. Texas consumers pay a $51.75 registration fee, although the charge is higher for heavier vehicles such as pickup trucks, plus a $10 local fee.[14] Most registration fees are between $122 and $152 in Oregon, depending on the vehicle's age and fuel economy. But electric vehicle owners pay $306, and three counties charge a local fee.[15]

Unfortunately, consumers have little to show for the high vehicle registration fees and fuel taxes they pay in California. An audit released in 2019 by the Department of Finance described a DMV plagued by poor planning, outdated technology, and unprofessional employees, leaving consumers to suffer poor customer service and excessive wait times.[16] Meanwhile, the DMV is on a path toward insolvency. Spending—and the legislature's decision to transfer some fee revenue from the DMV to California's general fund—has left the agency in a precarious position.[17]

"Despite an annual Transportation Improvement Fee and the country's highest fuel taxes—thanks to recent increases—California's infrastructure quality is decidedly below average.

Bad management is not a recent development at the DMV. An audit released in 2016 described severe deficiencies in the agency's oversight of disabled person parking placards.[18] Other audits report similar problems with the DMV's administration of California's special interest license plate program.[19]

But perhaps worst of all is that despite an annual Transportation Improvement Fee and the country's highest fuel taxes—thanks to recent increases—California's infrastructure quality is decidedly below average. The American Society of Civil Engineers' Infrastructure Report Card grades the state's bridges a "C-" and its roads a "D."[20] According to the Reason Foundation's Annual Highway Report, which evaluates highway systems on thirteen performance measures including safety and pavement conditions, California's highway system ranks forty-third.[21]

REFORMS FOR IMMEDIATE CONSUMER RELIEF

Eliminate the Fingerprint Identification Fee. Registering a vehicle does not entail collecting or cross-referencing a fingerprint(s), and why California charges consumers this particular fee is puzzling. Policymakers should repeal it.

Eliminate the Vehicle License Fee. License fee revenue does not pay for the infrastructure consumers utilize. Instead, California redistributes it to local governments under a complex arrangement developed in 1991.[22] Local governments, in turn, use the funds to subsidize health and other social programs. There is no justification for why those programs' costs should fall disproportionately on vehicle owners. Consequently, policymakers should repeal the Vehicle License Fee. If local governments need revenue to fund local welfare programs, they should raise local taxes and be held accountable by local voters.

Reduce the Vehicle Registration Fee. Registration Fee revenue subsidizes the DMV and two unrelated programs. Vehicle owners should not have to pay a fee to support programs that have nothing to do with their car or truck. Policymakers should repeal the portion of the fee that pays for those programs. Furthermore, consumers should not have to pay more than the exact cost of registering a new vehicle, maintaining that registration throughout ownership, and ultimately transferring it. If the DMV's registration costs are less than the current fee, policymakers should reduce it to reach parity. They should also evaluate other pro-consumer reforms, such as replacing annual registration with a requirement that vehicle owners interact with the DMV only when a vehicle is purchased, sold, or transferred.

Replace the Transportation Improvement Fee and Road Improvement Fee with a Broad-Based Road User Charge. While both fees subsidize infrastructure costs, their amounts differ. A vehicle's value determines the Transportation Improvement Fee, and the Road Improvement Fee is a flat rate per vehicle. Those who benefit from infrastructure should pay for it, and their cost should be proportional to use. But neither fee complies with that principle. Fuel taxes disproportionately paid by owners of gasoline- and diesel-powered vehicles don't align with it, either.

Policymakers should eliminate both fees and all California vehicle fuel taxes and implement a road user charge.[23] Under that system, vehicle owners pay a fee for each mile they drive, regardless of their vehicle's value or powertrain. Several states, including California, have already experimented with mileage-based programs.[24] Policymakers should institute a statewide program and enhance it with geotargeting—i.e., a program that allocates 100 percent of user charges paid by drivers to maintain the roads, bridges, and tunnels they actually use. Granular targeting of this sort necessitates collecting vehicle GPS data to ensure government agencies allocate user charge revenue to the appropriate infrastructure. To assuage privacy concerns, the state could allow vehicle owners to opt-out of tracking and purchase miles in bulk (e.g., in annual increments of 5,000). Targeting bulk purchase revenue would not be as specific as it would be with GPS data. Still, agencies could allocate funds according to the vehicle owner's zip code, with a portion dedicated to state highways outside that area.

"With a broad-based fee, California consumers will no longer have to cross their fingers and hope that the taxes and fees they ostensibly pay to support infrastructure will trickle back to their roads and bridges they traverse.

In the interest of fairness, policymakers should charge the fee to a broad definition of vehicle owners, not just those who operate a car or truck. They should require that all motorcycle, moped, scooter, and bicycle owners register their vehicle with the DMV—some are not currently required to do so—and pay a reduced-rate road user charge.

With a broad-based fee, California consumers will no longer have to cross their fingers and hope that the taxes and fees they ostensibly pay to support infrastructure will trickle back to their roads and bridges they traverse. Geotargeted charges on all vehicle owners bring efficiency, accountability, and fairness that has long been missing from California's infrastructure funding strategy.

ADDITIONAL PRO-CONSUMER REFORMS

Improve DMV Website Transparency. The DMV website includes a list of fees applicable to new and recurring vehicle registrations. It also hosts a user-friendly calculator to estimate state and local fees based on a consumer's location. While the website offers cursory descriptions of some charges, including the Vehicle License Fee and the Transportation Improvement Fee, others have no explanation. Instead, the website lists the section(s) of the California Vehicle Code that authorizes each fee. But it doesn't link to those sections. To increase transparency, the DMV should revise its website to include a brief, plain-language description of every single vehicle fee that explains how state and local agencies spend the revenue. For each one, the website should not only cite but also link to relevant California Vehicle Code section(s). The DMV should include these consumer disclosures on the general "Registration Fees" webpage as well as within its fee calculator.

Study Alternative California Highway Patrol Funding Models. According to the National Conference of State Legislatures, five states—Kentucky, Louisiana, New Hampshire, Texas, and Vermont—shifted patrol funding from their highway fund to the general fund.[25] In 2019, Arizona repealed its vehicle registration fee dedicated to highway patrol expenses.[26] Policymakers should evaluate whether it makes sense for California to follow some of its peers.

Make Program-Specific Fees Contingent on Cost-Benefit Analysis. Whether alternative fuel, Air Quality Management District, and other environmentally-minded fees yield consumer benefits remains unknown. The same holds for fees charged to fund programs that are said to reduce vehicle thefts and DUIs. Policymakers should solicit an independent cost-benefit analysis for each fee that assesses whether consumer benefits outweigh the costs. If the fee is justifiable on that basis, then it should be retained. If not, then policymakers should repeal it.

Enact Infrastructure Fairness Legislation. Some taxes and fees paid by vehicle owners, such as the sales tax on diesel fuel and the Transportation Improvement Fee, subsidize rail and other transit projects. But it is unfair to force California's car and truck owners, who already traverse some of the country's worst roads and bridges, to pay vehicle fees that subsidize other transportation modes. Policymakers should enact legislation that ensures all revenue from vehicle taxes and fees funds the infrastructure payers use, not the infrastructure they don't.

Cellular Telephone Fees

The cost of cellular telephone service is not getting any cheaper. But that's not because monthly plans have grown more expensive; over the past four years alone, the average price per line fell about eleven percent. Instead, the rising cost results from fees and taxes charged by federal, state, and local governments.[27]

California is no exception. The state's combined cellular telephone fees are enough to rank seventeenth highest in the country. California consumers pay less than those living in Illinois and New York but more than those in Arizona, Colorado, and Texas.[28]

Like vehicle fees, there is not one cellular telephone fee, but several. They fall into three categories: 911 Fees, Program Fees, and Miscellaneous Fees.

911 FEES

The state and many local governments in California charge all telephone users a fee to subsidize the cost of 911 service.

The state's 911 surcharge, formally known as the Emergency Telephone Users Surcharge, is a flat monthly fee. The fee throughout 2020 was 30 cents each month for every cellular, landline, and voice over internet protocol (known as "VoIP") telephone line. Revenue funds administrative expenses and costs associated with maintaining 911 call systems across the state, including limited funding for local government agencies (e.g., for equipment upgrades). According to the Office of Emergency Services, the surcharge generates about $192 million in revenue every year.[29]

The surcharge replaced an earlier, percentage-based fee at the end of 2019. Supporters argued that the change was necessary to fund California's transition to a Next Generation 911 ("NG 911") system.[30] NG 911 call centers can receive the types of data that cellular telephones have been able to collect and transmit for years, such as text, pictures, and video, and route that data to appropriate agencies and first responders. The call centers can also receive data from vehicles equipped with automatic crash notification systems and from devices used by individuals with communication impairments.

The surcharge is not the only fee used to finance 911 systems. Pre-paid cellular telephone users in some parts of California pay an additional fee that varies by jurisdiction. It ranges from zero to 9 percent of the pre-paid plan's cost in Los Angeles and Orange counties. In San Francisco, the fee is 14.8 percent, the highest in the state. San Francisco also charges monthly cellular telephone users a flat Access Line Tax of $3.73 per line per month.[31]

Some local governments without dedicated 911 fees have attempted to impose them in recent years. A proposed parcel tax in Los Angeles County would have generated funding to modernize its emergency communications systems. But the measure failed to gain two-thirds of voter support in March 2020.

PROGRAM FEES

In California, cellular telephone users pay six program fees, each one for a different "public purpose" program administered by the state's Public Utilities Commission. The programs, which cost consumers over half a billion dollars each year, are intended to meet the Commission's goal to provide "universal" telephone and internet access to all residents, often through subsidies:

- The *LifeLine Program* subsidizes either landline or cellular telephone service for low-income households or those that qualify for one of several welfare programs, such as CalFresh, MediCal, WIC, and TANF. The program's monthly subsidy of up to $14.85 comes in addition to the federal government's monthly support of $9.25. LifeLine beneficiaries are also exempt from telephone taxes and fees. The program provides subsidies to about 2.2 million individuals statewide, although most live in Los Angeles, San Bernardino, and San Diego counties.[32] Annual spending in recent years is approximately $400 million.[33]

> "In 2020, total program fees added roughly eight percent to the cost of cellular telephone service in California, about quadruple what it was ten years ago.

- The *Teleconnect Fund* subsidizes the cost of internet service for schools, community colleges, libraries, publicly-owned hospitals and clinics, and community organizations (e.g., job training and placement programs) that meet generally broad qualification criteria. Most beneficiaries are clustered in the San Francisco Bay Area and Sacramento, Los Angeles, and Orange counties.[34] Annual spending in recent years is approximately $100 million.[35]

- The *Deaf and Disabled Telecommunications Program* subsidizes the cost of communications equipment for individuals with a hearing, speaking, mobility, or cognitive impairment. The program loans equipment to over 700,000 qualifying individuals; it is not given or sold outright.[36] The program also funds the California Relay Service, which provides live operators who serve as a "link" between qualifying individuals and those they wish to contact. Annual spending in recent years is approximately $55 million.[37]

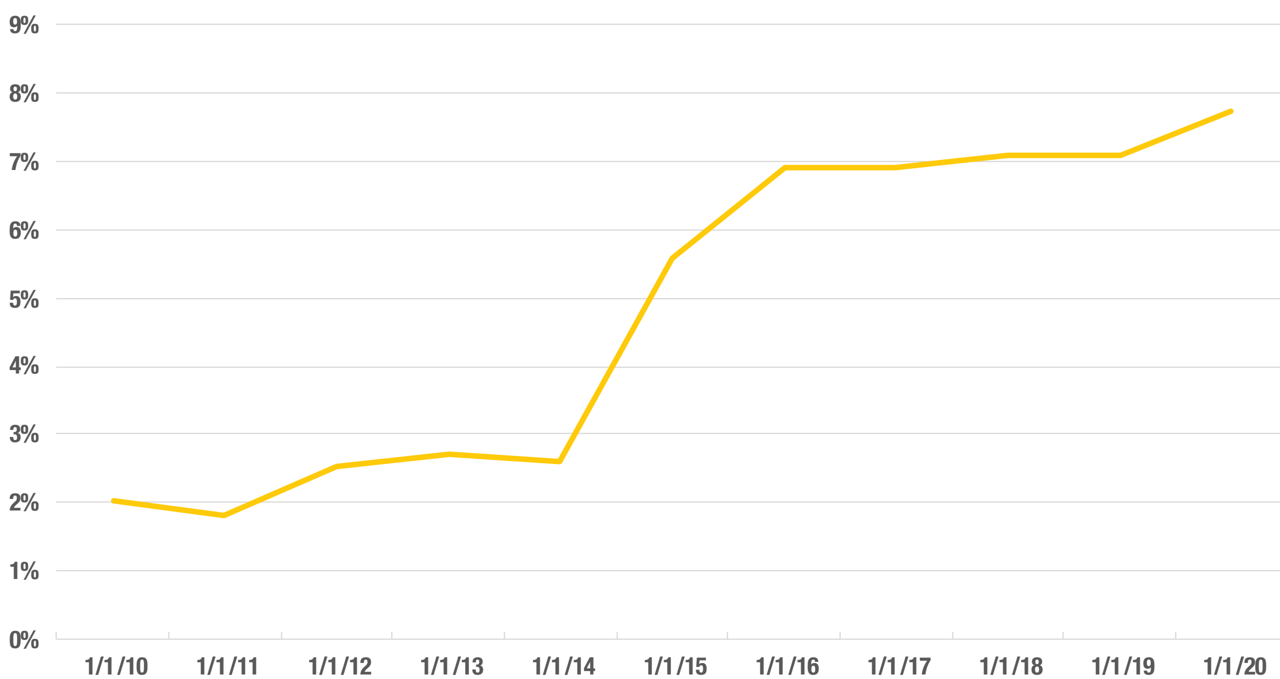
- The *High Cost Fund-A* subsidizes independent local telephone companies to ensure that the cost of rural telephone service is comparable to what consumers pay in more densely populated areas. In 2018, the fund provided an average subsidy of about $61 per month on over 52,000 telephone lines clustered in parts of northern and central California.[38] Annual spending in recent years is approximately $49 million.[39]

- The *High Cost Fund-B* subsidizes companies that provide local landline telephone service in any of nearly 800 census blocks where the monthly price is at least $36 per line. At the end of 2019, the subsidies covered about 83,000 telephone lines statewide. Annual spending in recent years is approximately $12 million.[40]

- The *Advanced Services Fund* subsidizes infrastructure projects that provide broadband internet access to parts of the state where it is not widespread. Annual spending in recent years is approximately $80 million.[41]

Unlike the 911 surcharge, each program fee is a percentage rate that varies by program and year, not a flat dollar amount. In 2020, total program fees added roughly eight percent to the cost of cellular telephone service in California, about quadruple what it was ten years ago.

COMBINED PROGRAM FEES ON MONTHLY CELLULAR TELEPHONE PLANS



Source: California Public Utilities Commission, accessed from https://www.cpuc.ca.gov/General.aspx?id=1124

In addition to program fees, the Public Utilities Commission also charges a user fee to finance its "annual operating budget."[42] In 2020, that fee was 0.52 percent—double the amount charged four years prior.[43]

MISCELLANEOUS FEES

Cellular telephone bills may include additional taxes and fees. Either through a separate tax or a higher service price, consumers pay to support the federal government's Universal Service Fund, a bundle of four programs that aim to provide communications services to all Americans at "just, reasonable and affordable rates."[44] That includes funding for the federal LifeLine program.

While there is no California state sales tax on cellular telephone service, over 100 municipalities charge a utility user tax. The same tax usually applies to other utilities, such as water, sewer, electric, natural gas, and cable television service. Most are codified as general taxes that subsidize government spending overall instead of a specific program. Tax rates vary by jurisdiction. For example, Los Angeles County and the city of San Jose charge 4.5 percent, the city of Los Angeles charges 9 percent, San Bernardino charges 7.75 percent, and Santa Monica charges 10 percent on monthly cellular telephone plans but only 9 percent on pre-paid plans.

Finally, most cellular carriers add additional fees beyond the taxes and fees mandated by state and local governments. T-Mobile charges consumers a small regulatory fee, which the carrier notes is "to recover costs associated with government program compliance."[45] Verizon's regulatory charge "helps defray various government charges we pay."[46] AT&T's regulatory cost recovery charge helps that company "recover the costs of compliance with government imposed regulatory requirements."[47]

The 911 surcharge, program fees, miscellaneous fees, and other charges add up. As the nearby table shows, a monthly cellular telephone service plan of $50 quickly grows to $58.95, not including the cost of the federal government's Universal Service Fund. That's the equivalent of a 17.9 percent tax on the plan's price. It's also the equivalent of over $100 per year in fees—enough to pay for two months of service.

CELLULAR TELEPHONE PLAN COST ILLUSTRATION	
Carrier's Service Plan	$ 50.00
State 911 Surcharge	0.30
Program Fees	3.88
PUC User Fee	0.26
Utility User Tax	4.50
Compliance Fee	0.01
Total	**$ 58.95**

Notes: Illustrative purposes only. Assumes a utility user tax of 9 percent; does not include federal Universal Service Fund contribution or local emergency services fees.

Fees do not include sales taxes on the phone's price. In California, the sales tax applies to the retail price—not the net, actual price a consumer pays after promotions and discounts.

REFORMS FOR IMMEDIATE CONSUMER RELIEF

Eliminate the LifeLine Program. The cost of cellular telephone service has fallen—save for government taxes and fees—which undermines the case that it merits a subsidy. Moreover, the maximum allowance is less than 50 cents per day and is not, broadly speaking, a popular “lifeline” for those who qualify. Indeed, only about 40 percent of eligible households take advantage of the program.[48] Policymakers should eliminate the LifeLine program and the associated fee. If they want to support individuals who cannot afford cellular telephone service, policymakers should increase cash benefits within an existing program that serves as a program qualifier (e.g., TANF) and/or increase the state’s Earned Income Tax Credit. California’s already above-average tax burden should be sufficient to cover the expense.

Eliminate the High Cost Fund-A and High Cost Fund-B. Landline telephone service is obsolete. It is not clear why consumers have to pay the High Cost Fund-A fee to reduce telephone service costs in rural parts of California, where the average subsidy of about $61 is not means-tested. Moreover, that subsidy is greater than the monthly cost of $25 charged to landline telephone customers who live in some of those areas.[49] Policymakers should eliminate both programs and associated fees. If they wish to continue the programs, they should institute means tests and fund both out of the state’s general fund.

Eliminate the Teleconnect Fund. The Teleconnect Fund reduces the cost of internet service for various organizations, including schools and libraries, to expand broadband to populations that purportedly lack access. But participation is low. Just ten percent of public schools, 25 percent of community organizations, about one-third of libraries, and 40 percent of community colleges that qualify take advantage of the program, a far cry from past participation rates.[50] Moreover, resources are not directed toward poor areas or those with lower incomes. Over 80 percent of participants reside in urban areas where broadband is already prevalent, and just four percent are in areas classified as low income.[51] Policymakers should therefore terminate the Teleconnect Fund and eliminate the associated fee.

> “Fees do not include sales taxes on the phone’s price. In California, the sales tax applies to the retail price—not the net, actual price a consumer pays after promotions and discounts.

If policymakers remain committed to Teleconnect’s mission, they should pay for it out of the state’s general fund. They should also implement two additional reforms. First, make the Teleconnect Fund fairer. Under current qualification requirements, private schools are subject to more stringent rules than public schools. For example, a private school must be a non-profit organization with an endowment of less than $50 million. But the program imposes no such asset test on public schools or districts that may have significant fund balances. The private school requirement should either be eliminated or kept but applied equally to public schools.

Second, policymakers should also make Teleconnect Fund-supported organizations accountable. To receive subsidies, schools, community colleges, and other organizations do not have to demonstrate that a significant proportion of their students or clients lack internet access. Policymakers should add that requirement. Subsidies should be contingent on proven rather than implied need.

Eliminate the Advanced Services Fund. Consumers should not have to pay for someone else's broadband. Those who chose to live or conduct business in a part of California without high-speed internet should pay for it, not those living elsewhere. Policymakers should end this program and its fee.

Revise the Deaf and Disabled Telecommunications Program. Like the other public purpose programs, policymakers should fund the Deaf and Disabled Telecommunications Program with the state's general fund and eliminate the associated fee on consumers. Moreover, they should implement two additional reforms that will reduce the program's cost. First, policymakers should impose a means test to qualify for benefits. The current program has no such test—i.e., subsidies flow to qualified users regardless of their ability to pay. That means California consumers subsidize the cost of specialized communications devices for those who can already afford them. Second, policymakers should also eliminate the program's rental components and state-run service centers. Much of the relevant communications equipment is freely available from merchants, including Amazon.com, undermining the need for state-operated retail outlets.

ADDITIONAL PRO-CONSUMER REFORMS

Place a Barrier between Program Fund Balances and the General Fund. Just as they have transferred some DMV funds to the general fund, policymakers have turned to the High Cost Fund-B to issue loans to the general fund, the Railroad Accident Prevention and Response Fund, and the Safety Energy Infrastructure and Excavation Fund.[52] This practice should stop. If the fund has an excessive balance, policymakers should refund it to consumers.

Make the Emergency Telephone Users Surcharge Fair, Accountable, and Transparent. 911 emergency telephone service is a literal lifeline to California residents, and like any other government service, it is not free. To ensure the state's 911 surcharge is fair, accountable, and efficient, policymakers should address three issues.

First, because the surcharge applies to each telephone line, a consumer with two lines pays double the amount paid by a consumer with only one line. But a two-line consumer is not likely to use emergency services twice as often. A per-household surcharge makes more sense.

Second, the surcharge is not fixed. By law, it can go as high as 80 cents per line. However, the specific amount is not set by elected officials but by the Office of Emergency Services. To ensure greater accountability, policymakers should grant the legislature the authority to determine the fee. That way, it is set by elected officials that can be held accountable by voters rather than civil servants who cannot.

Third, while California's effort to pursue NG 911 was a primary motivation behind the revised 911 surcharge, basic accountability mechanisms are lacking. One state legislator likened the fee to a "blank check."[53] Indeed, the law that authorizes the surcharge stipulates that revenue *may* be spent on NG 911 but does not require it. Although the law authorizes audits of carriers to ensure proper surcharge collection, it does not require an audit of how state and local governments spend the money they collect. Policymakers should pass new legislation that directs all 911 surcharge revenue to NG 911 systems and includes a mandate that all related spending be subject to an audit.

Environmental Fees

California levies several environmentally-minded fees. Many of them fall on businesses. For example, companies that handle hazardous materials have to pay multiple state government fees, and some have to pay an Occupational Lead Poisoning Prevention Fee. But consumers pay other environmental fees directly whenever they buy tires, electricity, specific electronic devices, or even a new mattress.

TIRE FEE

A Tire Fee of $1.75 per tire (including spares) is collected by car dealers and tire retailers when a new vehicle or tire is purchased. The fee was motivated by a desire to better manage discarded tires and their environmental impact.

The California Department of Resources Recycling and Recovery, better known as CalRecycle, allocates revenue to the Tire Recycling Program. But as a department official remarked in 2015, CalRecycle does not "engage in the recycling of tires."[54] Instead, their "activities include offering financial assistance, engaging in recycling and marketing research, and providing technical assistance" to entities that recycle tires.[55] CalRecycle also writes and enforces regulations that govern tire storage and transportation.

There is good reason to question whether the Tire Fee is necessary. Tires represent just 0.1 percent of California's solid waste.[56] Furthermore, despite forcing consumers to pay a fee that purportedly facilitates tire recycling, the percentage of tires recycled in California has declined since 2007. Today, it is less than half the state's goal of having 75 percent of all waste, tires included, recycled.[57] Nevertheless, the legislature briefly considered increasing the fee in 2019.[58]

ENERGY RESOURCES SURCHARGE

Most electricity bills in California include an Energy Resources Surcharge equal to 0.03 cents per kilowatt-hour, the current maximum allowed by law. Although residential consumers pay the fee, many other electricity users are exempt, including the federal government, other state governments, and foreign governments, as well as certain banks, credit unions, and insurance companies.

The fee generates about $70 million per year. According to the Department of Tax and Fee Administration, funds go to the Energy Resources Program Account, which pays for "ongoing energy programs and projects deemed appropriate by the Legislature."[59] That includes subsidizing the California Energy Commission ("CEC"), which also has the authority to change the fee.

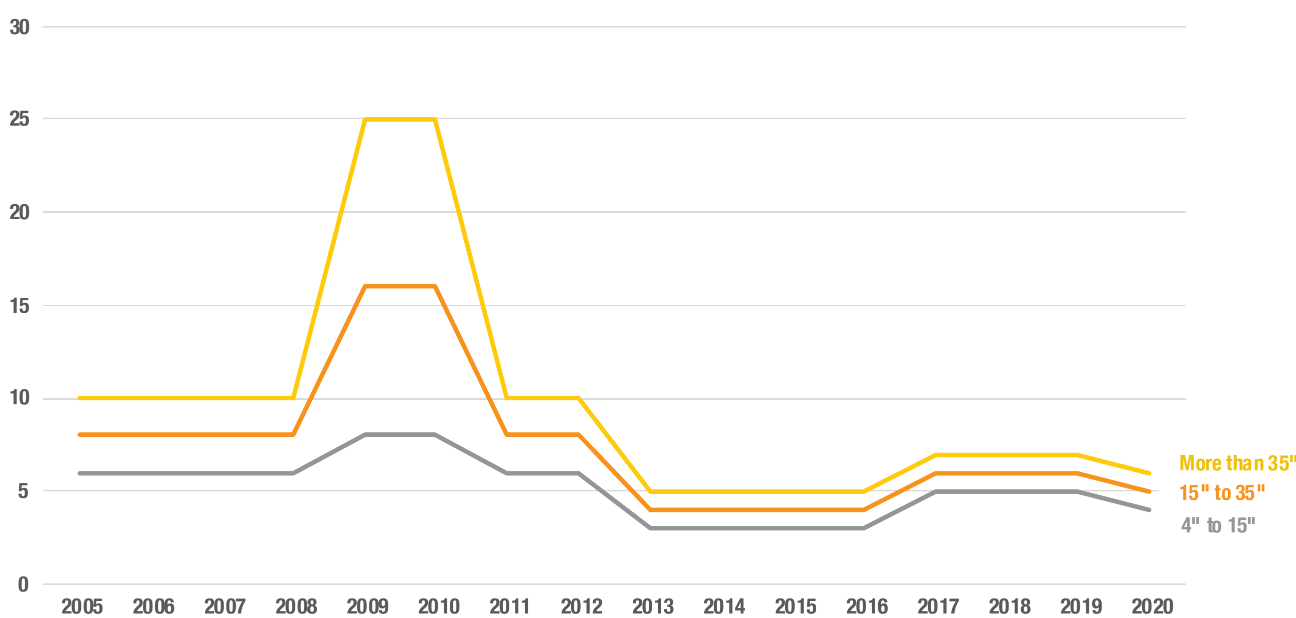
It is not clear what precisely the fee pays for—the CEC's website says very little—making it impossible to determine whether it provides commensurate consumer benefits.[60] What is clear is that policymakers have spent more than the fee generates, leaving the Energy Resources Program Account with a deficit. A recent budget document noted that spending has risen due to "employee compensation and benefit contributions" while revenue has not, in part because of CEC's "aggressive climate change policies, such as improving appliance and building efficiency and increasing the use of self-generated renewable energy" which "dampen(s) the sale of retail electricity."[61] In other words, the CEC encourages consumers to use less electricity, Energy Resources Surcharge revenue falls, and a budget deficit materializes.

ELECTRONIC WASTE RECYCLING FEE

Electronic devices contain toxic substances, including mercury, arsenic, and lead, and proper disposal is essential for environmental and public health reasons. To that end, California consumers pay an Electronic Waste Recycling Fee, or e-Waste Fee, whenever they purchase a new or refurbished device with a screen larger than four inches when measured diagonally. That includes televisions, laptops, tablets, and computer monitors with a liquid crystal display ("LCD") screen, cathode-ray tube ("CRT") screen, or plasma screen. Medical devices, vehicles containing screens, certain appliances, and devices with organic light-emitting diode ("OLED") screens are exempt. Cellular phones are also exempt.[62]

The e-Waste Fee is a flat dollar amount dictated by screen size. In 2020, the fee was $4 for devices with screens measuring four to 15 inches; for screens from 15 to 35 inches, it was $5; and for larger screens, it was $6. As the nearby graph illustrates, current fees are below those charged in most previous years.[63]

EWASTE RECYCLING FEE, BY SCREEN SIZE (DOLLARS)



Source: CalRecycle, accessed from https://www.calrecycle.ca.gov/Electronics/Retailer/

The fee generates about $80 million per year for CalRecycle, which uses the funding to subsidize the Covered Electronic Waste Recycling Program. The program's objective is to "provide all Californians convenient recycling opportunities for unwanted electronics."[64] But as with the Tire Recycling Program, CalRecycle does not actually recycle electronic devices. Instead, it uses the revenue to reimburse companies that collect and recycle e-waste. The hope is that by subsidizing a recycling program, consumers will find it easier to dispose of unwanted devices.

But whether or not the program is necessary is debatable. E-waste only makes up about one percent of solid waste in California.[65] Furthermore, CalRecycle data indicate that e-waste recycling has declined from its peak in 2012, thanks in large part to a drop in the prevalence of CRT monitors.[66]

MATTRESS RECYCLING FEE

Anyone buying a mattress or box spring in California must pay a $10.50 Mattress Recycling Fee. Some products are exempt, including mattress toppers, crib mattresses, upholstered furniture, and water beds, but a 2019 update extended the fee to futons. Supporters say a fee is necessary to reduce illegal dumping of used mattresses, relieve local governments of the costs associated with dumping, and increase mattress recycling.

To that end, policymakers directed CalRecycle to oversee a mattress recycling program. That program, Bye Bye Mattress, is not managed by CalRecycle, but by the Mattress Recycling Council ("MRC"), a Virginia-based non-profit organization established by the mattress industry. MRC also operates programs for Connecticut and Rhode Island.

The program's structure is not complicated. Retailers collect the fee from consumers and remit the proceeds to MRC, which is supposed to use the revenue to pay transporters and recyclers that participate in Bye Bye Mattress. MRC maintains a network of disposal locations and recyclers that allow businesses and other entities, like universities, to arrange no-cost drop-off. The system also accepts mattresses and box springs from individuals and, for each one, offers a $3 payment.

Unfortunately, there is little evidence that the Mattress Recycling Fee benefits consumers.

A 2018 report from the California State Auditor revealed several problems with CalRecycle's oversight of MRC. Auditors found that CalRecycle failed to set performance goals that would ensure Bye Bye Mattress reduced illegal dumping and was consumer-friendly. Furthermore, CalRecycle approved MRC budgets even though MRC did not provide enough detail regarding how they planned to spend mattress recycling fee revenue. And although CalRecycle found widespread non-compliance at retailers—nearly 75 percent—they did not levy civil fines. The audit recommended several reforms but noted, "CalRecycle did not indicate clearly whether it agreed with or planned to implement the recommendations."[67]

The report was no less damning of MRC. Auditors observed that the non-profit organization amassed net assets of over $40 million, a figure higher than standard industry practice dictates and above the assets held in reserve by comparable programs. Nonetheless and despite an annual surplus, MRC's chief financial officer told auditors that it needed additional funding. Those weren't the only problems auditors identified. Despite a mandate to make recycling consumer-friendly, MRC maintained no permanent drop-off locations in several California counties. Locations elsewhere were time-limited, meaning that consumers could only dispose of mattresses on certain days and times. It was also hard for auditors to determine whether consumers were aware of Bye Bye Mattress; MRC conducted a survey to find out but refused to disclose complete findings.

Those problems only scratch the surface. The Used Mattress Recovery and Recycling Act—the state law that instituted the fee—does not limit MRC's net assets, nor does CalRecycle have the authority to do so. Without further oversight, the organization could continue to accumulate ever-larger net assets, funded entirely through mattress recycling fees paid by California consumers. It is also unclear why those fees are MRC's only source of revenue. The sale of recycled or repurposed mattress and box spring material should generate income. It is also unclear why MRC pays significant sums of money—$1.8 million in 2017 alone—to the International Sleep Products Association, an interest group that lobbies on behalf of the mattress industry.[68]

Most importantly, it is hard to know whether mattress dumping is severe enough to warrant a mandatory fee in the first place. There is no doubt that mattresses and box springs are not readily biodegradable, and they are unquestionably bulky. But whether discarded beds are a waste issue or merely a litter issue was not clear when the law passed. An April 2013 Senate Committee on Environmental Quality analysis noted that while illegal dumping imposes costs on local governments and the state's Department of Transportation, local officials generally believed the problem was "a litter/nuisance abatement issue, rather than a solid waste issue," and was not a consistent problem statewide. Various legislative analyses referenced a 2013 *Los Angeles Times* article that claimed 2 million "discarded" mattresses and box springs "get dumped on streets or sent to landfills" every year, with less than 10 percent recycled. But the article does not identify or link to the source of that information.[69]

MRC data suggest mattress dumping is not a severe problem in California. According to MRC's 2018 annual report, just 52,270 mattresses—not two million—were collected by local governments across 30 counties. MRC noted that those governments were home to less than half of the state's population, suggesting that dumping is worse than its data indicate. But the report also stated many local governments "may have declined to (share data) because they experience little or no illegal mattress dumping."[70]

REFORMS FOR IMMEDIATE CONSUMER RELIEF

Eliminate the California Tire Fee. Tires do not contribute a significant amount to solid waste in California, recycling levels have declined, and the Tire Recycling Program has failed to meet state-mandated targets. Consumers should not have to pay a fee to subsidize the program. Policymakers should repeal it and the associated fee.

Re-evaluate the Mattress Recycling Fee. Policymakers should suspend the Mattress Recycling Fee until a determination is made that mattress dumping is a significant enough problem statewide to warrant a mandatory charge. MRC has more than sufficient assets to continue operations during a mortarium. If that determination is made, policymakers should replace the fee charged to consumers with fines levied on those caught illegally dumping mattresses and box springs and retailers who fail to comply with state law. If mattress dumping is not a significant problem, then the fee moratorium should be made permanent.

Eliminate the Energy Resources Surcharge. It is not clear that consumers benefit from paying the fee. Moreover, the account it funds is not sustainable; as if CEC's attempts to lower electricity consumption succeed, revenue will only dwindle further. Policymakers should immediately terminate the fee and either eliminate all programs funded by it or identify another funding source.

ADDITIONAL PRO-CONSUMER REFORMS

Enact Fee Accountability. Officials at CalRecycle determine the e-Waste Fee, and those at the California Energy Commission set the Energy Resources Surcharge. Policymakers should shift authority from the bureaucracy to the legislature. Elected officials accountable to voters should have the power to determine any environmental fee, not unelected civil servants at agencies funded by the same fees.

Assess the e-Waste Fee's Necessity. Improperly-discarded electronic devices create environmental, health, and privacy issues, but recycling levels have declined, and e-waste represents a small proportion of California's solid waste output. Policymakers should order an independent cost-benefit analysis to determine whether the current e-Waste Fee is justifiable—i.e., whether consumer benefits meet or exceed consumer costs. If not, policymakers should terminate the associated program and fee.

Conclusion

There is no question that California's cost of living is among the highest in the United States. From above-average housing costs to some of the country's highest taxes and government fees, consumers pay thousands of dollars more to live in the Golden State each year than they would in most others. As many residents and businesses leave for more affordable pastures, it becomes clear that California's future turns on offering them relief.

The preceding study recommends several reforms that, if implemented, would reduce California's cost of living by lowering the burden imposed by government fees. Implementing this study's recommendations would not result in the total elimination of all fees. Instead, it would eliminate the fees that "nickel and dime" consumers to pay for services they don't use and fees that subsidize programs their already-high taxes should be enough to cover. It would make fees more efficient and transparent. It would also make fees more accountable by ensuring that elected officials, not unelected civil servants, establish their amounts. And it would ensure that only those fees with demonstrable consumer benefits remain on the books.

The practical effects of following this study's recommendations are greater transparency and accountability and, most importantly, a reduced financial burden on California consumers. While it does not solve all of the state's challenges, this study is a critical first step toward a more prosperous future.

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