ENVIRONMENT

California wants to fund green jet fuel — by raiding your road repair budget

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A United Airlines plane takes off from San Francisco International Airport on Nov. 7, 2025. Photo by Justin Sullivan, Getty Images

IN SUMMARY

- California wants to drain road repair funds to subsidize green jet fuel that critics say costs 10x more than effective climate solutions.
- The proposal was shaped behind closed doors — a Houston oil company quietly lobbied Newsom's office to craft it.

Gov. Gavin Newsom is advancing a plan that could funnel hundreds of millions in road dollars to a struggling oil refinery — pitching it as a cleaner jet fuel initiative. The credit, drawn from funds voters designated for highways and local streets, could also raise gas prices for most drivers.

UC Berkeley economists warn it could raise California gas prices. And while the plan is pitched as a climate measure, the analysis finds it could cut emissions at more than 10 times the cost economists consider effective, one of the authors told CalMatters.

The proposal is expected to receive a final legislative hearing on Thursday. It has drawn backing from lawmakers and labor groups, who say it preserves jobs at facilities like the Rodeo refinery in Contra Costa County and helps the state achieve its climate goals.

But the plan has drawn criticism from an unlikely mix of voices: oil industry representatives, the Legislature's nonpartisan analyst — who is urging lawmakers to **reject the proposal** — and environmentalists who argue California is underfunding cleaner, more effective alternatives like mass transit.

Phillips 66 leads the subsidy line

The governor's **four-page proposal** is a straightforward mechanism granting a tax credit to producers in a small corner of the jet fuel market — with potentially far-reaching implications for most drivers.

Only two companies currently produce state-certified jet biofuel and also owe diesel excise tax in California — the conditions required to claim the credit, said

Andrew March, a Department of Finance budget analyst. Of those, only Phillips 66 has publicly confirmed it would qualify for the credit. The company spent $1.25 billion converting its Rodeo refinery in Contra Costa County from traditional petroleum refining to biofuels.

A passenger plane taxies on a water-soaked runway at San Francisco Airport while passengers wait for flights on Nov. 21, 2024. Photo by Andy Bao, AP Photo

Jets do not run on gasoline; they run on a fuel refined from petroleum by oil companies that also produce gasoline for cars and diesel for trucks. Because jet fuel requires less processing than gasoline or diesel, it is generally cheaper to produce. But sustainable aviation fuel, made from products like used cooking grease and animal fat, costs significantly more, roughly twice the price of conventional jet fuel, due to the expense of converting refineries and processing organic materials.

Under the proposal, producers would earn credits for selling the fuel here and use those credits to offset the diesel taxes they owe.

The formula for credits isn't flat — the cleaner the fuel, the bigger the credit, ranging from $1 to $2 per gallon.

The state estimates that Newsom's proposal could cost between $165 million and $300 million, but California's nonpartisan **legislative analyst warns** that figure could be far higher. That's because the tax credit is so high that it could incentivize companies outside California to acquire California companies with diesel tax liabilities, said Helen Kerstein, who evaluates climate programs for the Legislative Analyst's Office. A major California refiner like Chevron could also buy a renewable fuel company elsewhere and ship the fuel here, she said.

If more companies claim the credit than expected, diesel tax revenues could fall more sharply — driving the program's cost higher than anticipated. In February, a team of UC Berkeley economists **estimated the proposal** could cause diesel tax receipts to fall by as much as 75%.

"They're going to incentivize a whole lot more sustainable aviation fuel than they're planning," Aaron Smith, a Berkeley economist who co-authored the report, told CalMatters. "That is going to be a huge hit to the state's diesel tax receipts, and so it's going to be a huge hole in the budget."

March, the budget analyst, disputed Smith's findings, saying it assumes an 8-to-10-fold surge in sustainable aviation fuel flowing into California. Other states that have passed similar credits haven't experienced such growth, he said. The program is designed to grow over time, as more companies begin producing sustainable aviation fuel and become eligible, March said.

One refinery's bet

Last year, Assemblymember Anamarie Ávila Farías and a dozen colleagues **toured the Rodeo refinery**, which sits along the shores of the San Pablo Bay, in the Concord Democrat's district. What they learned alarmed them, Ávila Farías said.

Phillips 66 officials told lawmakers that **due to the loss of federal incentives** — and because California's own low carbon fuel program wasn't generating enough revenue — projects like the refinery conversion were struggling, she said.

Phillips 66 lobbied the Governor's office directly near the end of 2025. Newsom included the tax credit in his budget proposal. Ávila Farías and 40 of her colleagues joined in a "bipartisan" push for the measure.

"In 2026, these facilities are on the brink of closure," Ávila Farías said in written responses to CalMatters questions.

The Phillips 66 refinery in Wilmington, on Sept. 30, 2025. Photo by Stella Kalinina for CalMatters

Phillips 66 declined to answer basic questions about the proposal it lobbied to help shape: whether the Rodeo facility is profitable, whether it faces closure without the credit or how much it expects to claim if the credit is approved. Neither the governor's office nor the company would say what role it played in shaping the proposal.

In 2025, the company made $4.4 billion in profits. The Houston-based company's renewable fuels segment, which is anchored by the Rodeo complex, lost $380 million in 2025, worse than the $198 million loss it posted the year before, according to the company's annual report.

Disclosures **filed with the California Secretary of State** show Phillips 66 lobbied the Governor's Office directly on a **"proposed sustainable aviation fuel incentive package**" in the last three months of the year — after the legislative session had concluded but budget planning for the next year is **typically underway**. An **earlier disclosure** specifically referenced 'diesel excise taxes' alongside the fuels incentive package.

Phillips 66 was a member of the Western States Petroleum Association, the state's main oil lobby, until the end of last year. The association has not taken an official position on the tax credit, though its chief lobbyist has urged lawmakers to stay focused on keeping California's traditional petroleum refineries open.

Phillips 66 has been a significant contributor to state campaigns through 2024, donating a total of **more than $1.1 million to legislators**, according to the CalMatters Digital Democracy database. Since 2024, the company has continued to fund legislative campaigns, including those of Ávila Farías, Secretary of State data shows.

For workers at the Rodeo plant, the stakes are high. Joe Jawad, president of United Steelworkers Local 326, represents roughly 250 workers there, many from families who have worked the refinery for generations. In total, the refinery employs more than 400 workers.

"If this incentive passes, it's my understanding this place stays here for years to come," Jawad said. "That's what we're looking for."

But the transition has concerned local environmental justice advocates. Community organizer Daphney Saviotti-Orozco, who grew up in the unincorporated community of Rodeo, a few blocks from the refinery, worries biofuels could still pollute local air quality with methane, nitrogen oxides and fine particulate matter.

"There'll be more pressure to make even more," she said.

A hit to California's highways and byways

California has long protected fuel tax money for roads. Newsom's proposal could drain those funds.

In hearings, lawmakers have specifically raised concern about the use of road dollars for green jet fuel.

"We don't have sustainable funding for our transportation system," said **Lori Wilson**, a Democrat from Suisun City, who chairs the Assembly transportation committee, **speaking at a March 11 hearing**. "It does give me cause for concern."

The **state constitution** protects gas and diesel excise taxes: they must fund highways, local streets and transit infrastructure. Voters reinforced that mandate in 2010, when they passed **Proposition 22**, which barred the state from borrowing or redirecting those funds.

Newsom's proposal wouldn't technically violate the rules, but the proposal would have a similar impact, said Kerstein, of the legislative analyst's office.

"Every dollar that goes to this credit is one fewer dollar that goes to local streets and roads, and the state highway system," Kerstein said. "That's the trade-off."

March disputed the framing, saying there were other sources of money for transportation funds.

"The projected impact on road repairs is not a dollar for dollar trade," he wrote.

The credit would pull money from three programs: Caltrans highway maintenance, local street and road funding and competitive freight grants. California's roads are already starved for cash.

Current funding only covers **about 61% of projected highway needs**, according to Caltrans, while more drivers switching to electric vehicles are likely to shrink gas tax revenue. Local streets and roads face **a $74 billion funding gap**, according to a survey from the California State Association of Counties, which advocates for local jurisdictions.

"We definitely need road repairs, but we can't miss this chance on jet fuel," Ávila Farías wrote. "We must do both."

A costly climate fix

But the plan's primary beneficiary isn't the climate; it's a refinery whose parent company lost hundreds of millions on renewable fuels last year. And while supporters say the jet fuel credit would cut carbon emissions, critics say it could do so at a steep cost.

The plan would cost $1,000 to $2,700 per ton of emissions reduced — more than 10 times what economists consider **a cost-effective way to cut climate pollution**, according to the Berkeley analysis.

That's because California is already getting most of the climate benefits from renewable fuels — also made from plant and animal materials — through its low carbon fuel standard, a program that pushes producers to make what they sell here progressively cleaner. Many of those fuels today go into diesel trucks.

Berkeley's report contends that the credit would mainly shift the same limited supply of used cooking oil, animal fats and other raw materials into jet fuel instead of replacing fossil fuels.

March said the state has invested in similarly-priced and more expensive policies in the past in order to boost emerging technologies. “Public investment does what private capital won’t,” March said.

Matthew Botill, a division chief with the California Air Resources Board, said boosting sustainable aviation fuel is critical because demand for jet fuel is expected to grow and state policies aim to cut fuel use in trucking by shifting to electric vehicles.

Without stronger incentives for sustainable aviation fuel, petroleum use in aviation will rise as more people fly, undermining the state’s climate goals, Botill said at a **March 11 hearing**.

But by diverting renewable diesel from trucks, producers could drive gas and diesel prices up by 10 to 15 cents per gallon, according to Smith and the Berkeley economists – pushing trucks back toward petroleum and making the fuel mix dirtier and more expensive to clean up.

“Markets chase the subsidies,” said Danny Cullenward, an energy policy researcher who agreed with the Berkeley findings. “You make a very attractive subsidy, and people say, ‘Well, I’d rather be delivering that thing.’”

Environmentalists say the state would be better off investing in proven, emission-cutting solutions like electric cars and trucks and mass transit.

“We’re not funding the low-hanging fruit,” said Christina Scaringe, California climate policy director at the Center for Biological Diversity. “There’s just a very basic argument that we don’t have a lot of money.”

March, the state budget analyst, told CalMatters that predictions about the governor’s biofuel proposal’s impact on gas prices are “highly uncertain.”

Lawmakers, including Ávila Farías, have compared jet biofuel to solar or wind power in their early stages arguing California “must act boldly now,” to support sustainable aviation fuel.

Smith is skeptical sustainable aviation fuel will ever get cheap enough to stand on its own. And the economics have only worsened since the U.S. began strikes on Iran in late February, sending fuel prices sharply higher.

Before the conflict, conventional jet fuel **ran about $2.50** a gallon, according to Argus Media – which also tracked sustainable fuel’s cost at **more than twice that** — $5.48. Since the strikes on Iran, both have climbed. At west coast airports this week, Globalair.com **reports** the price of sustainable fuel has reached $10.20.

“You need a lot of government support to make it work,” Smith said. “I just don’t ever see that happening.”

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