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Transportation Sales Taxes in Los Angeles: Lessons from 40 Years of Experience



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Issue

Local option sales taxes (LOSTs) provide a large share of funding for local and regional transportation projects and programs in California. Los Angeles County, which generates more LOST revenue than any other county in the nation, currently has four half-cent LOST transportation measures in place, with the first of these approved in 1980. These additions to the state sales tax were each expected to produce \$844 million per year and provide more than half of LA Metro's budget — prior to the COVID-19 pandemic that battered Southern California and threw these estimates into flux.

This research addresses four key questions about these important funding mechanisms:

1. How do these sales taxes balance the need to be accountable to voter-approved requirements against the need to be flexible enough to change expenditures as county needs evolve over time?
2. How has "local return" funding, the share of LOST revenues given to city governments, been implemented and managed?
3. To what extent do legal challenges against LOSTs and their implementation reveal their shortcomings and strengths?
4. What impacts has the pandemic had on LOSTs in Los Angeles County?

Key Research Findings

Flexibility and Accountability

- In response to changes in conditions, technology, and priorities, LA Metro must occasionally amend LOST spending plans; however, departures from voter-approved plans need to be provided for but should be rare and carefully deliberated.
- For the most part, a workable balance has been established between flexibility and accountability, with amendments possible but limited by complex (and opaque) rules.

Local Return

- Local return funds create broader geographic buy-in and encourage mayors and city councils to back LOSTs, which helps the measures clear the two-thirds supermajority voter approval for passage.
- Local governments zealously guard their local return funding, which helped fill gaps left by Proposition 13, even if local return constitutes a relatively modest portion of local transportation spending and is typically governed by complex guidelines.

Legal Challenges

- There have been relatively few legal challenges to the implementation of these sales tax measures, in which LA Metro has generally prevailed or reached settlements.

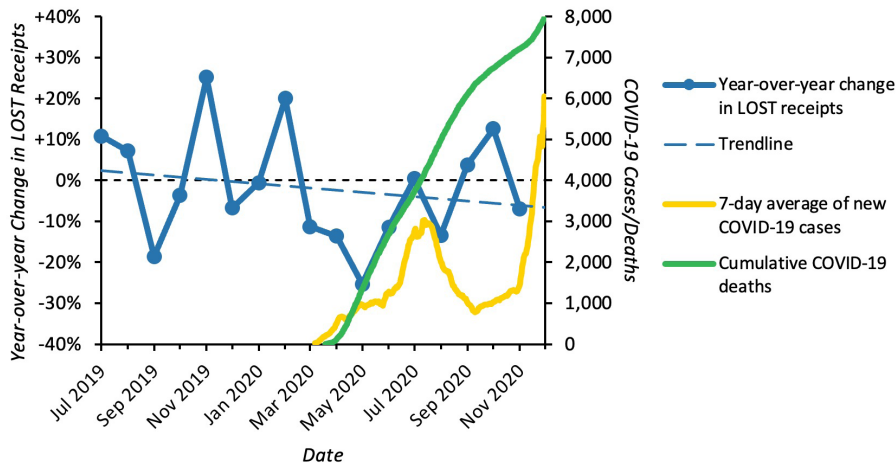


Figure 1: LOST Revenues in Los Angeles County amidst the COVID-19 Pandemic

Effects of the Pandemic

- LOST financing in Los Angeles turned out to be more resilient than many feared at the onset of the pandemic.
- LA Metro experienced steep fare revenue declines and enormous fiscal uncertainty as a result. But after an initial decline, sales tax revenues rebounded relatively quickly (Figure 1).

Study Approach

The authors reviewed financial data, board reports, audits, meeting minutes, and planning and policy documents from LA Metro, local jurisdictions, the state of California and other sources. They also conducted about a dozen interviews of current and former public officials and agency staff. Data on LOST receipts during the COVID-19 pandemic came from the California Department of Tax and Fee Administration.

Conclusions

- LA Metro has accomplished a great deal that could not have been done without LOSTs. Over time, it effectively balanced accountability for delivering on promises to voters against sufficient flexibility to address changing needs.
- To garner the supermajorities required to enact them, LOSTs invariably promise more than can be delivered with their proceeds. Unable to produce sufficient revenue to

fulfill its political promises, each past LOST measure has cyclically evoked the need for another. Though LA Metro is today relatively well-funded in comparison with many other transit agencies, it will likely need to seek future funding via LOSTs.

- The four Los Angeles County LOST measures almost certainly could not have passed without local return provisions that are so popular among local officials.
- LOSTs proved resilient during the pandemic and provided LA Metro with a relatively stable revenue source. Yet beyond LOSTs, the pandemic accelerated, though did not on its own create, financial challenges for the agency.

More Information

This policy brief is drawn from the “Transportation Sales Taxes in Los Angeles: Lessons from Forty Years of Experience” research report by the UCLA Institute of Transportation Studies for the John Randolph Haynes and Dora Fellows Haynes Foundation. The full report can be found at www.its.ucla.edu/publication/transportation-sales-taxes-in-los-angeles-lessons-from-forty-years-of-experience.

This brief was edited by Jacob L. Wasserman, Research Project Manager, UCLA Institute of Transportation Studies, and Brian D. Taylor, Professor of Urban Planning and Public Policy, UCLA Luskin School of Public Affairs and Director, UCLA Institute of Transportation Studies.



Further Sources:

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