

# A Quiet Revolution in Transportation Finance: The Rise of Local Option Transportation Taxes

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*During the 20th Century the United States built a partnership for financing surface transportation infrastructure that included local, state, and federal expenditures, and relied heavily on user charges to cover the costs of these investments. This paper examines recent changes in the nature of this partnership that are significant, but rarely noted. Policymakers are devolving fiscal responsibility from federal and state to local governments, by increasingly authorizing the use of local option transportation taxes. This trend substitutes general taxes for user fees and charges, and shifts decisions about major transportation projects into the electoral and legislative arena. These changes have significant implications for our understanding of the future of metropolitan transportation planning, and the ways in which we seek to reconcile transportation investments with other public policy objectives.*

by **Todd Goldman and Martin Wachs**

Local, state, and federal governments in the United States spend about \$124 billion per year on surface transportation facilities and services.<sup>1</sup> These programs make a central contribution to the economy and quality of life in America. Over nearly a century, the provision of this transportation system has evolved into a complex system of intergovernmental partnerships that rely heavily on user fees rather than general taxes (Kulash 2001). This paper argues that the nature of that partnership is subtly changing in ways that have not been adequately noted by transportation analysts and scholars.

Early in the 20th Century, transportation finance was largely a matter for local government. Cities and counties funded streets and roads primarily through property taxes, in part because such taxes were the primary local revenue sources, and in part due to the central role that road access plays in conferring value on land. Transit was funded by investors seeking to profit from real estate

investments and operating under close municipal scrutiny, or by local governments themselves through the issuance of general revenue bonds.

Since the automobile became the dominant mode of personal transportation in the early 1920s, states and the federal government came to play increasingly central roles in transportation finance. Through a system of “user fees,” state and federal governments funded the construction of long-distance highways to carry intercity and city-suburb traffic. User fees directly charge those who travel for the services that they receive, and reinvest the revenue into the costs of building and maintaining the system. They come in a wide range of forms, including toll and fare mechanisms, motor fuel taxes, vehicle registration fees, and truck weight fees.

Revenues from motor fuel taxes are typically held in “trust funds,” which, in turn, distribute revenues to state or local governments following rules that govern how the

monies may be spent and how expenditure decisions must be made. In earlier years, fuel taxes were reserved exclusively for highway expenditures, but over the last 30 years they have also increasingly been applied to other purposes, such as public transit and facilities for bicyclists and pedestrians. Planning requirements that accompany these funds have also grown increasingly complex (Weiner 1997).

While the user fee model still accurately describes the bulk of transportation funding in the US, in many states, it no longer describes how the largest and most significant new investments are financed. Gradual, but important, changes have been occurring in transportation finance over the last two decades. With the completion and maturation of the nation's vast highway network, the ongoing costs of system maintenance and repair have been steadily rising. And while fuel taxes and other user fees continue to provide a large proportion of funds, revenues from these sources have failed to keep pace with growing costs and expenditures (Taylor 1995; Adams et al. 2001). As a result, the availability of transportation trust fund revenues for major new initiatives has become scarce, and in many states local governments are once again taking a lead role in transportation finance and project implementation. Cities, counties, and transit districts are increasingly turning to "local option transportation taxes" to fund new transportation investments. The most visible examples of these in recent years have been voter-approved sales taxes to fund new rail transit projects. But local option taxes come in many forms, and are used for a wide range of purposes around the country.

Local option taxes have become the levers by which communities ensure that favored but expensive projects are built, yet their adoption and implementation typically occur outside the traditional metropolitan planning process. The overall effect of these taxes is to shift transportation decision making

away from planning bureaucracies and toward mechanisms of direct democracy—and away from metropolitan-level agencies and toward elected local governments. Furthermore, in most states these taxes shift transportation finance away from the user fee and trust fund model, and toward earmarked taxes, particularly on retail sales.

Some aspects of local option taxes have been examined in the literature. Descriptive studies of their use around the country were conducted by the US Advisory Commission on Intergovernmental Relations (1988, 1989), and more recently by the National Conference of State Legislators (Mackey 1997). These studies focused on the public finance issues raised by local taxation, but tended not to examine in detail how their revenues were used.

A number of studies have analyzed the factors that lead to the success or failure of local transportation finance ballot measures (Beale, Bishop, and Marley 1996; Nelson and Colman 1991; Haas et al. 2000; Werbel and Haas 2001). But none of these has attempted to determine how extensively these measures are used throughout the US, or to examine the extent of this practice, or its implications for transportation planning. Other researchers have examined the implications of ballot-box decision making on the planning process (Orman 1984; Callies and Curtin 1990; Calavita 1992; Staley 2001), but these have tended to focus on land use rather than transportation issues. This paper and the longer report that accompanies it represent a first attempt to address these questions.

### **Research Questions and Methodology**

This study's goal was to determine the basic characteristics of local option transportation taxation in the United States. For each of the 50 states, we sought to answer three questions. First, what local taxes have been authorized by the legislature and what rules

govern their use? Second, what areas have adopted these taxes, how much money do they generate, and how are the funds used? Third, what has been the recent history of these taxes—have they been rising or falling in prevalence; and what policy issues are being raised about their use? The results were then interpreted in order to understand what the trends we discovered mean for the future of transportation finance and for intergovernmental relationships.

To address these questions, we began by examining existing sources of data on local transportation finance. The major sources of nationwide data related to this topic include the Federal Highway Administration's annual *Highway Statistics*, the Federal Transit Administration's *National Transit Database*, the US Census Bureau's *Census of Governments*, and the Commerce Clearing House's *State Tax Guide*. These sources provided a foundation from which we developed state-specific research questions. However, because of questions about the accuracy of some of these sources, and the over-generality of others, we did not rely on these data to answer any specific research questions.

The second phase of our research started with sending information requests to finance officials at state departments of transportation, state departments of revenue, associations of counties, and major transit agencies. Information provided by the respondents was supplemented with searches of state web pages for publications on local tax rates and revenues, and searches using the Nexis news databank to identify recent policy developments. We also undertook an extensive examination of laws governing the taxation powers of counties, cities, and special districts. In a dozen states (Arizona, Colorado, Florida, Georgia, Illinois, Missouri, Nevada, New York, Ohio, Pennsylvania, Texas, and Washington), we surveyed city and county governments to develop a more detailed picture of how various local option transportation taxes are actually implemented.

Finally, in all 50 states, we asked experts in local transportation finance to review our findings and to help fill in the remaining data gaps. We also invited the reviewers to provide additional background information on their states, including major issues and trends in transportation policy. The state-by-state results of this research are fully documented in a separate report (Goldman, Corbett, and Wachs 2001).

We defined a "local option transportation tax" (LOTT) as *a tax that varies within a state, with revenues controlled at the local or regional level, and earmarked for transportation-related purposes*. This broad definition includes taxes regardless of how they were established, as long as they are not uniform statewide and do not fund state programs. It is consistent with other studies of local option taxation, such as Mackey (1997).<sup>2</sup>

### Varieties of Local Option Taxation

Local governments have employed many different forms of taxation to fund transportation improvements. This section examines major features of the various types of taxes, and how they are being used around the country.<sup>3</sup>

#### *Fuel taxes*

Fifteen states authorize local option motor fuel taxes (see Table 1). They are primarily located in the Midwest, West, and South. Local gasoline taxes are widespread in just five states (Alabama, Florida, Hawaii, Illinois, and Nevada), and are locally important in a few others as well. Most states allowing local gasoline taxes require that they be used for transportation purposes, but a few (Alabama, Alaska, and New Mexico) also allow other uses, such as schools or health care.

We found that these taxes are typically open-ended in duration, are not earmarked in advance for specific projects, and do not require voter approval. In the states where

**Table 1: Local Option Gasoline Taxes in Selected States**

State	Allowable Uses	Voter Approval Required?	Areas Imposing Tax for Transportation Purposes	% of Pop. Taxed	Mean Per Capita Annual Revenues
Alabama	Roads, Other	No	23 of 67 counties, 60+ cities	> 56%	> \$14
Alaska	General Revenues	No	At least one borough	> 8%	\$5
Florida	Roads, Transit	No	All counties	100%	\$38
Hawaii	Roads, Transit	No	4 of 5 counties	100%	\$51
Illinois	Roads, Transit	Yes	4 of 102 counties, several cities	56%	\$19
Mississippi	Roads & Seawalls	No	3 of 82 counties	13%	\$17
Nevada	Roads	No	All counties and 1 independent city	100%	\$41
Oregon	Roads	Yes	2 of 36 counties, 3 cities	32%	\$8
Virginia	Transit, Roads	No	2 regional commissions	27%	\$12

fuel taxes have been adopted most widely, they are used primarily to maintain and improve county roads. They are administered much like state and federal gasoline taxes: the revenues are placed in a trust fund, and a local agency (e.g., a county road department) draws upon this fund for its routine annual operations.

Local fuel taxes generate revenue at a rate that is suitable for the long-term maintenance, operation, and routine expansion of local transportation systems. They are easily administered compared to many other taxes, and provide a relatively stable revenue stream. Most importantly, the tax is paid by automobile drivers, the most direct beneficiaries of road improvements.

Yet the gasoline tax has other features that limit its usefulness as a local transportation revenue source. The local fuel tax suffers from the same problems associated with state or national fuel taxes: its revenues decline over time (or show weak growth) because they are not indexed for changes in consumer prices or automobile fuel economy (Ang-Olson, Wachs, and Taylor 2000). A more serious problem is its very limited revenue base. Because it taxes only one product,

its rate must be set very high to generate the amount of revenue needed for major infrastructure investments. Gasoline taxes of 10 cents per gallon or higher are routinely charged by the federal government and many states, but over a small area (e.g., a county) such a high tax rate causes residents to purchase their fuel elsewhere. This poses a difficult political challenge, and may explain why local gasoline taxes of this magnitude are rare.

**Vehicle taxes**

Thirty-three states authorize some type of local vehicle license or registration tax. Local governments rely on vehicle taxes for many different purposes, including general revenues, highway construction, public transit operations, air pollution control, and public safety programs.

Unlike fuel taxes, motor vehicle taxes were not originally seen as user fees. In the early 1900s, when taxation of personal property was common, motor vehicles were assessed along with other household possessions. Rampant tax evasion led state governments to shift collection of this tax to the vehicle registration process. Many states

**Table 2: Local Option Vehicle License and Registration Taxes in Selected States**

State	Allowable Uses	Tax Basis	Vote Required?	Areas Imposing Tax for Transportation Purposes	% of Pop. Taxed	Per Capita Ann. Revs
Alaska	Any (usually roads)	Age & class	Yes	3 cities and 8 boroughs	50%	\$2.70
California	Air Quality, Hwy. Ops.	Flat	No	14 counties, 3 districts	86%	\$4.20
Colorado	Highways	Flat	No	1 highway authority	24%	\$7.50
Connecticut	General Revenues	Value	No	35 municipalities	14%	\$36.40
Hawaii	Highways	Weight	No	4 counties	100%	\$26.50
Idaho	Highways	Flat & weight	Yes	1 highway district	22%	\$10.70
Indiana	Streets	Flat & Value	No	20 of 92 counties	35%	\$12.90
Mississippi	Gen. (can be earmarked)	Value	No	Probably all	100%	\$8.50
Missouri	Streets	Flat, by class	No	3+ cities	> 38%	\$1.40
Nebraska	Streets and roads	Wheels	Yes	4 cities	37%	\$17.30
Nevada	Roads, General	Value and age	Yes	1 county	67%	\$18.60
Ohio	Streets, Highways	Flat	Yes	59 counties, 51% of cities	86%	\$14.30
South Carolina	Roads	Flat	No	12 counties, 1 city	25%	\$11.80
South Dakota	Highways	Wheels	No	30 of 66 counties	62%	\$12.70
Tennessee	Any (can be earmarked)	Flat	No	23 of 95 counties	19%	\$10.40
Texas	Roads	Flat	No	234 of 254 counties	97%	\$8.20
Virginia	General Revenues	Flat, by weight	No	Nearly every county & city	99%	\$16.20
Washington	Roads, Transit	Flat and value	Yes	4 Cntys, 70 Cities, 2 TDs	50%	\$30.60

have long since abandoned taxation of personal property, but the tradition of taxing the value of vehicles as a general revenue source continues (Mackey and Rafool 1998). Today, local governments tax vehicles in many different ways: flat annual registration fees, annual taxes on vehicle value, weight, age, body type or number of wheels; and the price of vehicle rentals, leases, parking, and sales.

We found that most local option vehicle taxes are used as a general revenue source, or put in a trust fund for county roads or public transit. Like local option gasoline taxes, these taxes typically fund pay-as-you-go programs of routine maintenance and operations. However, a few states earmark these taxes for specific projects. Las Vegas is constructing a beltway with the help of a county vehicle registration tax. Several states have

used vehicle taxes to mitigate environmental impacts of transportation, by funding programs that remove highly polluting cars from the active vehicle fleet (California), or pay for disposal of abandoned motor vehicles (California and New Hampshire). Registration fees also fund safety programs, such as crossing guards near elementary schools (Texas), and emergency call-boxes and towing services (California).

In the 1990s, there has been a trend away from taxes based on the value of motor vehicles. Rhode Island, Virginia, and Washington have all passed legislation recently that has either phased out or reduced existing local motor vehicle taxes. In Washington, the elimination of the motor vehicle excise tax has had a significant impact on local transportation finance.

**Sales taxes**

An important result of the tax revolts of the 1970s has been a shift in local finance away from property taxes and toward sales taxes (Krmenc 1991; Advisory Commission on Intergovernmental Relations 1989). This has been particularly true in transportation, where the sales tax has emerged as one of the most significant and politically feasible revenue options for metropolitan areas seeking to finance major new infrastructure projects. Thirty-three states have authorized local option sales taxes for transportation purposes (or for more general purposes that may include transportation).

States vary in how they delegate spending authority for local sales taxes. The most liberal approach (adopted in New York, Ohio, and Tennessee) is to give local governments

complete freedom to determine whether the tax will be earmarked or used as a general revenue source. Other states (including Florida, Iowa, Louisiana, New Mexico, Oklahoma, and Texas) require earmarks, but otherwise give local governments leeway to designate the funds for broad programs (e.g., “road improvements”) rather than specific projects. A more restrictive approach (used in Arizona, California, South Carolina, and Wyoming) requires the development of project-specific, legally binding expenditure plans before a tax is adopted.

A key feature of the sales tax is its broad base, which enables it to produce high revenues for a low marginal tax rate. In a metropolitan county, a sales tax of just half of 1% can generate revenues of \$50-75 per capita per year, which is normally more than

**Table 3a: Local Option Sales Taxes for Transportation Capital Projects**

State	Vote Required?	Areas Imposing Tax	% of Population Taxes	Annual Per Capita Revenues
Alabama	No	Roads: 3 counties	3%	\$22.80
Arizona	Yes	Roads: 4 counties, 3 cities	68%	\$77.10
Arkansas	Yes	Roads: 34 counties, 17 cities	35%	n/a
California	Yes	Multimodal: 13 counties Roads: 3 counties, 1 town	49% 3%	\$59.50 \$41.50
Colorado	Yes	Roads: 15 counties, 10 cities	> 46%	\$58.20
Florida	Yes	Multimodal: 6+ counties	> 23%	\$41.80
Georgia	Yes	Roads: more than 1/4 of counties	> 25%	\$112.00
Iowa	Yes	Roads: 21 of 99 counties	23%	\$50.00
Kansas	Yes	Roads: 2 counties, 8+ cities	> 13%	n/a
Louisiana	Yes	Roads: 7 parishes, 1 city	29%	\$60.50
Minnesota	Yes	Roads: 1 city	2%	\$32.60
Missouri	Yes	Roads: 40+ counties, 8 cities	32%	\$96.20
Nevada	Yes	Roads: 4 counties Railroads: 2 counties	6% 18%	\$29.50 \$18.40
New Mexico	Yes	Roads: 8+ counties, 20 cities	40%	\$6.60
South Carolina	Yes	Roads: 2 counties	7%	\$150.60
Tennessee	Yes	Roads: 9 counties	21%	\$7.40
Utah	Yes	Roads: 19 cities	8%	\$13.10

**Table 3b: Local Option Sales Taxes for Transit in Selected States**<sup>4</sup>

State	Vote Required?	Areas Imposing Tax	% of Population Taxes	Annual Per Capita Revenues
Alabama	Yes	1 district	15%	\$6.10
Arizona	Yes	2 cities	30%	n/a
California	Yes	7 counties	46%	\$85.80
Colorado	Yes	3 counties, 1 city, and 1 dist.	59%	\$81.60
Georgia	Yes	1 district	17%	\$182.60
Illinois	Yes	2 districts	69%	\$58.90
Louisiana	Yes	1 district	11%	\$98.90
Missouri	Yes	1 county, 3 cities	34%	\$67.40
Nevada	Yes	3 counties	85%	\$39.60
New Mexico	Yes	2 cities	28%	\$129.30
New York	No	1 county, 1 district	71%	\$24.90
North Carolina	Yes	1 county	8%	\$84.00
Ohio	Yes	6 districts	36%	\$62.10
Texas	Yes	Transit: 8 districts	40%	\$108.30
Utah	Yes	Transit: 4 counties and 22 cities	84%	\$33.90
Washington	Yes	Transit: 10 counties and 14 districts	87%	\$82.60

sufficient to fund new services or infrastructure. The sting of a sales tax is further reduced because it is paid in small increments, rather than in a lump sum.

The sales tax is strongly regressive, particularly in states that tax groceries and other nondiscretionary purchases, such as Georgia, Missouri, and other Southeastern states (Ettlenger et al. 1996). Despite this problem, the public's perception of the sales tax tends to be quite the opposite. A key strength of the sales tax is its horizontal equity: individuals of comparable means pay roughly the same amount of tax. This contributes to a sense of "fairness," particularly where sales taxes are used to finance transportation plans that include a mix of modes. Transit riders, bicyclists, and pedestrians are perceived to get a "free ride" when gas taxes are used to fund projects that benefit them, because they have not paid these taxes. Under a sales tax, all users of the transporta-

tion system contribute.<sup>4</sup>

Another "fairness" argument raised by some conservative groups is that sales taxes are inherently equitable because expenditures are a better reflection of ability to pay than income or wealth. This viewpoint appears to be held by a large segment of the population: in annual surveys conducted between 1972 and 1991, respondents consistently considered income and property taxes more unfair than the sales tax (Advisory Commission on Intergovernmental Relations 1991).

Several other characteristics have helped make sales taxes attractive. In some areas, a large share of retail sales is made by nonresidents of the taxing district. This is particularly true of tourist destinations and central cities that draw shoppers and workers from surrounding counties. Since nonresidents cause significant transportation impacts in these areas, the sales tax becomes an attrac-

tive way of forcing them to share in the cost of needed improvements. In sparsely-populated resort areas, visitors often account for the vast majority of retail activity, so sales taxes become even more appealing. On the downside, sales taxes can pose major revenue stability risks, since retail sales can decline more sharply than gasoline consumption during a recession.

One of the most visible contributions of local option sales taxes has been the funding of various rail transit projects around the country. Voters in Atlanta, Charlotte, Dallas, Denver, Houston, Los Angeles, Phoenix, Sacramento, Salt Lake City, Seattle, San Diego, San Francisco, San Jose, and St. Louis have approved sales taxes for new rail projects. Other areas that have so far been unsuccessful at winning approval for sales tax-financed light rail projects include Austin, Kansas City, Miami, San Antonio, and certain suburbs of Portland and San Francisco. In some rapidly growing metropolitan areas, including San Jose and Phoenix, sales taxes that once funded only highways are being replaced with sales taxes that fund new transit projects.

***Income, Payroll, and Employer Taxes***

Overall, the use of income taxes in local transportation finance is small and stable. The 15 states that authorize local income or payroll taxes are primarily located in the mid-Atlantic area, the Midwest, and the South. Most of these authorize income taxes

as a general revenue source; only four states (Kentucky, Indiana, Oregon, and Virginia) make specific statutory connections between income taxes and transportation-related expenditures. In Ohio, one city voluntarily earmarked a portion of its income tax for transit purposes.

Most local income taxes have a flat rate, and their incidence can be said to be roughly income-neutral. In contrast, the federal income tax and many states' income taxes have graduated rates that rise with income, making them progressive. Income taxes are generally considered to be horizontally equitable as well, since individuals of comparable incomes tend to pay comparable taxes. However, inequalities can arise when the tax is not levied uniformly across a metropolitan region. If cities have higher income taxes than their surrounding suburbs, the tax may drive out higher-income residents.

An alternative that circumvents this problem is the payroll tax, which is based on the total of all salaries paid out by employers. It essentially taxes income based on a worker's place of employment, rather than place of residence. This approach is particularly appropriate for supporting transit and other urban services because it ensures that commuters into a city contribute to services that benefit them. However, it can also be controversial because commuters have no representation within the government imposing the tax, and therefore no control over its implementation. In addition, unless the tax is

**Table 4: Local Option Income and Payroll Taxes in Selected States**

State	Allowable Uses	Voter Approval Required?	Areas Imposing Tax	% of Pop. Taxed	Per Capita Revenues
Indiana	Transit, Infrastructure	No	Transit: 2 districts	4%	\$1.70
Kentucky	Transit, Parking	Yes	Transit: 1 county, 1 district	25%	\$33.30
Ohio	Economic Dev., Any	Yes	Transit: 1 district	6%	\$35.40
Oregon	Transit, Services	Yes	Transit: 2 districts	37%	\$136.60
Washington	Various	Yes	Congestion Relief: 30 cities	8%	\$22.40

implemented region-wide, it may provide an incentive for businesses to relocate to the suburbs.

Income and payroll taxes are not as stable as sales, fuel, or property taxes, because they vary more with economic conditions. However, income taxes do provide a long-term advantage over gasoline taxes in that they produce increasing revenues over time.

#### *Other Local Option Transportation Taxes*

Several other taxes emerged as important local revenue options in particular locations around the country. Severance taxes are weight-based charges on natural resource extraction operations, such as the removal of timber, coal, or stone. Because these industries use remote roads with few other users, and their heavy trucks cause disproportionate damage, taxing extractive industries has become an important way to finance rural road repair. Local severance taxes are used to fund road programs in Alabama, Alaska, Minnesota, Tennessee, and Virginia.

Many communities around the country levy impact fees and development privilege taxes on new developments to ensure that newcomers cover the marginal infrastructure costs they impose on the greater community. While these are frequently used to pay for minor street improvements (e.g., traffic signals at new shopping centers), they are also increasingly used to pay for significant regional projects. After repeated voter rejection of sales tax proposals for the construction of new freeways, Orange County, California, funded tollways with a combination of development fees and revenue bonds. In Nevada, Clark County is using development fees to help fund a beltway around Las Vegas.

Other options are real estate transfer taxes and mortgage recording taxes, which are essentially taxes on the sale of property. Five of New York's metropolitan areas support transit operations using these taxes. At least four other states authorize similar

taxes, including Colorado, Delaware, Illinois, and Washington.

Tourists often become the object of taxation. Many states authorize lodging taxes to fund tourism-related transportation facilities. In Nevada, a room tax is funding road improvements along Las Vegas Blvd., and the grade separation of a freight rail line through downtown Reno. In New Orleans, a hotel tax will be used to restore service on an abandoned trolley line. In South Carolina, the Myrtle Beach area levies a "hospitality tax" to help fund the county's road program.

#### **Trends in the Adoption of Local Option Transportation Taxes**

This research revealed some notable trends in the use of local option transportation taxes (LOTTs). First, we found that LOTTs are a relatively recent phenomenon. With the exception of property taxes and special assessment districts, which have a long history, nearly all of the taxes identified in this study were adopted in the past 35 years. Traditionally, few local governments have had the power to set their own revenue and taxation policies. Until the 1960s, most operated within narrow tax policy frameworks established by their states, relying on property taxes as their primary form of own-source revenue.

In the late 1960s, major cities began to seek new funding sources to keep their struggling public transit systems afloat, or to embark on major new capital programs. Several states responded by allowing them to adopt permanent local option transportation taxes. Among the first regions to adopt dedicated nonproperty transit taxes were New York (mortgage recording tax in 1969), Portland (payroll tax in 1969), San Francisco (sales tax in 1969), Atlanta (sales tax in 1971), Cincinnati (payroll tax in 1973), Denver (sales tax in 1973), Seattle (sales tax in 1973), and Cleveland (sales tax in 1975).<sup>5</sup> In a handful of regions (Boston, New York,

San Francisco, and Northern Virginia), the taxes were imposed directly by an act of the state legislature.

Several trends that emerged in the mid-1970s helped propagate these taxes. First, a series of “tax revolts” around the country limited the ability of local governments to raise property taxes, and made state legislators wary of increasing other taxes. Voters in a majority of states enacted property tax rate limits or revenue rollbacks or mandated voter approval for local tax increases (Mullins and Cox 1995; Mackey 1997). Meanwhile, a weak economy and high fuel prices depressed state and federal gasoline tax revenues, while raising the costs of meeting local capital investment needs. The trust funds’ purchasing power was further reduced by the escalation of construction and right-of-way costs. Finally, as state and national highway systems reached maturity, a growing share of revenue was needed for basic maintenance and repair. These factors made local option taxes an attractive revenue option.

LOTTs continued to spread in the 1980s and 1990s. Some states limited their use to particular types of projects, such as highway construction, road maintenance, or new rail systems. Others allowed a wider range of improvements, including schools, wastewater systems, stadiums, and convention facilities. During the 1990s, sales taxes showed the greatest gains in popularity. Nine states passed new legislation authorizing expansion of the use of sales taxes for public transit, and eight states targeted their use for roads and other capital improvements. Local governments broadened their use of transportation sales taxes in 10 states, while four others (Minnesota, South Carolina, Vermont, and Wyoming) began experimenting with them on a more limited basis.

In contrast, local motor fuel taxes were relatively stable. Just four states authorized them during the 1990s, and local adoption of these taxes has been rare. Only in Illinois

did major areas adopt new local gasoline taxes where none existed previously. Florida and Nevada, which already had local fuel taxes in more places, saw average tax rates rise over the course of the decade. In the 1990s, seven states authorized local vehicle registration taxes. But the 1990s also produced a political backlash against “car taxes” that led to their elimination in several states.

One factor driving expansion of local option taxes in the 1990s has been competition among local governments. Cities have a strong interest in enhancing their relative political or economic positions through the pursuit of pro-development policies (Peterson 1981). The desire for economic development has long motivated local governments to seek transportation infrastructure improvements (Ward 1998; D. Brown 1999). The desire to remain competitive—both economically and with regard to quality-of-life—has been a driving factor behind local support for these taxes, particularly among fast-growing, mid-sized cities interested in developing attractive transit facilities.

Overall, we found a pronounced shift toward the increased use of sales taxes, while user fees showed little increase (and may have declined in real terms). This shift is significant, given the declining availability of federal and state funding for new capital projects. Indirectly, this shift is causing erosion in the historical commitment to user fees as the basis of the American transportation finance system.

### **The Shift to Direct Democracy**

Another central finding of this study is that local option taxes rarely include a role for metropolitan planning organizations (MPOs), the agencies nominally charged under federal law with coordinating the development of regional transportation plans. Instead, taxing powers are given directly to cities, counties, transit districts, or

other special transportation authorities.

Only two states provide metropolitan planning organizations with direct authority over local option taxes. In California, three single-county MPOs directly administer programs for half-percent sales taxes. Nevada has given MPOs control over local option gasoline and transit sales taxes in its two major metropolitan counties. Two other states give metropolitan planning organizations limited influence over the use of LOTT funds. Transportation sales taxes in Arizona, and vehicle license, real estate excise, and other taxes in Washington remain under the control of the counties adopting them. However, because the tax revenues may only be used for projects that are consistent with regional transportation plans, MPOs retain some indirect authority over their use.

Most other states make no meaningful connection between local option transportation taxes and regional transportation planning agencies. Many establish dedicated local agencies with the sole purpose of implementing the transportation tax expenditure programs. California has used this approach extensively: most of its “county transportation authorities” administering sales tax programs operate independently of their regions’ metropolitan planning organizations.

The decision to bypass the metropolitan planning process in favor of direct voter approval is closely tied to the appeal of LOTTs themselves. Politicians are often eager to lend their support to local option transportation taxes despite their general aversion to new taxes precisely because the taxes produce highly visible results that address voter concerns in concrete ways. Deferring decision making authority to the outcome of a complex regional planning process would undermine the policy certainty that an earmarked tax provides. The use of pre-specified project lists helps reassure voters that funds will be used for projects that they support (Pérez and Snell 1995).

These taxes can also be used to build locally favored projects that may be difficult to fund with traditional grants-in-aid programs.

In some cases the initiative process may help accelerate approval for projects by avoiding the delays or compromises inherent in the federally sanctioned planning process. By focusing a dedicated revenue stream on projects more quickly, they can significantly reduce the costs of issuing bonds. They can also circumvent the expensive labor requirements that federally-funded projects must follow. They may also speed project delivery by enabling more flexible and innovative contracting practices (Razo, Murray, and Sumi 1996). Some states, including California and Georgia, provide an additional incentive: in order to promote greater fiscal self-reliance, they provide matching funds, access to special funding pools, and other inducements to counties that adopt local option taxes.

The rising use of local option transportation taxes and the growing role for metropolitan planning under federal law are part of the same trend toward devolution in transportation finance. But while Congress and many states agree about devolution in principle, the paths they have chosen have fragmented responsibility between metropolitan planning organizations and local transportation tax authorities. Whether or not this undermines the effectiveness of regional transportation planning will be determined by the quality of state planning laws and local political leadership.

### **Implications for Planning**

These findings have important implications for planners and policymakers. Most efforts to advance the state of regional transportation planning focus on the federal government’s model of metropolitan planning, most recently embodied in the 1998 Transportation Equity Act for the 21st Century (TEA-21). This framework encourages MPOs to

consider multiple objectives—including efficient system management, intermodal linkages, environmental protection, and local economic and quality of life goals—within the context of *existing* fiscal resources. But it can be problematic as a vehicle for regional reform. MPOs may undertake ambitious efforts to develop a regional policy consensus, but are often powerless to act on this vision beyond the simple allocation of transportation funds.

This research suggests that some of the most important decisions about new transportation investments take place not through the allocation of *existing* transportation revenues, but in concert with the creation of

*new* transportation revenue sources through ballot measures or the adoption of new local laws. This poses a challenge to regional planners because they do not automatically have a seat at the table in this decision making realm. But it also poses a tremendous opportunity, because the electoral and legislative arenas can be powerful tools for promoting the integration of transportation with social, economic, and environmental objectives. Because they combine finance with legislative authority, local option transportation taxes have the potential to become vehicles for innovation in regional transportation planning and investment.

## Endnotes

1. This paper addresses only surface transportation, including streets, highways, transit services and facilities, and infrastructure for nonmotorized modes. It does not address aviation or maritime transportation modes.
2. This definition has some noteworthy characteristics. It includes local areas taxes that were established directly by state legislation without independent action by local governments or local voters. While it may be argued that these taxes were not “optional,” we assumed that such taxes would not have been adopted without local political support. The definition excludes any tax that has been adopted at a uniform rate statewide, even if it is a voluntary local revenue source. Following Mackey (1997), we assume a tax rate that is uniform signals a statewide need, regardless of the level of government that administers the tax. The interest of this study is in taxes that address extraordinary local needs.
3. See the full report for a description of our findings on property taxes.
4. In cases where the revenues are used to support expensive transit systems that primarily help relieve suburban rush hour traffic congestion, gasoline taxes may be more equitable than sales taxes since they preserve the critical link between the beneficiaries of investments and the taxpayers that fund them.
5. California authorized a sales tax for a rapid rail system in Los Angeles as early as 1964, but voters did not approve the tax until 1980.

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