ALTERNATIVE PUBLIC TRANSPORTATION
FUNDING FOR LOS ANGELES COUNTY

Pursuant to
Senate Resolution No. 46 (1978)

January 1979
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INTRODUCTION

Senate Resolution No. 46 (1978) directs the Legislative Analyst to study and recommend alternative means of providing increased funding for public transportation in Los Angeles County. The resolution requires that two specified alternatives be considered as part of the study: (1) a one percent increase in the motor vehicle in-lieu tax, and (2) an increase in the motor vehicle fuel tax at a rate sufficient to raise between $30 million and $100 million.

Transit in Los Angeles County is currently funded by a variety of sources. Among operators within the county, the ratio of fare income to operating costs ranges from zero (in the City of Commerce, where no fare is charged) to approximately 41 percent (for the Southern California Rapid Transit District). The balance of operational funding is provided by the one-quarter of one percent sales tax authorized in the Transportation Development Act (TDA), federal funds appropriated under Section 5 of the Urban Mass Transportation Act, property taxes, and other miscellaneous sources.

The largest operator in the county is the Southern California Rapid Transit District (SCRTD), with an operating budget of approximately $216 million. There are also several municipal operators within the county. The largest are Long Beach and Santa Monica, with operating budgets of approximately $9 million and $7 million respectively.

This report was prepared by Robert McCleary and John Goldman under the direction of William Behnk. It examines several alternative revenue sources, and considers the recent passage of Proposition 13 which has raised new issues in local taxation. These issues must be addressed
when considering new tax sources. The report consists of three main sections: (1) current taxation issues; (2) alternative revenue sources; and (3) conclusions. A brief summary of findings follows this introduction.
SUMMARY

Imposition of a new tax for transportation purposes in Los Angeles County has become more difficult with the passage of Proposition 13 and the consequent addition of Article XllIA to the State Constitution. Several key provisions of the article require clarification before the impact on new taxes can be determined. However, it appears that the article's requirements plus other provisions in the Constitution will affect new tax measures in two areas, according to an opinion of the Legislative Counsel. First, under other provisions of the State Constitution any new tax must be authorized by a vote of the Legislature. Second, according to the Counsel's interpretation of Article XllIA, a measure permitting imposition of a new local tax would require a two-thirds vote of the local "qualified electors."

Our analysis of alternative tax mechanisms for public transportation financing evaluates eight revenue sources using background information from our November 1975 report titled Financing Public Transportation in the San Francisco Bay Area. The eight mechanisms, of which four are transportation-related and four are nontransportation taxes, are assessed on the basis of their yield, potential impact, and administrative characteristics. Statutory or constitutional changes needed for imposition of these taxes are also discussed within the constraints of Article XllIA.

Based on this analysis, it is our conclusion that:

1. Fare income should defray fixed proportions of transit operating costs for each of the county's transit systems;

2. Primary consideration should be given to transportation-related mechanisms for additional public transportation financing in Los Angeles County; and
3. Of the four transportation-related taxes, tax on the sale of motor vehicle fuel is the most appropriate. Each one percent tax applied to the retail price of motor vehicle fuel generates approximately $28 million annually. However, it is uncertain whether this tax could be imposed on a statutory basis or would require constitutional changes.
I. CURRENT TAX ISSUES

The addition of Article XIII A to the State Constitution as a result of Proposition 13's passage in the June 1978 primary election dramatically changes the taxation picture in California. The article's provisions establish (1) limits on property assessments and tax rates, and (2) general procedures for imposing new taxes. However, several key provisions in the article are vague, which prevents a clear determination of the article's probable impact on government taxation, especially at the local agency level.

In this chapter, we review provisions of the article which relate to the imposition of new taxes. We also discuss the issue of "special" taxes versus "general" taxes, emphasizing the relationship of this issue to transportation financing in Los Angeles County. Finally, we address those outstanding issues which need resolution before the probability and feasibility of introducing new taxes can be determined. Throughout this discussion, we rely on the analysis of the Legislative Counsel as contained in his November 13, 1978 opinion on Proposition 13.

PROVISIONS OF ARTICLE XIII A

The article's six sections can be generally divided into three categories. Sections 1 and 2 place limitations on the property tax, with specific restrictions on the tax rate and assessed value of real property. Sections 3 and 4 contain provisions limiting the imposition of new taxes and restricting changes to existing taxes. The remaining two sections deal with the effective dates and the severability of the article's provisions.
Sections 3 and 4, which deal with changes in both state and local taxation, are particularly relevant to funding transportation in Los Angeles County. Section 3 provides that:

"From and after July 1, 1978, any changes in state taxes enacted for the purpose of increasing revenues collected pursuant thereto—whether by increased rates or changes in methods of computation must be imposed by an act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed." (Emphasis added.)

This section therefore restricts changes in the state's tax mechanisms by (a) requiring that these changes be enacted only upon a two-thirds vote of the Legislature and (b) prohibiting the imposition of new ad valorem or sales taxes on real property.

Section 4 deals with local taxes:

"Cities, Counties, and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such City, County or special district." (Emphasis added.)

As discussed later in this chapter, Section 4 of the article raises several issues which have not been resolved. Generally, however, the section establishes restrictions similar to those in Section 3, except that Section 4 only requires a two-thirds vote in order to impose "special" taxes at the local level. Consequently, determining what qualifies as a "special" tax is an important issue, which we closely examine in the following section.
SPECIAL VERSUS GENERAL TAXES

A major problem with Section 4 is that a "special" tax is not defined. Consequently, it is not clear which tax mechanisms fall in the "general" category and which fall in the "special" category. Further, the section implies that the procedures for imposing new special taxes are somehow different from those that apply to new general taxes, without indicating what the differences are.

These issues will not be resolved until further legislative or judicial action occurs. However, the Legislative Counsel has stated how he believes the courts would interpret Section 4's provisions in an opinion dated November 13, 1978. The following discussion of special taxes is based on this opinion.

Definitional Issues

The Legislative Counsel's opinion points out that a "special" tax could be viewed as a tax for a specific purpose, whereas a "general" tax would be used for general government financing. The opinion further notes that, under this interpretation of Section 4 of the article, a "special" tax would require approval by a two-thirds vote, while a "general" tax could be imposed by the county board of supervisors, or other local governing bodies. However, the opinion indicates that such an interpretation could lead to the following situation:

"By definition, any tax levied by a special district for a special purpose would be a special tax. Hence, the residents of an area which receives such general governmental services as fire, police, sewer, and garbage services through a number of special districts would have voter control over the taxes levied by such districts. But the residents of a city which provides the same services and funds
them all by the levy of the exact same taxes would not have voter control over such taxes." (Emphasis added.)

The apparent inequity in voter control in such instances leads the Counsel to believe that a literal interpretation of "special" tax may not be appropriate. The opinion therefore concludes that, "... in the absence of legislative or further judicial decision, the word 'special' will be construed as simply meaning 'local' " (pg. 20). Any new local tax would then be subject to the procedural provisions of Section 4, as discussed below.

Procedural Issues

The Legislative Counsel's analysis of Section 4 indicates that imposition of any new local tax, whether for general government services or for specific purposes (such as transportation financing) would require approval by a two-thirds vote of the local electorate. The Counsel points out, however, that determining which revenue generating devices are "taxes" can be difficult. Nonetheless, he believes that "the courts will restrict the term 'taxes' to the more traditional use of the term and thereby exclude fees for services, regulatory fees, and benefit assessments" (pg. 20). These fees and assessments could therefore be imposed without a two-thirds vote of approval. All other local taxes could only be imposed under the constraints of Section 4.

Even so, there would need to be some state involvement in authorizing taxes in most cases. The Counsel's opinion indicates

1. Legislative Counsel of California, Opinion No. 16240, November 13, 1978, p. 18. Unless noted otherwise, all quotations used in this section are from the above opinion.
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1. Legislative Counsel of California, Opinion No. 16240, November 13, 1978, p. 18. Unless noted otherwise, all quotations used in this section are from the above opinion.
that "counties, general law cities, special districts, ... and chartered cities governed by general laws on tax matters will not be able to impose any tax without specific authorization from the Legislature" (pg. 20). Thus, the opinion indicates local jurisdictions other than chartered cities not governed by general tax laws cannot impose any new taxes, without prior authorization by the Legislature.

OTHER UNRESOLVED ISSUES

Several other provisions of Article XllllA are subject to further clarification by legislative or judicial action. The two unresolved issues which are pertinent to transportation financing at the local level are: (1) the definition of "qualified electors," and (2) the applicability of existing legislative authority for new taxes.

Qualified Electors

Section 4 of the article authorizes local entities to impose special taxes by a two-thirds vote of the "qualified electors of such district." The Legislative Counsel notes that the term "qualified electors" could be interpreted to require a two-thirds vote of those electors who have complied with the legal requirements, including registering to vote. This interpretation would mean that a two-thirds affirmative vote by all persons registered to vote is required to impose new taxes.

However, the opinion states that, because it is unlikely that two-thirds of the registered voters would vote in an election, "the passage of any ordinance imposing a special tax would be rendered impossible if an affirmative vote of two-thirds of all those persons ... qualified to vote was required..." (pg. 17). Furthermore, the Counsel notes that previous court decisions have established that
voting requirements for passage of propositions be based on those electors actually voting in an election. While the courts have not addressed the definition of "qualified electors,"¹ it appears that a strict interpretation of the term would not only contradict previous court rulings but would also render the possibility of imposing new taxes nearly impossible. Thus, the term "qualified electors" as used in Section 4 of the article will probably be interpreted to mean those electors actually participating in an election.

Existing Legislative Authority

In some instances, the Legislature has previously authorized a local jurisdiction to impose a tax upon voter approval of a measure to enact the tax. For example, under Section 130350 of the state Public Utilities Code, the Los Angeles County Transportation Commission may place an ordinance on the ballot to impose a one-half percent sales tax in Los Angeles County for public transit purposes. A majority of the voters must approve the measure to enact this tax.

However, Section 4 of Article XIII A and the interpretations of the section's provisions seem to indicate that this sales tax could be considered a special tax and therefore would require a two-thirds, and not a majority, vote for enactment. It would appear that provisions of the article would supercede prior legislative actions, but this issue has not yet been resolved.

1. The State Supreme Court did not specifically address this issue in its September 22, 1978 ruling on the constitutionality of the article. However, the terms "qualified electors" and "voters" were used interchangeably throughout the ruling's text.
CONCLUSION

In this section, we have reviewed the Legislative Counsel's interpretation of specific provisions of Article XlllA which may affect transportation financing in Los Angeles County. Briefly, the Counsel believes that:

1. The term "special tax," although somewhat obscure, covers any new local tax imposed after the article's effective date;

2. A new local tax mechanism, whether it is designated for specific purposes or available for general use probably would be subject to the two-thirds vote requirement contained in Section 4 of the article; and

3. New taxes to be locally imposed generally would require legislative authorization.

In the following section, we discuss a variety of revenue sources which could provide transportation funds in Los Angeles County. Of the tax mechanisms included in our review, some would require a constitutional amendment to authorize their imposition for transportation financing purposes. Others might require legislative authorization. In any event, it appears that any new local tax must comply with the two-thirds voting requirement for special taxes.
II. REVENUE SOURCES

Currently, public transit revenues for both operating and capital needs come from a combination of transportation-related receipts and nontransportation revenue sources. Either category could provide additional revenues within the constraints described in the previous chapter. We discuss major revenue sources potentially available for transit support in Los Angeles County below.

Eight potential sources are examined. Four are transportation-related: (1) fares; (2) motor vehicle registration fees and in-lieu taxes; (3) motor vehicle driver's license fees; and (4) motor vehicle fuel taxes. The other four are not transportation related: (1) sales tax; (2) personal income tax; (3) payroll tax; and (4) property tax.

EVALUATION OF REVENUE SOURCES

A framework for evaluation is required to compare the alternative revenue sources listed above. Accordingly, we place revenue source characteristics into three main categories - yield, impact, and administration - and discuss each source within this framework. This analysis is similar to our previous analysis relative to transit financing in the San Francisco Bay Area.¹

A summary of the characteristics of transportation-related revenue sources is shown in Table I (page 15). Table II (page 21) displays characteristics of nontransportation revenue sources.

Yield-related criteria include:

- The level of revenue which could be generated by a specific rate of application, based upon the most recent available data.
- The relative stability of revenues (significant year-to-year income fluctuations could cause financial problems if less income were generated than had been anticipated, and deficits were to result).
- The likelihood that revenues will keep pace with inflation.

Impact refers to the effects of a tax or fee on individuals or groups. Criteria in this category include:

- The incidence of taxation among income groups. A source is progressive if the proportion of income paid increases as income increases, and regressive if the proportion paid is higher at lower income levels.
- Whether the tax or fee has specific impacts upon identifiable subgroups such as homeowners.
- Whether the tax or fee causes economic dislocation — that is, diverts business away from an area of higher taxation.
- The degree to which the public has indicated that a revenue mechanism is an acceptable way to raise funds.

Administration refers to the ease and cost of implementing a revenue source, and related legal requirements. Background on administrative issues and costs can be found in our 1975 report.
TRANSPORTATION-RELATED REVENUE SOURCES

Fare Increases

Historically, fares have been the main source of operating revenue for transit. However, fare income has declined as a percentage of operating expenses for transit in the last few years. Increases in transit operating expenses have generally been defrayed by increases in various federal, state, and local tax revenues.

In our 1975 report, we recommended that fare income should defray a constant proportion - 40 percent - of operating expenses on an ongoing basis for the AC Transit District, the Bay Area Rapid Transit District (BART), and the San Francisco Municipal Railway (Muni). The intent of this recommendation was to: (1) insure that the transit user pays a constant proportion of the cost of providing transit service; (2) eliminate future needs for tax rate increases or new taxes in order to defray increases in operating expenses; and (3) encourage careful monitoring and controlling of operating costs.

In AB 1107 (Chapter 1204, Statutes of 1977), the Legislature recognized the need for fare income to defray at least a constant proportion of operating expenses, and adopted a requirement of 33 percent for AC Transit, BART, and Muni in order for those operators to receive revenues from a state-authorized one-half percent sales tax.

There are three major operators in Los Angeles County upon whom similar requirements might be imposed. Of these, the Southern California Rapid Transit District (SCRTD) has adopted a policy of sustaining a 40 percent ratio of fare revenues to operating costs, and currently has a 41 percent ratio. Santa Monica Transit also has a 41 percent ratio at the current time. Long Beach Transit, with
Table 1
Summary of Transportation-Related Revenue Sources

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<th>Revenue Source</th>
<th>Yield</th>
<th>Impact</th>
<th>Administration</th>
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<tbody>
<tr>
<td></td>
<td>Millions</td>
<td>Rate</td>
<td>Stability</td>
</tr>
<tr>
<td>Fare Increases</td>
<td>$13</td>
<td>20%</td>
<td>+</td>
</tr>
<tr>
<td>Motor Vehicle Fees:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Registration</td>
<td>$47</td>
<td>$10</td>
<td>+</td>
</tr>
<tr>
<td>In-lieu</td>
<td>$70</td>
<td>+1%</td>
<td>+</td>
</tr>
<tr>
<td>Driver's License Fees:</td>
<td>$4</td>
<td>$3.50</td>
<td>+</td>
</tr>
<tr>
<td>Fuel Taxes:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excise</td>
<td>$43</td>
<td>.01</td>
<td>+</td>
</tr>
<tr>
<td>Sales</td>
<td>$28</td>
<td>1%</td>
<td>+</td>
</tr>
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</table>
a current ratio of 27 percent, would require approximately $1.3 million in additional fare revenue to achieve the 40 percent ratio.

Eventually, fare increases would be required by all three operators to sustain the ratio if operating costs increased due to inflation or other factors. A 20 percent increase from their current base, for example, would increase revenue approximately $13 million annually for the three operators.

In general, revenue from a fare increase should be stable but not inflation resistant. In addition, fare increases are usually regressive, and typically those who are unable to drive are more heavily affected than those who have an alternative to transit available. For this reason, where possible we recommend the imposition of selective fare increases such as special peak-hour charges to reduce the regressivity of fare increases. Available data based upon experiences of other operators suggest that overall ridership is not very sensitive to fare increases - a 10 percent increase in fares should result in approximately a three percent decrease in ridership.\(^1\)

Administrative concerns regarding fare increases are minimal. Fare increases can be implemented by local transit operators under existing law. Uniform fare increases are generally easier to implement than selective increases, but both types are feasible.

**Motor Vehicle Fees**

Two major types of motor vehicle fees which might be adaptable for transit support are currently collected by the state: the motor vehicle registration fee, and the in-lieu tax (vehicle license fee).

\(^1\) Ibid., pp. 28, 30, 95-99.
Local application of the registration fee would require changes to Article XIX of the State Constitution. The in-lieu tax is specifically excluded from the provisions of Article XIX and was used temporarily for local purposes in both San Mateo and Santa Clara Counties.¹

Currently, the registration fee is $11 for all vehicles. For Los Angeles County, a $10 annual increase per vehicle would generate about $47 million in additional revenue.² While registration growth is expected to approximate 3 percent per year statewide, growth in Los Angeles is likely to be less. During the past three years, the number of registrations in Los Angeles has declined. Consequently, the revenue yielded by this source probably would decline in real value as a result of inflation.³

Increasing the in-lieu tax from 2 percent to 3 percent for vehicles registered in Los Angeles County would raise approximately $70 million annually. While total registrations in the county have been decreasing slightly, the annual increase in the value of new vehicles has been quite high. This combination probably would result in revenue growth at a rate somewhat above the rate of inflation and without major year-to-year fluctuations.

Large relative increases would be required to raise significant revenues from these sources. For example, to raise $50 million the registration fee would need to be increased approximately 100 percent and the in-lieu tax approximately 36 percent. These magnitudes reduce the likelihood of public acceptance and support. The registration fee is a uniform charge and hence more regressive than the in-lieu

¹. Ibid., pp. 100-101.
². Based on 1978 data.
³. Legislative Analyst, Financing Public Transportation, pg. 102, and data from the Department of Motor Vehicles.
tax, which is based on vehicle value. In an overall context, neither increase would be high enough to significantly discourage automobile use. The impact of such charges upon business and commercial enterprises should be somewhat less than with other revenue mechanisms.¹

Driver's License Fees

Each increase of $3.50 above the current fee of $3.50 for driver's license application or renewal would raise approximately $4 million annually in Los Angeles County. Approximately 25 percent of the total licenses are renewed each year, and there were almost 4.6 million licenses as of December 1977. The growth rate in total licenses is projected to be about 1.5 percent per year in the near future, so this source would be stable (in terms of dollar amounts) but would decline in value relative to inflationary cost increases.²

The impact of this source on individuals or groups would depend on the level at which it was imposed. Large increases in this fee might be significant, especially to individuals of lower income. Because a 1,300 percent increase in the fee (to $49) would be required in order to raise $52 million, this alternative is probably not practical as a means of raising sizeable amounts for transit operations. Fee increases would have a greater impact on the poor than on upper income groups and therefore would be regressive.

Administration by the Department of Motor Vehicles would only require minor modifications to existing procedures, and the charge could be based on the county of residence of the applicant. However,

¹. Ibid., p. 101.
². Ibid., p. 104.
a change to the conditions of Article XIX of the State Constitution would be necessary to permit use of the funds for transit financing.

Motor Vehicle Fuel Taxes

Two types of motor vehicle fuel taxes could provide additional support for transit in Los Angeles: excise and sales taxes. An excise tax in Los Angeles County would raise approximately $40 million from gasoline sales and $3 million from diesel fuel sales, for each one cent per gallon applied. Unless indexed to the CPI, an excise tax would decline in value relative to inflationary cost increases, because total consumption is growing more slowly than the rate of inflation.

Alternatively, a sales tax on the retail price of fuel would raise approximately $26 million on gasoline, and $2 million on diesel for each 1 percent applied. Recent data suggest that revenues from such a tax are likely to increase more rapidly than the Consumer Prices Index (CPI).

Either a local excise tax or sales tax on fuel would have a greater relative impact on lower income persons, and hence both would be regressive. A local fuel tax might also cause minor economic dislocation of fuel sales since consumers might shift their purchases to another county in order to avoid the tax. Fuel tax increases might also encourage more transit use by raising the cost of auto travel.

Finally, to the extent that such taxes diverted travelers from automobiles

1. Based on fiscal year 1977-78 data. Estimate also assumes that Los Angeles County consumes 34.25 percent of all gasoline and diesel fuel sold in California, as estimated by the Department of Transportation in "Gasoline Sales by Counties," a working paper by R.W. Mearns (July 11, 1974).

2. Ibid. Also assumes a retail price of $0.65 per gallon including excise taxes, based on State Board of Equalization data.
to transit, a minor improvement in air quality and energy efficiency in transportation could be anticipated.

Either a local excise or a local sales tax on fuel could probably be incorporated into the existing sales tax structure administered by the State Board of Equalization. However, it would be a new taxing mechanism, and consequently additional costs and record-keeping would be required.

Some uncertainty exists concerning whether a local entity such as a city or county could be authorized by statute to impose a local fuel tax. Under the provisions of Article XIX of the State Constitution, motor vehicle fuel taxes imposed by the state must be used for specified costs associated with (a) streets and highways, or (b) exclusive public mass transit guideways. The Legislative Counsel of California has issued an opinion that a locally imposed motor vehicle fuel tax for local purposes would not conflict with Article XIX.¹ However, the Attorney General issued an earlier opinion that a locally imposed fuel tax would not be constitutional.² This issue probably cannot be resolved without a court decision.

NONTRANSPORTATION SOURCES

General Sales and Use Tax

The sales tax is a major revenue source for the state and for local governments. At present, cities and counties receive one percent of the sales tax and an additional one-quarter of one percent is used

¹. Legislative Counsel of California, Opinion No. 2205, March 1, 1977.
Table II

Summary of Nontransportation Revenue Sources

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<tr>
<th>Revenue Source</th>
<th>Yield</th>
<th>Impact</th>
<th>Administration</th>
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<tr>
<td></td>
<td>Millions</td>
<td>Rate</td>
<td>Stability</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>$169</td>
<td>+1/2%</td>
<td>+</td>
</tr>
<tr>
<td>Personal Income Tax</td>
<td>$13</td>
<td>1%</td>
<td>+</td>
</tr>
<tr>
<td>Payroll Tax</td>
<td>$170</td>
<td>$1/2%</td>
<td>+</td>
</tr>
<tr>
<td>Property Tax</td>
<td>$3</td>
<td>$.01/$100 A.V.</td>
<td>+</td>
</tr>
</tbody>
</table>
for transportation purposes by cities, counties, and local transit districts pursuant to the Transportation Development Act of 1971, as amended. Furthermore, a local one-half of one percent sales tax is collected in the three-county Bay Area Rapid Transit (BART) District for use by BART, the San Francisco Municipal Railway, and AC Transit. The same rate is applied in Santa Clara County for the Santa Clara County Transit District. This tax has also been authorized but never collected in San Mateo County.

A one-half percent local sales tax in Los Angeles County would generate approximately $169 million annually.¹ Over the last several years, revenues from this source have grown at a rate consistently higher than that for consumer prices. Thus the sales tax appears to be a very stable source of funding.

The sales tax is generally regarded as somewhat regressive, but in certain public opinion surveys it has been selected as the most acceptable tax instrument for raising additional local revenues. However, sales tax extensions for public transit have not been popular enough to win voter support in Los Angeles County in recent elections. A local sales tax differential between counties could result in some economic dislocation, although this does not appear to be a major problem based on experience in the Bay Area.²

Administration of an increased local sales tax in Los Angeles County could be easily accomplished by the State Board of Equalization,

¹. Based on fiscal year 1977-78 collections.
². Legislative Analyst, Financing Public Transportation, pp. 130-131, 134.
which currently administers the BART district and the Santa Clara taxes. Some start-up cost would be incurred by the board. In
addition, it is likely that the board would charge an administration
fee for collecting the tax. Presently, it charges 1.64 cents per
dollar collected for the one-half percent tax rate.1

Personal Income Tax

A surcharge on the state income tax would be another produc-
tive source of local revenue. Residents of Los Angeles County paid
approximately $1.3 billion in state income taxes in 1977. Consequently,
each one percent surcharge on this amount would raise approximately
$13 million.2 Revenues from this source are stable and growth typically
outpaces inflation because of the graduated rate structure.3

Because the income tax in California is a progressive levy,
a surcharge for local transit would also be progressive. The burden
would fall entirely upon individuals, however. For example, a family
of four earning $20,000 in adjusted gross income typically pays
$343 in state income taxes. Each one-percent surcharge applied if
this family lived in Los Angeles County would cost them an additional
$3.43 per year. An income tax surcharge would be more equitable than
a local payroll tax on wages and salaries which would discriminate
in favor of individuals with other sources of income such as dividends
and capital gains.

1. According to the Board of Equalization.
2. Based on preliminary 1977 income year data from the Franchise
   Tax Board.
3. Legislative Analyst, Financing Public Transportation, pp. 146-150.
Administration of a surcharge on the state income tax could be handled by the Franchise Tax Board. Minor implementation, auditing, and recordkeeping, problems could be expected. Only statutory changes would be required to implement such a tax.

**Payroll Tax**

Local taxes on wages and salaries are permitted under some circumstances according to a recent State Supreme Court Decision.\(^1\) Total payroll earned in Los Angeles County in 1977 was approximately $34 billion. Consequently, a tax applied to this payroll would generate approximately $170 million for each one-half percent increment applied on an annual basis,\(^2\) and should be both stable and relatively inflation resistant.

As noted above, a payroll tax would impact salary and wage earners without taxing other income. In contrast to an income tax, it would not provide allowances for exemptions or deductions. For example, an employee earning $20,000 annually would be taxed $100 for each one-half percent increment of tax applied. It could also potentially have an impact upon business location.

The payroll tax would be a local tax implemented and administered by local agencies. Some minor implementation problems could be anticipated but these should not prove too troublesome.

**Property Tax**

The property tax has historically been a major source of funds to support local services including transit. However, the passage of Proposition 13 in June 1978 limited property tax collections to

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1 percent of a property's full cash value. This reduced existing property tax revenues and makes it much less likely that increased property tax levies could serve as a source of new revenues. Such taxes can only be added by amendment to the State Constitution.¹

The assessed value in Los Angeles County was $31.3 billion for fiscal year 1977-78.² Thus each 1 cent applied per $100 assessed valuation would generate approximately $3 million in revenue. Revenues from this source are stable and should grow at approximately the same rate as the Consumer Price Index.

Approximately 37 percent of the property tax base is owner-occupied homes, while rented residential properties are 19 percent, and nonresidential property accounts for about 44 percent. Data suggest that the property tax is somewhat regressive. Further, differential property taxes above surrounding areas could potentially discourage business and home location within the area of higher taxes.

The administrative mechanism for levying and collecting the property tax is well established. However, as noted above, passage of Proposition 13 makes imposition of new property taxes extremely difficult and highly unlikely.

¹ See Chapter I, pp. 5-6.
2 Preliminary data from the State Board of Equalization indicates this value will increase slightly for 1978-79 under the requirements of Proposition 13.
III. CONCLUSIONS

The passage of Proposition 13 makes it difficult to increase local taxes for transportation purposes. According to the Legislative Counsel, a two-thirds vote of the electorate will be required to impose a new tax, and in many cases, the Legislature would first be required to authorize imposition. ¹

Another effect of Proposition 13 is that local governments are raising user's fees to replace funds lost as a result of reduced property tax revenues. Thus, consumers of government services are paying a higher proportion of the actual costs of the services they use. This correspondingly reduces the subsidy from general tax sources.

Considering these factors in choosing among alternative sources of additional revenue for transit leads to the following conclusions.

1. Fare income should defray fixed proportions of operating expenses for transit operators in Los Angeles County.

Our 1975 report recommended a 40 percent fare income to operating cost ratio for BART, Muni, and AC Transit, and the Legislature subsequently enacted a 33 percent requirement in AB 1107. We believe this requirement is essential because it (1) insures that the transit user pays a constant share of the costs of providing transit services, (2) reduces the need for new tax sources, and (3) encourages careful monitoring and controlling of operating costs.

¹ Subject to the interpretations and constraints discussed in Chapter 1.
However, in contrast to our 1975 study, an examination of the operating needs of Los Angeles County Transit systems was not performed. Therefore, we are not able to determine precise fare revenue to operating cost ratios in this study.

2. Primary consideration should be given to transportation-related revenue sources for supporting transit in Los Angeles County. Beyond fixed ratios of fares to operating expenses, we believe that a new transit revenue source should bear some relationship to the benefits to be derived from its application. This would facilitate legislative and voter support, and reflect the spirit of defraying costs of services to the extent possible by charging those who benefit from the services. Therefore, transportation-related sources beyond fare revenue can be most easily justified to provide additional transit revenues.

3. If it can be statutorily authorized, a sales tax on motor vehicle fuel is the most appropriate source of additional revenue for transit operations in Los Angeles County. Each one percent levy on the retail price would yield $28 million annually.

Three transportation-related sources in addition to fare increases have been discussed in Chapter II, with their characteristics summarized in Table I. These are: (1) motor vehicle fees, both registration and in-lieu; (2) driver's license fees; and (3) motor vehicle fuel taxes, both excise and sales.

These alternatives are all stable revenue sources. Registration fees and driver's license fees would require constitutional changes, while the in-lieu tax would not. Based on a Legislative Counsel's
Opinion, it may be possible to impose a local sales tax on motor vehicle fuel without a constitutional amendment. However, such a tax would be slightly more difficult to implement than other measures.1

An important characteristic of these sources is the expected growth of revenues from each relative to the increase in prices. Registration and driver's license fees would probably decline in real value over time. Of the four sources, only the in-lieu tax and the sales tax on the retail price of motor vehicle fuel are elastic with respect to inflationary price increases.

For comparison, the in-lieu tax requires a 36 percent increase to raise $50 million annually in Los Angeles County, while the same amount of revenue would be generated by a 1.8 percent sales tax on the retail price of fuel. The 1.8 percent sales tax would represent an increase of less than 1.2 cents per gallon above the current retail price of 65 cents per gallon.2 The smaller rate increase required for the fuel sales tax should make it more acceptable to the public than an approximately 36 percent increase in the in-lieu tax.

A fuel sales tax also has other advantages. To the extent that it discourages auto usage and encourages more use of transit, some improvements in air quality and the energy efficiency of transportation can be anticipated. It would be consistent with policies to reduce auto usage being suggested by the federal government for Los Angeles to comply with the federal Clean Air Act.3

1. See Board of Equalization letter, Legislative Analyst, Financing Public Transportation, pp. 112-117.
2. Average price includes four cents federal and seven cents state excise tax, but excludes state and local sales tax of six percent. Source: Board of Equalization.
3. The Clean Air Act, 42 U.S.C., Sec. 1857 et seq., and amendments.
The major drawback to this source is uncertainty concerning whether or not it can be imposed by statute, or requires a constitutional change.