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# The Landscape of California's Local Option Sales Taxes



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## Issue

In California, funding for our transportation systems has shifted in recent years. The gas tax, once a strong funding source, became weak, leading many counties to introduce local option sales tax (LOST) measures to increase transportation funding. These measures are regressive in nature and can be difficult to pass, as they must be approved by a voter supermajority. Some counties do not have a LOST in place, while others have multiple or permanent measures with no sunset date. As a result, funding streams differ across California's 58 counties. Further, many LOSTs include local return programs, which give a portion of collected revenues back to cities for their own use, whether for street projects or transit; these also vary from measure to measure.

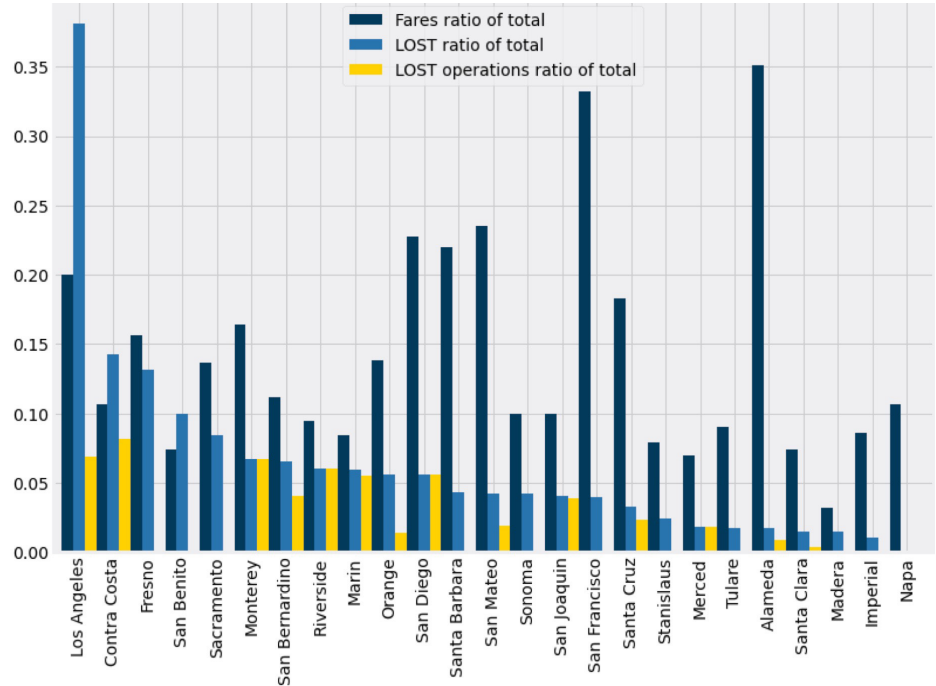
Previous work details the importance, significance, and equity concerns that arise from LOSTs; however, how funding streams flow from these local revenue sources to transit operators remains unclear. This research project addresses the following: What are the funding formulas or methods at the county level for those that have LOSTs? How much of a role do local return programs have in funding formulas? How flexible are these funding sources? For counties that do not have LOSTs, what other funding sources can they use (e.g. grants)? What equity issues arise with these various funding streams, and how can a better

understanding of them further equity-focused advocacy and analysis?

## Research Findings

- The role of LOSTs within each county's transit funding mix varies widely. Depending on whether counties have other funding sources — such as local funds besides LOSTs, operating revenues, and state/federal assistance — LOSTs can play either a major or minor role in funding public transit.
- LOSTs vary in how much of their revenue they allocate to transit, and this proportion is often determined based on political reasons. Counties rely on polling to craft measures that can earn the required two-thirds majority vote, and often incorporate local input by dedicating projects or increasing local return.
- LOSTs in rural counties fund transit less. Conversations with these county officials revealed that most voters see road maintenance as a top priority, but are willing to fund transit in a limited capacity to provide mobility to older adults and other vulnerable populations. Additionally, if rural transit providers already have sufficient financial resources for their current service, there may be little incentive to seek additional funding through LOSTs.

Figure 1. Fares and LOST funding as a percentage of 2019 total transit revenues by county



- Some local return funding could be used for transit, though we could find no major evidence of this occurring. County officials indicated that it is technically allowable to spend this funding on public transit, or transit-supportive infrastructure; however, this research showed that local jurisdictions overwhelmingly choose to spend these funds on roadways.
- While the promised measure funding can be traced from county to county, there is no standardized reporting process for the measures across counties. Introducing an open-source database for each measure’s reports would not only make funding streams more transparent, but also allow counties to view how other counties are administering their measures, and lead to best practices for LOSTs.
- Most measures include local return funds, which are distributed to local jurisdictions for their transportation needs. Increasing this already flexible source of funds to include transit expenditures and encouraging jurisdictions to use funds for transit will increase overall transit funding in a measure. Further, increasing oversight on this use of funds will allow counties and the public to better understand how these funds are currently used.

## Conclusions

- As they stand, LOSTs include provisions for amendments and reallocation periods that provide flexibility within measures. They do not include opportunities for meaningful engagement with the community after the measure is enacted. Conducting polling and consulting the community and community advocates throughout measure implementation would allow for counties to reallocate funds where they would provide the most benefit in their community’s eyes.



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