

Funding Bay Area Transit Infrastructure – with an Eye Toward Fairness

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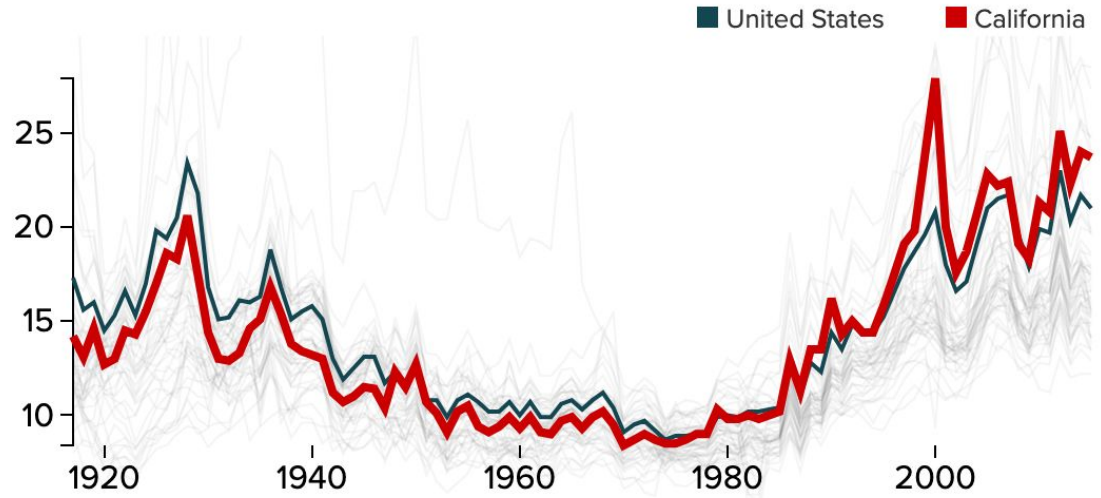


Why fairness in transit funding?

- Specifically, “fairness” in the sense of distributional fairness or economic justice
- Local public transit already provides subsidized services that offset inequality...
Should local transit funding (taxation) be asked to do even more?
- Why not raise local/ regional revenue efficiently, spend it wisely, and let the feds worry about distributional concerns?

Share of income captured by the top 1%, 1917–2015

The share of all income held by the top 1% in recent years has approached or surpassed historical highs.



Source: EPI, <https://www.epi.org/multimedia/unequal-states-of-america/#/California>

Inequality in Silicon Valley

- San Jose metro (SC County) GDP > \$330 billion; per capita ~\$165,000
- But Silicon Valley is by some measures the **most unequal** metropolitan area in California and ranks among the most unequal nationwide
 - Average annual income of top 1%: \$3,445,220
 - Average annual income bottom 99%: \$99,486
 - Ratio: 34.6 (compared with median metro area 15.5)
- California Poverty Measure: 15.5% (USA 13%)





Distributional concerns in tax policy

Tax policy objectives:

- Raise revenue for public purposes
- Efficiency
- Fairness/ equity
- Incentives: tax social “bads” (e.g., carbon/ congestion taxes)



Tax efficiency

- Definition: Raising given revenue with minimal opportunity cost (waste)
- Core principle I: Broaden the tax base
 - Favors broad-based sales taxes, income or payroll taxes
- Core principle II: Tax inelastic markets
 - Target activities that are insensitive to prices
 - Avoid “leakage” – crucial in local context – don’t tax activities that can easily pick up and move to other jurisdictions
 - Henry George land tax (on land value only, not improvements)... but alas... Prop 13!



Tax fairness

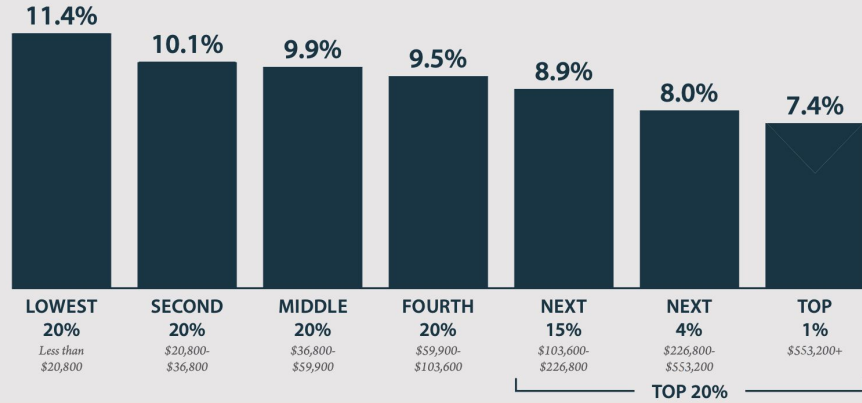
- Horizontal fairness: treat “likes” alike
- Vertical fairness: distributional concerns
- Progressive taxation principle: Higher income should pay higher percentage
- Regressivity/ progressivity varies a lot across different taxes
- Overall the U.S. tax system is weakly progressive; taken together, state and local taxes tend to be regressive

California's state and local tax system is among the nation's least regressive

USA average

AVERAGE EFFECTIVE STATE AND LOCAL TAX RATES IN THE U.S.

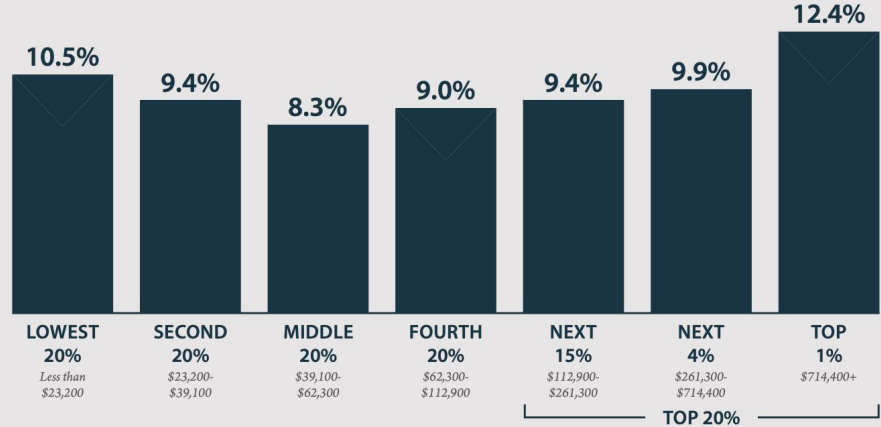
Percentage of Total State and Local Taxes as a Share of Income for non-elderly residents



California

TOTAL TAX

Share of Family Income

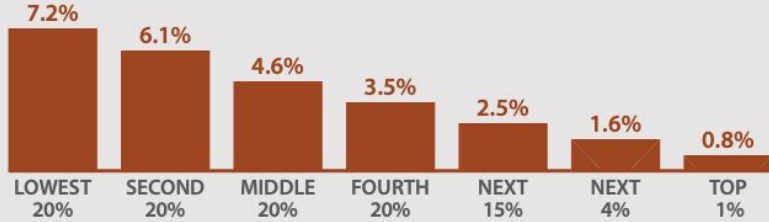


Source: *Who Pays?* <https://itep.sfo2.digitaloceanspaces.com/whopays-ITEP-2018.pdf>



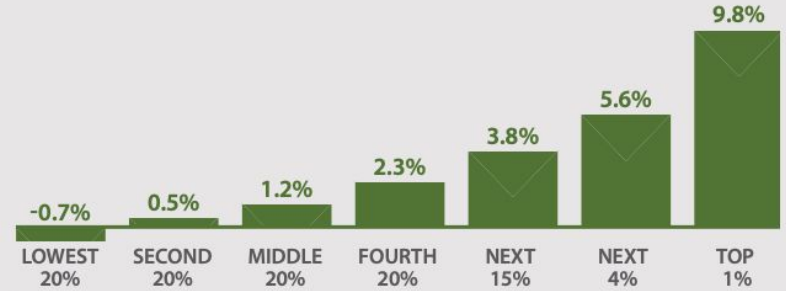
SALES & EXCISE TAX

Share of Family Income



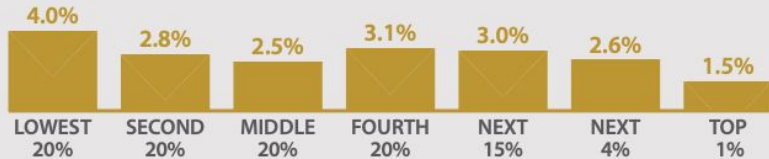
PERSONAL INCOME TAX

Share of Family Income



PROPERTY TAX

Share of Family Income



California's progressive state income tax offsets the regressivity of the sales tax.



On possible county sales tax hike

“This doesn't mitigate income inequality, it actually exacerbates it by taking more money out of the pockets of folks who can least afford it,” [Supervisor] Simitian said.

“This is such a historic crisis,” [Supervisor] Chavez said. “I am very concerned that without local response -- without us taking our future into our own hands – that relying on the state or federal government to come and save us is just not a real thing.”

- Santa Clara County supervisors propose sales tax to fill \$250M deficit, *Mountain View Voice*, 7/22/20



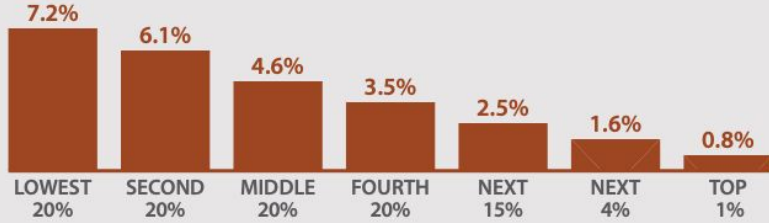
Alternatives to the sales tax for funding transit

- Are there less regressive, broad-based alternatives to sales taxes and user fees?
- Taxing payrolls, income, wealth, land
- Example: Portland TriMet payroll tax collected from employers: ~0.8%
- How much revenue would this raise in the Bay Area?
 - 9 Bay Area counties' total wage and salary income in 2017 was \$335 billion (IRS).
 - $335 * 0.008 = \$2.7$ billion per year = \$107 billion over 40 years
 - Comparable to estimated revenue from 1% sales tax hike (FASTER)



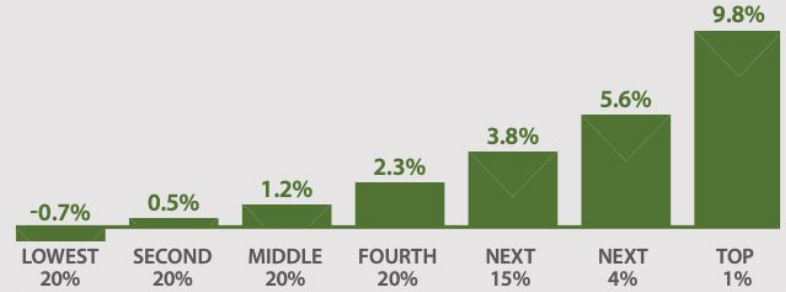
SALES & EXCISE TAX

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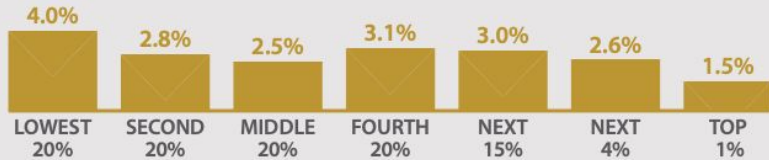
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Share of Family Income



PAYROLL TAX





Is a payroll tax less regressive than a sales tax?

- **U.S. payroll tax (FICA) is widely considered regressive:** Flat rate, but only up to an earnings cap
- Devil is in the details
 - To what extent is the payroll tax passed on to workers/ consumers/ owners?
 - What classes of earnings are covered? (Include self-employment, stock options?)
 - What classes of employers are covered? (Exempt small employers?)
 - Graduated tax? \$2.5 billion per year could be raised with 1% income tax on top 15%
 - Is there a role for redistributive rebates or transfers?

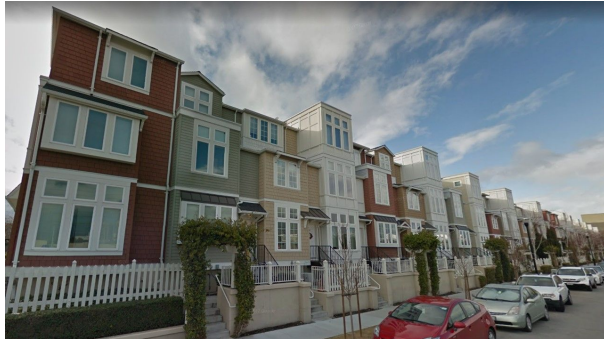


Should we be concerned about “leakage”?

- If we raise taxes, will businesses shut down, or pick up and leave?
- Is this a bigger concern for a sales tax or an alternative such as payroll tax?

In sum...

- Local/ regional taxation can and should take into account impact on income distribution, especially given inequality trends
- Sales taxes are quite regressive in practice
- Broad-based, fiscally viable, and less regressive alternatives may be available
- Spending priorities matter, no matter how the money is raised...





Thank you!

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Sources

Income inequality (EPI): <https://www.epi.org/multimedia/unequal-states-of-america/#/California>

Poverty:(PPIC): <https://www.ppic.org/publication/poverty-in-california/>

State and local taxation (ITEP): <https://itep.sfo2.digitaloceanspaces.com/whopays-ITEP-2018.pdf>