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Local Transportation Sales Taxes: California's Experiment in Transportation Finance

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In the mid-1980s, the California legislature began authorizing sales taxes for transportation projects in individual counties. Since then, residents of 18 counties—representing 80% of the state's population—have voted to raise their sales taxes for limited periods to pay for county and city ground transportation improvements. Collectively, these "local transportation sales taxes" (LTSTs) generate roughly $2 billion per year for the support of capital investments in new highways and transit systems and the maintenance and operation of existing ones. Since their inception these taxes have been the fastest-growing source of revenue for transportation in California and have become a major tool with which local civic and political leaders bypass obstacles in the state's system of transportation finance and decision-making.

As many of these measures approach their expiration dates, and come up for reauthorization, California faces critical decisions about the role these taxes should play in transportation finance over the coming decades. Despite the broad adoption of LTSTs, there has been no systematic review or evaluation of the transportation issues they raise. To provide some perspective on their benefits and limitations, we undertook an examination of their contributions to transportation improvements and their implications for transportation decision-making.

The popularity of the LTST strategy for raising transportation revenues has been attributed to four important characteristics: direct local voter approval, finite lives (typically 15 or 20 years unless specifically reauthorized by another popular vote), specific lists of transportation projects, and county control over the revenues raised. These provisions give citizens more-direct control over the transportation investments that they pay for than has typically been the case with motor-fuel taxes, and their broad tax base enables large amounts of revenue to be raised with relatively low tax rates.

Method

To fully describe and evaluate California's LTSTs, we collected data presented to the voters (ballot language, enacting ordinances, arguments for and against the measures, and expenditure plans) on successful and failing measures from every county that has attempted to pass them. In-person interviews were conducted with several dozen people active in California transportation policy-making. These included county transportation officials and representatives of the Bay Area's Metropolitan Transportation Commission, the California State Association of Counties, the California Association of Councils of Government, and the Self-Help Counties Coalition, which represents the common interests of the counties that have enacted LTSTs. We examined the LTSTs adopted in 17 counties between 1984 and 1990. Despite many differences, these taxes share a common focus on financing a transportation expenditure plan administered by a special transportation authority.

What LTSTs Are Supporting

LTSTs have supported a wide variety of projects, with a fairly even split among highways, local roads, and public transit. Earlier measures generally earmarked LTST revenue for specific projects on the ballot, later measures more frequently allocated funds for "program categories," less-explicit categories of uses and projects.

The most consistent trend in sales-tax expenditures across all counties is that operations and maintenance have received less funding than new capital projects However, the content of LTST expenditure plans varies widely from county to county and measure to measure, reflecting differences in local priorities with respect to the types of projects and programs funded Rural counties are more likely than urban ones to devolve the control of LTST revenues to local jurisdictions, and to spend most of their revenues on highway projects, streets, and roads rather than on transit

Transportation Authorities: Roles, Relationships, Scope

Each county that collects and administers an LTST has a designated transportation authority, which enables joint oversight by city and county governments These agencies may also serve as transit operators, metropolitan planning organizations, councils of government, or congestion-management agencies While it is very common for a single agency to serve as both a transportation authority and a congestion-management agency, it is less common for such an authority to also act as a metropolitan planning organization, since most counties with LTSTs lie within the boundaries of multicounty metropolitan planning organizations (The latter are regional agencies charged under federal law with conducting a "continuing, cooperative, and comprehensive" planning process to determine the allocation of federal transportation funds)

The creation of county transportation authorities significantly reinforced the planning and delivery of transportation improvements at the *county* level But stronger county-level decision-making weakens the regional planning mandate of California's multicounty metropolitan planning organizations in urban regions. State and federal funds, for example, may be "diverted" to round out county expenditure-plan funding packages, rather than spent on projects prioritized by the regional metropolitan planning organization Opportunities to plan regionally also suffer where a large proportion of LTST revenue is returned directly to local jurisdictions within a county. Another disadvantage of the county transportation-authority administrative structure, from the regional perspective, is the resource imbalance created when certain counties have sales taxes and their neighbors do not Intra- and intercounty coordination, when it occurs, is typically focused on transit service Intercounty road improvements do not gain the same level of cooperation

Transportation authorities have the ability to deliver projects and improvements themselves, rather than relying on Caltrans, and LTST proponents cite this shift of authority from the state to its counties as a major benefit of the county-level taxes Since LTSTs are approved directly by county voters rather than through state legislative action, county authorities claim that public participation and accountability have improved when transportation authorities deliver projects themselves

The ways counties have defined the roles and responsibilities of their transportation authorities vary widely But because these authorities have self-defined mandates and have evolved without state or metropolitan planning organization oversight, their governing boards consider themselves accountable solely to the county voters for implementing their expenditure plans expeditiously Integrating land-use planning with county-level transportation planning, for instance, is not an explicit transportation-authority goal or responsibility Some rapidly developing counties, such as Contra Costa, have adopted traffic-impact fees or growth-management restrictions into their ballot language, while others do not address the transportation/land-use linkage at all In most counties, transportation authorities are not required to address related issues and potential impacts that result from localized transportation investment, such as the need for interjurisdictional coordination, and considerations of land use, environmental protection, or socioeconomic equity

Project Selection, Prioritization, Delivery

Project Selection

Projects are typically selected, and often prioritized, on the ballot measure All but five of California's LTST measures earmark some amount of revenue for specific projects, limiting the power of transportation authorities to reprioritize once the tax is approved Even when funds are not earmarked for specific projects, the intended uses of these program categories of revenue are constrained to varying degrees in the ballot measure Program categories allow the uses of LTST revenues to be determined on an ongoing basis, and provide greater flexibility in setting spending priorities The uses of program-category funds are typically determined by formula or through a competitive grant-application process

All but two measures require returning some funding directly to city and county governments or other local agencies such as transit agencies Typically, allocation formulas take into account population or road miles, and sometimes other factors In these cases, local agencies select and prioritize projects according to their local planning processes, but typically must submit an expenditure plan to the transportation authority for approval Transportation authorities may place conditions on the approval of local jurisdictions' requests for LTST dollars, such as requiring expenditures to be consistent with growth-management standards adopted along with the LTST

Project Prioritization

The state legislation requires all counties that adopt LTSTs to establish priority projects in their expenditure plans Some counties circumvent the requirement by designating all projects "priority one" Other counties have developed explicit prioritization criteria The criteria may be used to select from a "wish list" of ballot projects, or applied as part of a periodic strategic plan update to determine which ballot projects should be immediate priorities Counties often make a priority of projects that can use LTST revenue as a match for funds from other sources

Where leveraging state and federal sources of funding is a significant criterion for selection and prioritization, the county's planning process for "measure money" often occurs concurrently with the programming of these other sources Counties also set project priorities so that geographic subregions all perceive some direct benefit from the LTST

However, project selection and prioritization in practice are not always consistent with the prioritization formulas or criteria Instead, the improvements that actually get funded may be those where the local jurisdiction does not oppose the project, or where local governments have been willing to manage the delivery of the project itself

Project Delivery

Because they control the LTST revenues that make these projects possible, transportation authorities possess great leverage over the engineering and construction of transportation projects The possibility of expediting project delivery though private-sector contracting is what motivated many of the Self-Help Counties to consider passing an LTST Transportation authorities typically claim a number of advantages over Caltrans in developing and delivering transportation projects: greater sensitivity and flexibility in responding to local needs, less institutional inertia, and the flexibility to simultaneously pursue different phases of project delivery at once However, some counties developed their sales-tax measures with the expectation that Caltrans would still implement their highway projects

Flexibility to Respond to Changing Circumstances

Revenue shortfalls, cost escalations, or changing political sentiments about projects complicate the complete achievement of expenditure plans Nevertheless, there are constraints to moving off target Not only is it politically undesirable to amend a voter-approved expenditure plan, but many counties also have prohibitively difficult requirements for making revisions Often, major changes require either voter approval or approval of the board of supervisors and a double majority of city councils (a majority vote of a majority of the councils in the county), while a transportation authority's board of directors or other oversight committee can approve only minor amendments

On the other hand, several transportation authorities have succeeded in shifting spending priorities without formally revising their expenditure plans, for example, by imposing price caps on voter-approved projects and programs The most common reason to alter an expenditure plan is deviation from anticipated revenue streams due to economic recession, over-optimistic revenue forecasts, or both. Other obstacles complicate the delivery of promised projects insufficient external matching funds, cost overruns, unforeseen environmental barriers, litigation, rising energy and labor costs, and interjurisdictional disagreements

Flexibly designed expenditure plans have suffered fewer problems as a result of uncertain tax-revenue streams Committing to program categories of funding, rather than earmarking funds for specific projects is the most common method of building flexibility into expenditure plans Ballot measures that contained wish lists of potential projects but did not firmly commit specific amounts of money to particular ones also add flexibility Incremental expenditure plans, which select and prioritize projects according to cycles of a few years, are a less common method of building in flexibility

Policy Considerations and Conclusions

LTSTs are not just a new revenue source, gained with local voter approval, but also a new decision-making process and structure Yet the reasons for their appeal also limit their value in some respects and raise important questions about their ultimate role in large-scale transportation matters The relative inflexibility of ballot measures and the limited scope of most transportation authorities' responsibilities as planning agencies suggest that LTSTs and their authorities are more appropriate as temporary mechanisms for delivering a few key projects

Indeed, in the earliest measures, proponents envisioned transportation authorities as focusing solely on the delivery of a few specified high-profile capital transportation projects, not on planning LTSTs have since evolved into a funding source to serve ongoing transportation needs, such as maintenance of local streets and roads, paratransit services, and transit operations Throughout the state, transportation authorities now play increasingly central roles in funding the ongoing operations of communities' transportation systems Although transportation authorities are accountable as project-delivery agencies, their responsibilities have not been expanded by the legislature or the voters to a level of accountability more appropriate for permanent, powerful transportation planners and decision-makers

LTST project lists tend to be written inflexibly into law, rather than functioning as a funding source that can be adapted to changing priorities and circumstances Transportation authorities face pressure to expend funds in accordance with the ballot measures and to deliver on the commitments made by local political leaders regardless of changing budgets or shifting political priorities This pressure can have serious drawbacks—as shown by the many obstacles to completion of projects administered by the transportation authorities—as the transportation authorities have no mandate to base their implementation priorities on project cost-effectiveness or environmental consequences

This great pressure for accountability as defined by the ballot expenditure plans limits the transportation authorities' ability to respond to changing circumstances as well as to the changing transportation needs and priorities of the counties they serve, or to the regional needs that require improved coordination among agencies The continued ability of LTSTs to meet certain of California's local transportation needs requires careful attention—at the state, regional, and local level—to how the institutional aspects of LTST administration shape transportation investments

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