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California Local Option Sales Taxes for Transportation During the Pandemic

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Issue

Local option sales taxes (LOSTs) approved by voters have emerged over the past several decades as a method of funding transportation projects. LOSTs have been especially popular in California, where many counties rely on them to fund a large share of street, highway, public transit, and other transportation projects, as the buying power of federal fuel taxes and some other transportation revenues has waned. These voter-approved tax measures generally outline specific projects to be funded, but if these projects exceed their projected costs or if tax collections fall below predicted levels, some of these projects may be delayed or canceled. LOSTs thus inherently come with a degree of uncertainty tied to broader economic forces, including the supply of and demand for taxable goods and services.

The COVID-19 pandemic in California provides a vivid and timely example of the link between sales tax revenues and characteristics of regional economies. This study identifies factors associated with LOST revenue generation during the pandemic. We find that LOST revenues fell sharply, but recovered quickly statewide. Wealthier counties tended to recover LOST revenues more slowly than poorer counties.

Key Research Findings

Despite initially dire predictions and fluctuations within the pandemic, LOSTs proved resilient. While LOST revenues in all

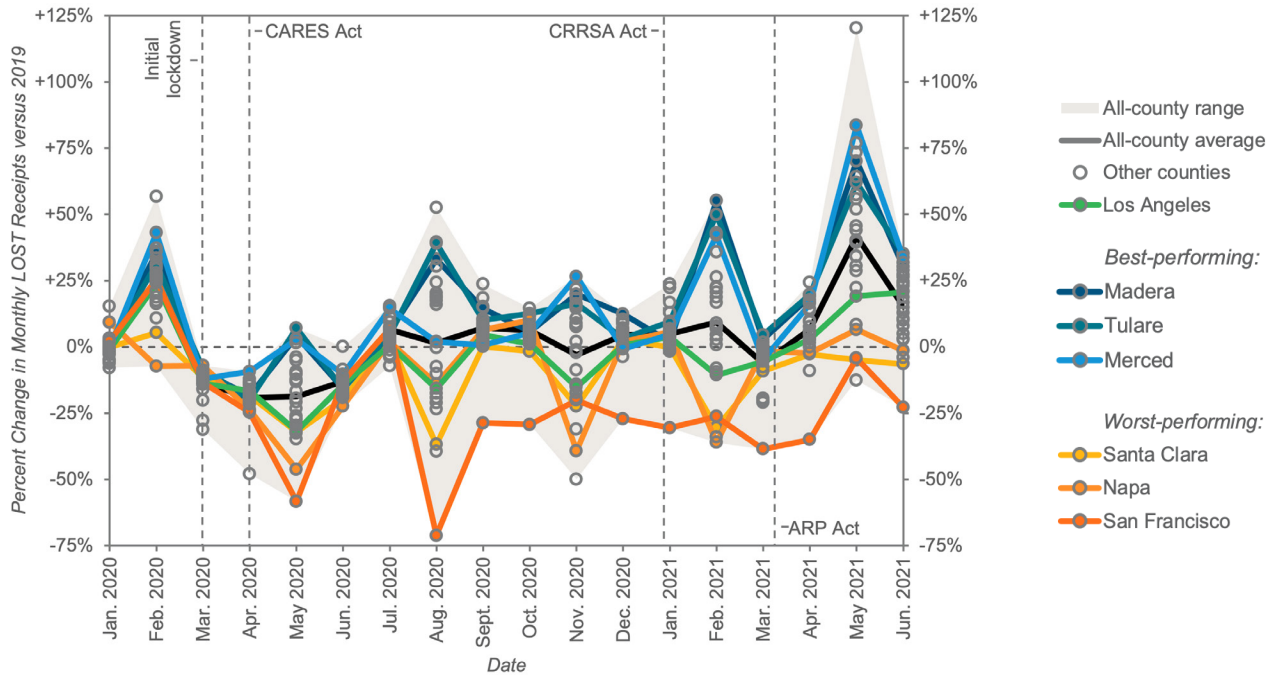
counties declined in the initial stages of the pandemic, revenue decreases were not as large as some analysts first predicted. County LOST receipts fell between 5% and 35% from 2019 to 2020 (Figure 1).

Revenues largely increased after the pandemic's initial months, albeit with significant variation across counties. LOSTs generally fared worse in higher-income counties and better in more rural counties. There was little relationship between LOST revenues and the degree of public health restrictions on business operations and gatherings, after the state implemented a county-level tiered system of restrictions.

The overall strength of the local economy and the share of employment in some sectors were correlated with variations in LOST revenues across counties. As unemployment rose, LOST receipts fell, and the reverse also held true. Counties with heavy employment in certain sectors, particularly in information and professional services, also tended to lose more revenue than other counties.

Many transportation budgets overall fared better during the pandemic than LOSTs, due to emergency federal support. While revenue sources like fares and tolls reported losses, federal stimulus spending boosted many transportation budgets. Public transit operators in California's counties with LOSTs received \$9.5 billion in federal stimulus funds from the three federal COVID-19 relief bills.

Figure 1: Changes in LOST Receipts Compared to the Same Month in 2019



Conclusion

- The federal support for individuals, employers, and transportation operators during the pandemic surpassed that issued during the Great Recession. This support helped maintain LOST receipts (as consumers kept spending) and broader transportation budgets (with increased federal funding).
- LOST revenues are sensitive to the strength and structure of the local economy. The pandemic demonstrated the need to incorporate both local conditions and uncertainty into transportation revenue projections.
- Despite their pandemic losses — or because of their pandemic resilience — LOSTs are likely to continue to proliferate.

- The pandemic reinforced that LOSTs can reliably provide revenues but did not change the fact that, unlike road-use charges such as fuel taxes and congestion pricing, they do not send price signals about the social costs of travel that can improve traffic flows and encourage more sustainable travel. LOSTs are thus not a tool for managing transportation systems, merely one for funding them.

More Information

This policy brief is drawn from the “All Is Not LOST: Tracking California’s Local Option Sales Tax Revenues for Transportation during the Pandemic” research report by the UCLA Institute of Transportation Studies. The full report can be found at www.its.ucla.edu/project/impacts-to-state-and-local-transportation-revenue.

Further Sources:

CDTFA (2021). Monthly Payments to Special Districts from the Transactions (Sales) and Use Tax. *California Department of Tax and Fee Administration*. <https://www.cdtfa.ca.gov/dataportal/dataset.htm?url=MonthlyLocalAllocationSpecialDistrict>.

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