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How Do California's Local Governments Fund Surface Transportation? A Guide to Revenue Sources

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Local governments own and operate virtually every public transit service and the great majority of road miles in California, responsibilities for which funding is in very short supply. However, their specific funding challenges are often overlooked in policy discussions and research into transportation revenue options.

A major barrier to effective state-wide discussion about increasing local funding is the bewildering complexity of the current funding system. Every year, 482 cities, 58 counties, and numerous special districts piece together the puzzle of their transportation budgets, drawing upon a complex mix of revenue raised through dozens of taxes and fees imposed by every level of government—federal, state, regional, and local.

This report helps policymakers and researchers tackle the local funding challenge by providing a snapshot of many different revenue tools that raise revenue spent by local governments for transportation purposes in California. In addition, we identified transportation revenue options used in other states and developed a set of principles to frame discussion about stabilizing and enhancing local transportation funding.

Study Methods

We spoke to more than 30 California transportation funding experts and combed through policy documents and research about transportation and local government finance.

Taxes & Fees Generating Dedicated Transportation Revenue, by Level of Government

(*Note*: Not all revenue from these sources is used for transportation purposes)

Revenue sources	Federal	State	Special district	County	City
Fuels					
Gasoline excise tax	✓	✓			
Diesel excise tax	✓	✓			
Diesel sales tax		✓			
Vehicles					
Truck & truck-tire sales tax	✓				
Truck weight fee	✓	✓			
Vehicle registration fee		✓		✓	
Transportation system use					
Tolls			✓	✓	
Fares + other operator-generated revenue[a]			✓	✓	✓
Parking fees			✓		✓
TNC/ride-hailing user tax					✓
Refuse vehicle impact fee			✓	✓	✓
Real property					
Development fee			✓	✓	✓
User-utility tax			✓	✓	✓
Occupancy tax				✓	✓
Parcel tax			✓	✓	✓
Other					
Sales tax		✓	✓	✓	✓
Transient occupancy tax			✓		✓
Business-license tax			✓		✓
Cap-and-trade program		✓			
Franchise agreements					✓

[a] For example, advertising revenue.

Findings

While a certain amount of unrestricted general fund revenue supports local transportation, the great majority of revenue comes from taxes and

fees that are legally or by resolution designated for transportation. The table shows which tax and fee options are used by each level of government to raise transportation revenue.

The federal government levies taxes on fuel and sales of heavy-duty vehicles and their tires, and heavy-duty vehicles pay a weight-based annual fee. The State of California raises revenue from fuel taxes, vehicle registration fees, a heavy-duty vehicle weight fee, a small portion of state sales tax revenue, and the state's cap and trade program. Local jurisdictions augment their allocations of these federal and state revenues with numerous locally-raised funds. Many jurisdictions cobble together transportation budgets from a dozen or more local sources. Common ones include local-option sales taxes, development impact fees, parcel taxes, community service districts, employee headcount taxes, tolls, and refuse vehicle impact fees.

...the local system of transportation revenue funding is diverse and byzantine.

Policy Recommendations

The study identified a number of conceptual approaches that policymakers can consider for raising additional local revenue:

- **Raise the rates on existing taxes and fees already earmarked for transportation.** This approach will be most effective if used for taxes and fees imposed on a broad base, such as fuel and sales taxes.
- **Tax the electricity used to charge vehicles.** As more and more electric vehicles enter the California fleet, it may become realistic to impose a tax on the electricity they use. Minnesota legislators have introduced a bill for a so-called "electric fuel tax" that would charge 5.1 cents per kilowatt hour of fuel used to charge an electric vehicle.
- **Raise the rates on those taxes and fees charged to transportation system users from which the revenue is not earmarked for transportation, and earmark the incremental new revenue for transportation.** Parking and traffic citation fees are local examples. A state option would be to create a supplementary sales tax on vehicle purchases.
- **Charge a tax on vehicle-based services that have expanded exponentially in recent years, such as ride-hailing and e-commerce delivery.** San Francisco and Berkeley are the only two California cities that currently impose taxes on ride-hailing trips. No local governments in California currently tax e-commerce deliveries, but a few states such as North Carolina are considering the option.
- **Charge property owners "utility fees" for roadway services.** A 2016 study identified 34 cities that impose transportation utility fees (TUFs). These TUFs are structured as monthly fees assessed on commercial and residential property occupants, and the proceeds pay for local streets and roads.

About the Authors

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To Learn More

For more details about the study, download the full report at transweb.sjsu.edu/research/1938A

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CSUTC California State University Transportation Consortium

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