Equity in California Local Government Own-Source Revenues

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Executive Summary

California cities, counties, and special districts (from here, referred to collectively as "local governments") collect revenues to fund essential services their communities need and want, such as police services, fire protection, and public education. While public attention usually focuses on how local governments expend the funds, the collection of revenues to support these services usually does not garner as much attention. This is beginning to change, as academics are becoming increasingly aware and studying inequities in California Local Government revenue generation strategies. However, what constitutes fairness in collecting public funds evolves to fit the community's needs and wants at any given time, and the discussion surrounding equity in local government revenue sources is continually evolving and highly subjective. The purpose of this paper is to establish a framework to assist local governments when considering equity in new own-source revenue.

The paper will provide background on literature defining the term equity and the guidelines for local government revenue strategies, which include guidelines related to equity of revenue collections. A key takeaway of this discussion is that equity is an elusive term that does not have a clear definition or guidelines on how to implement it in local government revenue strategies. The paper will then provide an overview of local government own-source revenues, and discuss how challenges in revenue generation can lead to local governments pursuing revenues and, potentially, introducing inequities in their revenue structure.

After laying the foundational information surrounding the term equity and local government own-source revenues, this paper will then discuss elements of equity in local government own-source revenue. Elements include who carries the payment burden, the degree of impact on historically marginalized groups, and how local government can use the funds towards equitable expenditures. These characteristics form the foundation of the proposed equity framework, as each characteristic includes a series of questions local governments can ask to consider the equity implications of potential revenue sources. The paper will then use these characteristics and associated questions to establish a framework local governments can use when considering equity in new own-source revenue. Then, this paper applies this framework to the City of Sacramento who is facing a budget deficit and, in part, needs to generate revenues to correct the deficit.

The paper concludes with four recommendations for local governments to incorporate equity into their analysis of new own-source revenues. First, ensure fiscal stability and early planning to avoid a budget crisis where the quickest fixes are often the most inequitable options. Second, foster community engagement through listening sessions, community meetings, and surveys to help understand the community's needs and how they interpret equity. Third, analyze the current revenue portfolio for opportunities to increase equity through actions such as subsidies or eliminating fines and fees that low-income groups primarily pay. Fourth, analyze equity of new revenue options, possibly by using the equity framework established in this paper.

It's crucial to recognize there is no one-size-fits-all approach that will guarantee unanimous approval of a local government's revenue strategy. Moreover, factors beyond the control of local governments influence many of the inequities ingrained in local government revenues. However, this reality shouldn't deter local governments from taking a proactive stance and initiating the vital conversation surrounding equitable revenue structure, as there are opportunities to lead the way and drive positive change. The discussions presented throughout this paper, coupled with the concluding recommendations, serve as valuable resources to assist local governments in their pursuit of a more equitable revenue structure. By leveraging these insights and engaging in thoughtful deliberation, local governments can make meaningful strides towards fostering fairness and inclusivity within their revenue frameworks.

Table of Contents

1. Introduction

Local governments wage political battles annually as they develop a budget that allocates finite financial resources to fund expenditures that directly translate into tangible services and benefits for communities such as policing, fire protection, and TK-12 public education. While the public often direct their attention toward ensuring a fair allocation of government dollars to fund expenditures, the equally crucial aspect of fairness in generating revenue to sustain these services tends to get less attention. This discrepancy highlights a significant area for consideration in local governance, as local government must strike a balance between the fairness in collecting revenues and how they expend those revenues. This paper aims to establish a framework to assist local governments when considering equity in new own-source revenue.

What constitutes fairness in collecting public funds evolves to fit the community's needs and wants at any given time. In modern times, many people are increasingly including equity in their interpretation of fair governance. Academics are becoming increasingly aware of the inequities of cities, counties, and special districts (from here, referred to collectively as "local governments") revenue generation strategies. Studies such as Le and Young's (2022) are providing a better understanding of inequities in tax structures, which is resulting in others (for example, Boardman & Hendricks, 2023; Carmona, 2021) calling for local governments to reform their revenue strategies with an eye for equity.

Although academics and the public are beginning to call for change, this paper will establish the term equity needs a more precise definition or guidance on how governments should apply this concept. The lack of a conclusive definition or guidelines, subjectivity, and elusiveness of the term equity begs the question – how can local governments evaluate equity in their revenues without a conclusive definition of the term? This lack of clarity underscores the need and purpose of this research, which is to contribute to the conversation of equitable local government revenue generation by establishing a framework for how local government can integrate equity considerations into their evaluation of new revenue sources. This paper is comprised of the following sections:

- **Section 2 | Background: Equity Considerations Related to Local Government Revenue Strategie**s

  This section provides background on how the current literature defines equity, in addition to discussing the guidelines for local government revenue strategies, which include equity. A key conclusion of this section is that equity is an elusive term that does not have a clear definition or guidelines on how to implement it in local government revenue strategies.

- **Section 3 | Overview of California Local Government Own-Source Revenues**

  This section outlines the primary sources of California local government own-source revenue, then discusses challenges local governments face with revenue sources. A key takeaway is that these challenges can lead local governments in pursuit of revenues to fund expenditures, which can result in disincentives and inequities.

- **Section 4 | Elements of Equity in Local Government Own-Source Revenue**

  This section builds on the preceding section's discussion of inequities in local government revenue by examining characteristics that can influence the equity of a local government's revenue structure. Characteristics include who carries the payment burden, the degree of impact on historically marginalized groups, and how local government can use the funds towards equitable expenditures. These characteristics form the foundation of the proposed equity framework, as each characteristic includes a series of questions local governments can ask to consider the equity implications of potential revenue sources.

- **Section 5 | Framework for Local Government to Consider Equity of New Own-Source Revenues**

  This section brings together information from preceding sections by developing a framework for local governments to analyze new own-source revenues.

- **Section 6 | Case Study: City of Sacramento**

  This section uses the equity framework from the preceding section to analyze the City of Sacramento's revenue options as it faces a budget crisis.

- **Section 7 | Conclusion and Recommendations**

  This final section provides a conclusion and recommendations to local governments who want to consider equity in new own-source revenues.

2. Background: Equity Considerations Related to Local Government Revenue Strategies

Before analyzing equity considerations for California's local government revenue strategies, it is necessary to understand the term equity as it relates to local government revenue. This section reviews the literature to address the questions: *What does equity mean?* and *Are There Guidelines for Local Government's Application of Equity in Revenue Strategies?* Examining these questions offers essential insights into the foundational knowledge and guidelines that local governments are leveraging to incorporate equity into their revenue strategies.

2.1 What does equity mean?

This section provides an overview of the term equity, which is highly subjective depending on the context of the situation and person interpreting the meaning. It is important to note that although equity is the focus of this paper, the public can use the terms equity and equality jointly or interchangeably. As such, readers of this paper must understand the term equity to distinguish it from the term equality. This section will discuss the basic definitions of equity and equality, establish that unequal treatment does not inherently equate to unfair treatment, distinguish equality of opportunity versus equality of outcomes, and discuss the elusive nature of the terms.

Basic Definitions of Equity and Equality

The dictionary defines *equality* as treating people fairly and impartially, and *equity* as equality plus attention given to status, rights, and opportunities (“Equity,” 1891; “Equality,” 1891). Minow (2021) explains, “Equity implies something more focused [than equality] on results and accommodation of individual differences.” Linquiti (2023, pp. 282-286) provides a similar definition specific to the public policy lens and advises that equality implies that the revenue structure treats similarly situated people similarly. A typical example illustrating the difference between these concepts is in TK-12 public education, where equal treatment is giving everyone the same elementary education, and equitable treatment is providing the same education to students with different needs – such as providing different classes for students with advanced, regular, and remedial skills in a subject.

Unequal Treatment Does Not Inherently Equate to Unfair Treatment

Linquiti clarifies that unequal treatment does not inherently equate to inequitable treatment. He explains differential treatment of various groups acceptable and is frequently a routine aspect of policy decisions. Take, for instance, accessible parking spots, where the policy treats non-disabled individuals unequally as it excludes them from using certain parking spots. Linquiti explains this disparity is acceptable as it results in both disabled and non-disabled individuals expending a more similar effort to reach their destination. Society does not view this disparate treatment as inequitable; the opposite is true and many consider pure equality, where a policy treats everyone the same, inequitable. Each society must decide what situations call for unequal treatment to ensure fairness and justice.

Equality of Opportunity Versus Equality of Outcomes

There are two primary schools of thought regarding the types of equality contributing to equity: equality of opportunity and equality of outcomes (Linquiti, 2023; Harward et al., 2021). To illustrate the differences, consider the example of becoming a doctor. Under equality of opportunity, everyone should have an equal chance to attend school to become a doctor, with success determined by merit. Introducing inequity based on merit is acceptable but becomes inequitable if the policy denies opportunities. Conversely, equality of outcomes argues that two students, given the same opportunities to become doctors, may end up with disparate outcomes — for example, one became a practitioner, and the other did not make it to residency and chose to become a teacher. While the teacher's career choice reflects personal freedom, equality of outcomes calls for a closer examination of whether the opportunities that led to these outcomes were genuinely equal. For instance, the teacher may have faced socioeconomic disadvantages rooted in historical discrimination, hindering their ability to afford a lower income while in a doctoral residency.

Elusive Nature of These Terms

These terms and their definitions possess nuanced distinctions, yet debating subtle differences may be trivial, overshadowing the more substantial challenge of the inherent subjectivity in these terms—shaped by an individual's opinions on fairness, impartiality, desired outcomes, and the acceptable extent of unequal treatment among similar groups. Equity is a term that embeds a person's morals and values to determine what *should* be. Linquiti explains that moral issues such as these are ambiguous, intangible, and ephemeral - and that a universal definition of right or wrong has eluded philosophers for centuries.

Subsection Conclusion

This subsection provided basic definitions of equity and equality, established that unequal treatment does not always equal inequitable treatment, distinguished equality of opportunity versus equality of outcomes, and discussed the elusive nature of the terms. While these terms are elusive, there are revenue strategies that California local governments deploy that can have elements that are equitable and inequitable. This might lead one to the question – why do local governments have inequitable taxes when more equitable options are available? The following section will address this question by outlining industry principles that guide local government revenue strategies. While principles that guide revenues often include equity, they outline considerations beyond equity that local governments must consider when a local government develops its revenue strategy.

2.2 Are There Guidelines for Local Government's Application of Equity in Revenue Strategies?

To build on the theoretical foundation from the preceding section, this section provides an applied perspective of current principles that guide local governments' application of equity to revenue strategy. It will examine fundamental taxation principles outlined by influential figures such as Adam Smith, the Association of International Certified Professional Accountants (AICPA), and the Tax Foundation. It is important to note that while numerous resources guide taxation policy, this paper focuses on three sources collectively representing common themes in leading guidance.

Adam Smith

Adam Smith's 1776 work, *The Wealth of Nations,* laid out four canons of taxation. Smith emphasized that taxes should be equitable (proportional to the taxpayer's ability to pay), specific (clear and transparent), convenient (simple for the taxpayer to pay), and economic (minimizing administrative costs of collection). The equity canon is most relevant to this paper, and a critical note is that Smith's definition aligns more closely with modern equity definitions than the concept of equality. A modern example is income tax, where taxpayers pay progressively higher tax rates relative to their income. This is known as *progressive* taxation; the opposite is regressive taxation, which charges everyone the same fee. Modern examples of regressive taxation are parking tickets or sales taxes, as the revenue structure charges the same dollar or rate to everyone. Modern society has both progressive and regressive taxation structures, but Adam Smith describes progressive taxation as equitable. This creates an interesting observation – despite the longstanding concept of taxing equitability, society continues to debate this topic and has not achieved a consensus.

Association of International Certified Professional Accountants (AICPA)

AICPA produced the *Guiding Principles of Good Tax Policy: A Framework for Evaluating Tax Proposals* in 2017, effectively updating Smith's work for modern times. Their principles are Equity and Fairness, Certainty, Convenience of Payment, Effective Tax Administration, Information Security, Simplicity, Neutrality, Economic Growth and Efficiency, Transparency and Visibility, Minimum Tax Gap, Accountability to Taxpayers, and Appropriate Government Revenues. Many of these principles mirror Smith's canons with additional considerations for present times, such as their Information Security guiding principle. AICPA's Equity and Fairness principle explains that the revenue structure should tax similarly situated taxpayers similarly, which is slightly divergent but like Smith's canon and echoes Linquiti's definition of equity from the preceding section.

However, AICPA acknowledged the subjective nature of interpreting equity and what constitutes fairness. For example, they explained that some may find equity in regressive taxes – although everyone is paying the same dollar or rate, those with larger incomes will naturally pay more than those with lower incomes. Others may find equity in progressive taxes – those with larger incomes pay the same proportion of their income in taxes relative to those with lower incomes. This mirrors the preceding discussion on the subjectivity of the term equity, and if a policy or personal goal is to promote equality of outcomes – a person may consider progressive taxation more equitable.

The AICPA concluded that when considering equity, local governments need to consider all the taxes someone pays rather than just one type of tax. They also advise that they place no more weight on any one of their guiding principles, meaning equity is equally important as revenue certainty or the municipality's administrative ability to collect the revenue.

Tax Foundation

Another modern interpretation of Smith's tax canon comes from the Tax Foundation's *Principles of Sound Tax Policy* (n.d.), which focuses on simplicity, transparency, neutrality, and stability. While these principles align with those of Smith and AICPA, it is notable that the Tax Foundation's principles do not include equity. This omission raises questions about whether there is a universal consensus amongst local governments whether integrating equity is a best practice in modern times.

Subsection Conclusion

This subsection discussed essential taxation principles outlined by notable figures like Adam Smith, the Association of International Certified Professional Accountants (AICPA), and the Tax Foundation. Both this subsection and the preceding one underscored the inherently subjective and elusive nature of equity and equality. There can be many interpretations of what 'similarly situated' or 'treated similarly' means. For example, revenue structures often define 'similarly situated' based on their household income, but should the evaluation be based on this year's income? Average income over time? Total wealth, including assets and savings? A key takeaway from this discussion is that answers to these types of questions are subjective and based on a person's norms and values.

2.3 Section Conclusion

This section reviewed the literature to address the questions: *What does equity mean?* and *Are There Guidelines for Local Government's Application of Equity in Revenue Strategies?* In addressing the question, *What does equity mean?* The literature illustrated that basic definitions of equity and equity are simple to understand, but the true meaning of the terms is rooted in one's values. Thus, it is not possible to define the term conclusively. The next subsection mirrored this conclusion in addressing the second question, *Are There Guidelines for Local Government's Application of Equity in Revenue Strategies*, with mixed opinions on the principles that guide local government revenue strategies.

The lack of definition of the term equity poses challenges for local governments who desire to make their revenue structure more equitable. However, prior to discussing how local governments can consider equity in their revenues in Section 4, it is necessary to first have a basic understanding of local government own-source revenues. Section 3 will provide this essential background information by outlining primary sources of local government own-source revenue, in addition to discussing challenges they face that can lead to inequities in revenue structures.

3. Overview of California Local Government Own-Source Revenues

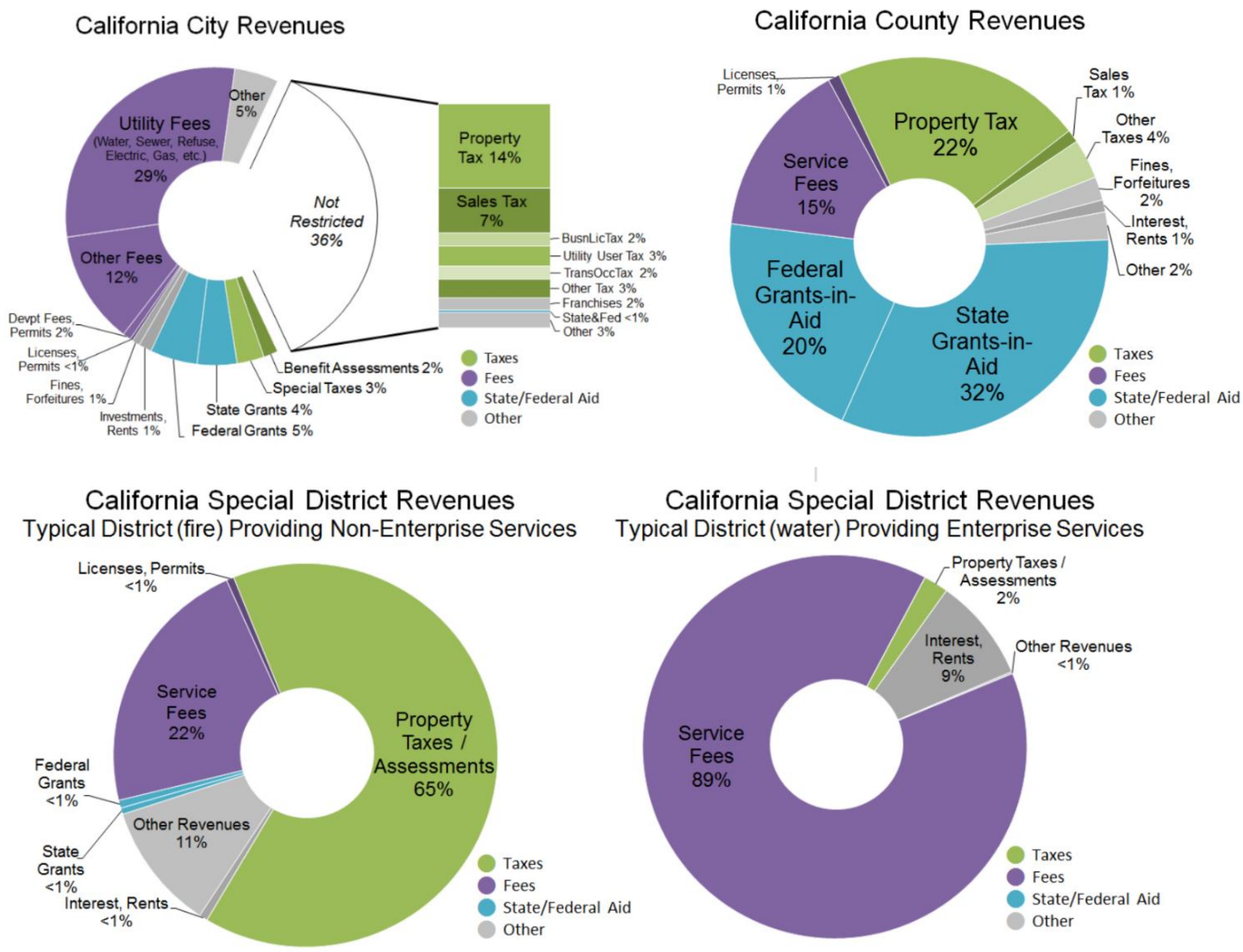
This paper is concerned with establishing a framework to help California local governments analyze equity in a new own-source revenue. The preceding section established essential background on the term equity, and this section will continue to lay a foundation for this paper by providing an overview of local government own-source revenue. This section will first outline the primary sources of California local government own-source revenue, then discuss revenue challenges that lead to disincentives in a local government's hunt for revenues to supply enough funds to pay for the services a community needs and wants, and conclude by highlighting how these disincentives can lead to inequities.

3.1 Primary Sources

California's local governments play a critical role in delivering services their communities need and want, ranging from parks and recreation to law enforcement, and revenue is necessary to fund these services. Figure 1, on the next page, outlines the revenue streams for California local governments. Within this figure, certain revenues originate from other government entities, such as federal and state grants. The other revenues are 'own-source' revenues, such as property tax, sales tax, and service fees. Local governments generate these funds within their community and the funds largely circulate back to finance the local government's services, ultimately benefiting the community that contributed to the funding.

Each local government must formulate a unique strategy to generate own-source revenue and must consider factors such as the legal permissibility of revenue sources, ease of adding or modifying the revenue given legal constraints, economic climate of the community, the services requiring funding, the local government's capital improvement plan and long-term planning, and the political support from constituents. The following subsection will discuss how these challenges create disincentives that can have unintentional consequences of increasing inequities in revenue sources.

Figure 1. Local Government Revenue Sources

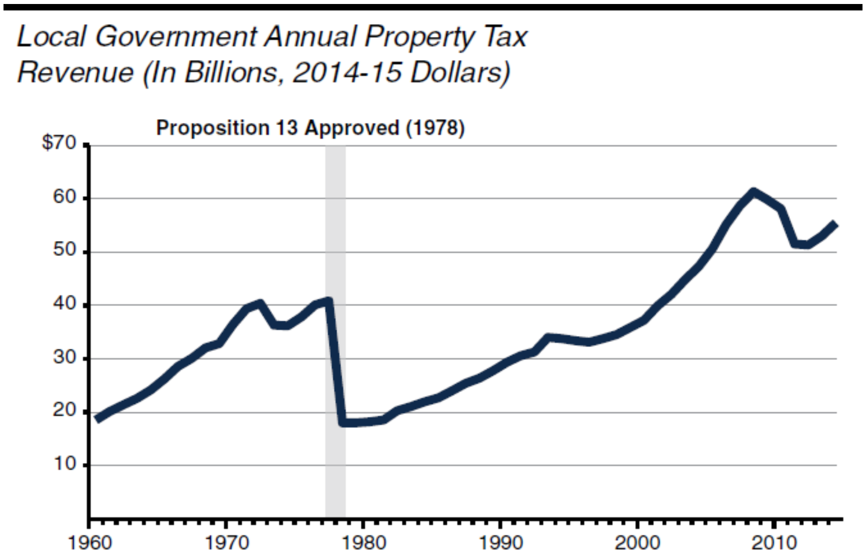


Source: Institute for Local Government, 2016

3.2 Challenges That Lead to Disincentives

A punctuating event in California's local government revenue generation was the enactment of Proposition 13 in 1978. This proposition is a well-known legislative landmark that limited local governments' use of property tax as a revenue source and fundamentally changed how local governments generate their own-source revenue. As shown in Figure 3, on the next page, local government revenue dropped immediately after voters approved the proposition. In the fallout of this legislation, local governments needed to pursue revenue to ensure they could deliver essential services.

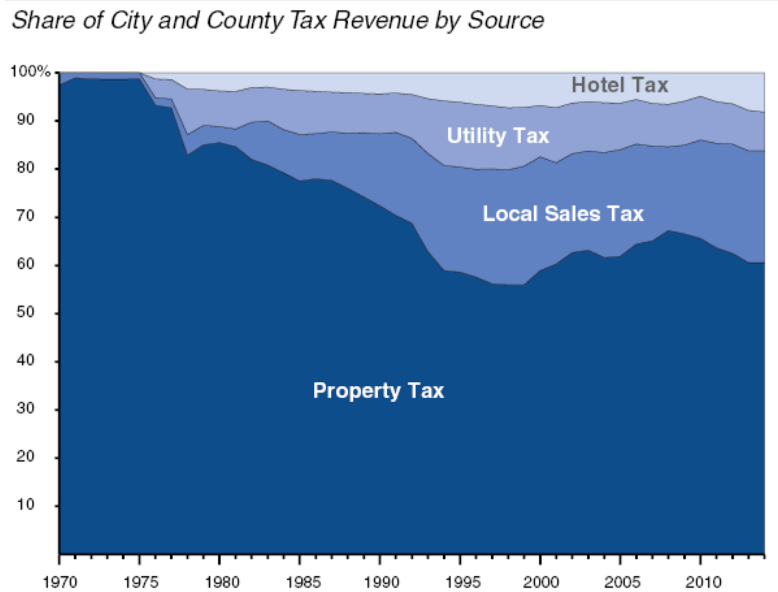
Figure 3. Local Government Property Tax Dropped Immediately After Proposition 13



Source: Petek, 2016

Figure 4, on the next page, illustrates how local governments have changed the composition of their revenue sources from property taxes to revenues that are more flexible and within their jurisdiction's control, such as sales tax, utility tax, and transit occupancy tax (i.e., hotel tax). What is notable in this figure is the sharp decrease in property taxes in 1978, followed by a gradually more significant share of other revenue sources. This subsection will discuss supply and demand challenges that have affected how local governments have adapted their revenue strategies to their operating environment.

Figure 4. Cities and Counties Increasingly Rely on Other Taxes



Source: Petek, 2016

Supply Challenges

Today, California local governments often face a misalignment of supply and demand in their revenues. On the supply side, there is inflexibility in adding new revenue, modifying the rate structure for existing revenues, many local government revenues are outdated and need the voters to approve updates, and revenue streams are volatile. Proposition 13 added voter requirements, such as a 2/3 voter majority to add a new sales tax, which made adding or modifying revenues challenging for local governments. Local governments face additional challenges because adding or increasing taxes is generally not a high voter priority. Consequently, many established revenue streams still need to catch up with the evolving global, online landscape. A notable example is the Supreme Court case, South Dakota v. Wayfair, which closed a common consumer loophole for consumers to avoid paying local sales taxes for online purchases (Tax Foundation, 2023). It took until 2018 to close this loophole. Before its closure, local governments suffered revenue losses, which was particularly significant given the increase in online sales compared to in-person transactions.

Another challenge with local government revenues is volatility. This volatility is rooted in the revenue source, with each source having factors contributing to volatility. For example, Figure 3 shows a dip in revenue in 2008, a direct result of the housing crisis that resulted in lower property values and, thus, lower property tax revenue for local governments. It is also notable in Figure 3 how long it took for local governments to recover from this economic shock. Local governments experienced a similar fiscal shock at the onset of the COVID-19 pandemic in early 2020 when the world immediately shifted to online purchases and resulted in an immediate stop to tourism. Many local governments experienced an immediate decrease in sales taxes and a halt in taxes for staying in hotels. These examples of revenue volatility changes illustrate the susceptibility of local government revenues to economic fluctuations.

Demand Challenges

Inflexibility in adding new or modifying existing revenues, outdated revenues, and volatility in revenue streams all contribute to challenges in generating enough supply of revenue. However, as of 2016, Petek (p. 25) reports, "*Across these "own–source" revenues for all local governments, revenue rose from roughly $2,600 per person in 1977 to roughly $3,440 per person in 2013 (adjusted for inflation). This reflects an increase of over one–third across all own–source revenues for local governments*". While Petek advises that total tax dollars per person have moderately increased, it is notable that revenues have not increased sufficiently to keep pace with expenditures. Increasing population, higher costs, and increased demand for services result in increased expenditure. If a government cannot pay for the demanded services, it must fill the deficit by increasing revenues or decreasing expenditures.

Resulting Disincentives and Inequities

Disincentives can arise in a local government's hunt for revenues to supply enough funds to pay for the services a community needs and wants. A local government's zoning authority for commercial versus residential properties (Chapman, 2008) is an example of a disincentive, as commercial properties generate more revenue and incur fewer expenses than residential properties. Another study by Su (2019) found that counties increased per-capita traffic fines in the year following a revenue loss. This finding indicates that local governments view traffic fines as a revenue source and to be used to offset revenue losses.

The drive for local governments to seek revenues can increase inequities, as many of the revenue leavers that are easier for them to adjust tend to be relatively inequitable. Studies (Su, 2020; Le & Young, 2021) indicate that low-income communities may disproportionately rely on inequitable revenue generation to maintain essential services. With inequitable revenue structures being more readily implementable, this perpetuates the prevalence of unfair revenue systems within low-income communities, which historically marginalized groups often are over-represented in.

3.3 Section Conclusion

This subsection provided an overview of California local government own-source revenue and the supply and demand challenges local governments face when generating revenue. It then discussed how local government's pursuit of revenue can increase inequities, as many relatively quickly implementable revenue structures are more inequitable. The following section will build on this discussion by outlining elements that make local government revenues equitable.

<u>4. Elements of Equity in Local Government Own-Source Revenue</u>

The preceding section highlighted how supply and demand challenges have prompted local governments to adapt their revenue strategies since the enactment of Proposition 13, leading to inequities. This section will explore this issue further by examining the characteristics that can influence the equity of a local government's revenue structure. Specifically, this section will explore three characteristics surrounding the equity of who carries the payment burden, the degree of impact on historically marginalized groups, and the equity of revenue expenditure. These characteristics form the foundation of the proposed equity framework, as each characteristic includes a series of questions local governments can ask to consider the equity implications of potential revenue sources.

4.1 Equity of Who Carries Burden of Payment

Revenue structures impact all payors differently, resulting in a spectrum of equity in who carries the burden of paying the revenue. On the inequitable end of this spectrum are regressive revenue structures, which are taxes, fines, or fees, where the revenue charges all taxpayers an equal amount regardless of differences in ability to pay. On the equitable end of the spectrum are revenues with progressive characteristics, where the revenue's design collects more from those with a higher ability to pay; thus, the outcome is for all payors to pay the same amount relative to their ability to pay. However, most revenues fall somewhere on the spectrum of regressivity to progressivity, and where precisely the revenue falls can be as subjective as defining the term equity.

Regressive Revenue Structures

Academics generally consider regressive taxes, fines, and fees inequitable, and researchers have found California local governments are increasingly using these types of revenues (Le & Young, 2022). Consider someone who makes $20,000 a year compared to someone who makes $150,000 a year – a $150 flat fee collected by the government is much harder for the low-income person to pay. Examples of regressive revenues found in California local governments are property taxes, sales taxes, any flat dollar amount charged on a utility bill, and service fees (ex., charging for a government service such as issuing a license or attending a recreational class).

For example, service fees require exclusivity, as you can only access a government service if you pay. Consequently, the revenue structure will exclude some from receiving government services that require a fee. Equity issues arise when groups, usually low-income individuals, become excluded from receiving a service when a local government introduces a fee or increases it. For example, Bengston & Fan (2001) found that low-income individuals stopped visiting national parks as frequently when the government began requiring a user fee for entry. Le and Young (2021) found that service fees are more prominent in California cities with racially/ethnically minoritized groups, specifically Latinx/Hispanic, and increase during periods of fiscal stress such as the Great Recession. Studies such as these indicate inequities in these fees as they reduce low-income individuals' ability to partake in government services, increase during periods of fiscal stress, and research finds these types of fees are more prominent in minoritized communities.

Since Prop 13, user fees have become a significant part of many governments' revenue (Le & Young, 2021; Bartle et al., 2011). This means there is an increasing trend to charge a fee for what was once a free government service. This is likely because local governments can add or modify a service fee already authorized in the legal code. They need to notify the public at a public meeting and gain the approval of their governing board, but the local government does not need voter approval for these actions as authorization is already in statute. This makes increasing fines and fees relatively quick for local governments who need additional revenue when voters must approve many of the other options, such as increasing sales tax.

Progressive Revenue Structures

Progressive revenue structures base the dollar amount or rate on a person's ability to pay – usually income. The most common example is income tax, where the revenue structure charges different percentages for different income brackets. However, income tax is at the federal and state levels, and no genuinely progressive revenue structures are available for California local governments. There has been discussion of income tax at the local level (for example, Wassmer, 1997). However, any new revenue structure would require statewide voter approval and is not an option readily available to local governments.

There is also a reform to utility taxes currently under development as of 2024, where the rate would be based on the utility user's income, with the intent of lowering the bill for lower-income households and shifting the cost of maintaining the state's electricity grid to higher earners who can afford it (Caretto, 2024). Although legislators intended this reform would create a more equitable rate structure, it is receiving strong opposition and state officials introduced legislation to rollback this initiative on the basis that it would discourage people from saving energy, the bill was impractical, it does not address the root issue of high energy bills, and it is unjustly targeting middle-class people (La, 2024). Many also took issue with the utility requiring ratepayers to share income information and questioned how the utility would administer this (La Jeunesse, 2024). This example highlights the need to balance equity with the other principles that guide taxation and the opposition that local governments might face when attempting equitable reform.

Varying Degrees of Regressivity to Progressivity

No tax will always fall to the extremes and be regressive or progressive. While local governments have limited revenues they can adopt or modify, they can make decisions to mitigate regressivity and promote progressivity. For example, in the case of highly regressive service fees, it is within the local government's authority to offer subsidies to alleviate the fee's regressive impact. Examples include offering discounted park passes for low-income individuals or reduced fees for recreational classes for senior citizens. These initiatives aim to mitigate the financial burden on lower-income individuals, promoting a more equitable distribution of costs for these services. The criteria for determining reduced rates can vary amongst local governments, with common factors including age, income, disability, or medical need. These subsidies are determined at the local level and this flexibility results in inconsistencies across local governments.

It is possible to hypothesize, but researchers could further analyze this with qualitative data, that there is an inequitable scenario where it is less likely for local governments in communities with lower-income individuals to have the necessary revenue to provide subsidies. Additionally, awareness and eligibility requirements pose barriers for individuals to access these reduced rates. Lower-income individuals may need help learning about these programs and demonstrating their eligibility, further hindering their access to government services. Another complication arises when local governments offer the reduced rate through a rebate system. This creates an additional obstacle, as low-income individuals may not be able to wait for the reimbursement of their funds or may be reluctant to risk the potential rejection of their application after they have already made a payment.

Considerations for Determining Ability to Pay

Most discussions surrounding determining the regressivity or progressivity of a revenue use income as the basis to determine a payor's ability to pay. However, income may not be analogous to determining a person's ability to pay, which the guiding principles call for. Local governments need to consider at least three other dimensions, such as how they define the ability to pay, income's impact on intergenerational equity, and individual versus business payors.

Levinson (2021) argues that property tax does not fully consider a person's ability to pay because it is based on the property value, not the homeowner's wealth in the equity in the home or their other assets such as stocks or other holdings. Consider a younger person who is looking to become a first-time homeowner. Their property value and income may be higher than that of a retired person – but the retired person had the opportunity to purchase a home at a lower market rate and has seen the property appreciate. The younger person might have a higher income, but a retired person on a fixed income has more wealth - is it genuinely equitable to consider that the younger person has a higher ability to pay based on their income? Or would we be disproportionately burdening the younger person by considering income and not wealth?

This intergenerational equity lens might need to be a standard consideration if more local governments restructure their revenues progressively. An income-based structure could be equitable for revenues re-assessed annually, such as the income tax, but inequitable when the dollar amount or rate the local government charges is determined at a time that benefits one generation over another, such as the property tax. The notion that income may not be the best determinant of one's ability to pay in all scenarios complicates the analysis of equity of revenue generation and determining the regressivity of a revenue structure, as it suggests that the accurate, equitable, analysis has additional variables that local governments must consider.

Another variable is the effect on individuals versus businesses in terms of who carries the higher burden to pay, and a revenue is more regressive the more the individual bears the burden of payment. For example, researchers have found sales tax to burden the consumer disproportionately (Poterba, 1996; Gentry & Ladd, 1994; Derrick & Scott, 1998), and the property tax has loopholes corporations use to avoid increases to the assessed value of a property (Kaplan & Kitson, 2020, and Shafer, 2020). These revenue structures benefit businesses that generally have higher incomes than individuals. Thus, they exhibit regressive characteristics because higher-income entities carry a lower share of the revenue burden.

Conclusion: Questions to Analyze Equity of Who Carries Payment Burden

This subsection established a spectrum of equity regarding who carries the burden of paying the revenue. Based on the information discussed in this subsection, Table A, on the next page, provides questions local governments should consider when considering equity in a new revenue source. Working through these questions will assist the local government in analyzing the equity of those who carry the payment burden.

Table A. Questions to Analyze Equity of Who Carries Payment Burden

Question	Considerations
Is the revenue structured to consider ability to pay?	An inequitable revenue would be regressive – it would not account for the payor's ability to pay. An equitable revenue would exhibit progressive characteristics – it would have a sliding scale where the local government would charge a lower rate to those with a lower ability to pay. The most equitable revenues will be progressive, and the most inequitable revenues would be regressive, with most revenues falling somewhere on the spectrum between these extremes.
How is the 'ability to pay' determined?	Most commonly, the ability to pay is based on income. However, this paper challenges this notion and suggests local governments consider additional dimensions when defining the ability to pay. Income may be a good basis for income-based taxes, but total wealth may be a better basis for taxes on capital assets. The most equitable revenues will align ability to pay with the revenue structure. If misaligned, unintended consequences could result and local governments could unintentionally introduce inequities. Readers should acknowledge there are limitations to a municipalities' ability to collect the information needed to determine the ability to pay. For example, they may not have the authority to require income information or information needed to determine total wealth.
How does adding the ability to pay consideration affect other guiding taxation principles?	Municipalities should consider equity in conjunction with other taxation principles outlined in a preceding section of this paper, such as administrability, transparency, and clarity. For example, an equitable approach may need to be re-evaluated if there are substantial costs in administering the tax (for example, collecting information to determine ability to pay and calculating fees accordingly), as the costs to administer may cause net-benefit of the equitable approach to be negative, and thus, ineffective. Another example is if adding income analysis to the revenue's calculation creates complexity in calculating the amount people owe. This would make it more difficult for payors to understand what they owe, decreasing transparency and increasing the likelihood of errors – which would be inequitable.
Are there ways to mitigate regressivity?	There are tactics local governments can use, such as offering subsidies, to make revenue more equitable. However, the equity decreases with the difficulty imposed on the payor to qualify for the lower rate or recoup any funds.

4.3 Degree of Impact on Marginalized Groups

The preceding subsection questioned if the regressivity or progressivity of the revenue should be determined based on income and suggested that local governments should consider additional dimensions. This notion complicates the equity analysis, suggesting local governments need to consider more than income. One of the additional dimensions that academics are beginning to analyze is the degree of impact on historically marginalized groups. This subsection will discuss how revenue can have disproportionately adverse effects on historically marginalized individuals and communities, outline how systemic racism has created intergenerational inequities, and then conclude with a set of questions local governments can use to analyze the revenue's impact on historically marginalized groups.

Disproportionate Effect on Historically Marginalized Individuals

Research has established that historically marginalized groups are more likely to fall into the low-income category, this establishes a strong link between the impact on historically marginalized groups and the analysis of income and a revenue's regressivity. The California Budget & Policy Center (Kitson, 2022) reports, "The 20% of California families with the lowest incomes pay 7.4% of their incomes in combined state and local sales and excise taxes, compared to 0.8% for the richest 1%. Again, because Black, Latinx, and many other Californians of color are more likely to have low incomes than white Californians, regressive taxes like sales and excise taxes exacerbate racial inequity." Because historically marginalized groups are more likely to be low-income, any regressive tax will disproportionately negatively affect historically marginalized groups.

A report by Su (2020) highlights how regressivity affects historically marginalized groups. The report identified a correlation between heightened traffic fines and reduced revenue in California counties in the preceding year. This effect was more pronounced in low-income and Hispanic communities, indicating that counties may be relying on punitive fines not just as a means of punishment, but as a revenue source. This raises concerns, mainly as low-income communities increasingly depend on this type of revenue. This establishes an inequity where fines and fees can become a poverty trap for individuals with limited financial means, which can cause them to take on debt with local governments to afford necessities and meet their financial obligations (Glenn et al., 2022).

To illustrate how important, it is to consider what groups are carrying the tax burden and how complex this analysis can be, consider how utility rates impact low-income groups. The per-kilowatt-hour rate has more than the cost of energy built into it (Borenstein et al., 2022; Borenstein et al., 2021). The 2021 report finds that the rate is two to three times higher than the actual cost to produce the energy, with the additional cost being the generation, transmission, and distribution fixed costs, as well as energy efficiency programs, subsidies for houses with rooftop solar and low-income customers, and increasing wildfire mitigation costs. Importantly, wealthier households are more likely to be able to take advantage of subsidies to install solar. This effectively leaves a smaller pool of households to share the fixed costs, and this pool of people is more likely to be low-income, historically marginalized groups. This results in the lower-income groups having a higher bill, and this bill, in part, pays for the costs of subsidized solar installation for wealthier households.

Disproportionate Effect on Historically Marginalized Communities

The effect on low-income groups extends beyond analyzing the impact per individual and can affect entire communities. Low-income communities, which tend to have more historically marginalized groups, are less likely to generate as much income as higher-income communities. For example, the more desirable retail centers a local government has, the more sales tax revenues the local government will be able to generate. A 1999 study by Barbour and Lewis found that California cities' local sales tax revenues ranged from $2.25 to $56K per resident. The local governments on the high end can reinvest in infrastructure that attracts desirable businesses and generates retail activity. The less wealthy jurisdictions must rely on other revenue sources to sustain government services. Although not substantiated with quantitative research and area for further research, it is intuitive that this scenario established an inequitable cycle where wealthy local governments can build wealth and reinvest in their community from this influx of sales tax revenue. In short, this situation creates a system where the rich get richer, and the poor get poorer.

Further, desirable retail hubs are likely to attract residents of the local government and those from the surrounding community, which imports sales tax revenue from residents of other local governments. This results in those from surrounding communities - possibly less-wealthy jurisdictions who have been systematically unable to generate the infrastructure to support desirable retail hubs – contributing dollars via sales tax to support a wealthier jurisdiction’s revenues. This establishes an inequitable scenario where importing sales taxes reduces the need for the wealthier jurisdiction to generate revenues from their residents and increases the wealthy community’s ability to provide their residents services. In essence, the wealthy local government can import revenue from surrounding, likely lower-income, communities that cannot establish their own desirable retail hubs.

Intergenerational Equity

A well-known inequity of property tax surrounds the methodology used to assess a property's value (e.g., Nordlinger v. Hahn, 505 U.S. 1, 1992; Sexton et al., 1999; O’Sullivan et al., 1994). The contention focuses on a property's assessed value, which is typically determined when someone acquires a property. In California, property values historically outpace the 2% annual increase applied to the assessed value for taxation. Consequently, property tax tends to be significantly more affordable for properties purchased decades ago than those acquired today. Researchers are beginning to explore how this inequity, which benefits prior generations who could purchase properties sooner, affects minorities who are relatively recent entrants to housing markets. Hahnel et al. (2022) found that Black and Latino Americans possess lower housing wealth in comparison to white and Asian Americans. The study argues that recent entrants in the housing market, such as Black and Latino Americans, end up subsidizing local government services for homeowners with longer tenures, who are disproportionately white or Asian Americans.

It is possible that the discrepancy noted by Hahnel et al. can also affect broader communities. Researchers are beginning to understand the legacy of past structural racism in the housing market to present inequalities (for example, Wassmer, 2023). Wassmer explains that the rating system of the Federal Homeowners' Loan Corporation (HOLC) was a typical example of pre-1940 racist practices in residential real estate, and his research explored whether a similar home in different HOLC-rated neighborhoods in the City of Sacramento, California, sold for a different price eight decades after receiving its HOLC grade. This study found that homes in lower-rated neighborhoods, which were primarily comprised of racial/ethnic minorities, continue to sell for about 13% less than homes in higher-rated neighborhoods, indicating there is a legacy of the discriminatory HOLC practices affecting today's property values. Thus, it is reasonable to consider that these practices also lowered a local government's property tax revenue – potentially resulting in less funding for infrastructure, schools, policing, parks, etc. for these lower-rated neighborhoods. There is a gap in the literature on this topic, which may warrant further research to evaluate how historical practices could have affected today's local government revenues and created a situation where historically minoritized communities are trapped in an inequitable cycle of lower local government revenues relative to non-minority communities.

Conclusion: Questions to Analyze Degree of Inequities on Historically Marginalized Groups

This subsection established that a revenue structure can disproportionately negatively affect historically marginalized groups. Based on this information, Table B provides questions local governments should consider when considering a new revenue. Working through these questions will assist the local government in analyzing the degree of impact on historically marginalized groups.

It is important to note that the scope of Table B is to provide questions for local governments to ask when analyzing the equity of new revenue. However, many of the reforms needed to make any real impact on the negative externalities of local government revenues on historically marginalized groups would require statewide reform. For these reasons, readers should acknowledge that Table B provides a limited set of questions when analyzing how local government revenue structures can be reformed to mitigate the impact on historically marginalized groups. However, Table B does provide a framework for questions local governments can ask to specifically consider a new revenue's impact on historically marginalized groups and, hopefully, begin to chart a course toward more equitable revenue strategies.

Table B. Questions to Analyze Degree of Impact on Historically Marginalized Groups

Question	Considerations
What groups will pay this revenue?	Low-income individuals pay certain taxes more frequently, such as sales taxes and utility fees. However, wealthier individuals are more likely to pay other taxes, such as excise taxes. Local governments should limit revenues that low-income individuals are more likely to pay to mitigate the degree of impact on historically marginalized groups.
How regressive is the new revenue?	Historically marginalized groups are more likely to be low-income. Thus, the more regressive the tax, the more historically marginalized groups will carry the burden of payment, relative to income.
How regressive is the local governments overall revenue portfolio?	Local governments should consider any new revenue in the context of their total revenue portfolio. Local governments that already have a large amount of taxes that disproportionately affect low-income groups or have large amounts of regressive taxes should be cautious about adding more of these types of revenues.
What are the penalties for non-payment of mandatory revenues?	Local governments with taxes, fines, or fees, that have penalties associated with non-payment can result in a poverty trap. For example, a parking ticket given to someone living in their car, the person is unable to pay the parking ticket, penalties build up, and eventually the government might repossess their car/home. Local governments can make accommodations to prevent the poverty trap and limit the degree of impact on historically marginalized groups, such as policies to wave penalties on a case-by-case basis.

4.3 Degree of Equity in Expenditure of Revenues

The preceding subsections have discussed inequities that can arise from who carries the burden of payment and the degree of impact on historically marginalized groups. This subsection is different from others in that it does not focus on inequities, rather, it focuses on how local governments can structure their revenues to promote equitable outcomes through the expenditures the revenue supports. It is important to note that many of the examples discussed in this section are not commonly used revenue structures; instead, they represent creative approaches to utilizing local government revenue structures to promote equity.

Expenditure Towards Equitable Outcomes

Many local government revenues go into the general fund, and the comingling of funds makes it impossible to determine if the local government uses funds from a specific revenue source equitably. However, some revenue structures require local governments to expend funds in a specific manner. The argument is that local governments could offset inequities surrounding a revenue's regressivity if they guarantee they will expend funds, in whole or in part, equitably.

To illustrate this idea, consider Sonoma County which passed Measure O in November 2020, which was a special tax with funds dedicated to addressing mental health and homelessness (Sonoma County, n.d.). In a second example, consider when voters approve a local government to collect a parcel tax. Parcel taxes are not based on the property's value but are either a flat per-parcel rate or variable rate depending on the parcel's size, use, and number of units (State Controller's Office, n.d.). Thus, the fee is highly regressive. An example of a creative application of the parcel tax is the City of Oakland who approved Measure Q in 2020, which partly collects funds to assist in alleviating homelessness or its impacts within Oakland (City of Oakland, n.d.). Sonoma and Oakland's revenue structures are regressive but possibly equitable, as the revenue dedicates funds to a purpose that promotes equality of outcomes.

Special taxes and parcel taxes with the guaranteed expenditure of funds towards a specific purpose lock in the funds through political cycles – guaranteeing that the local governments will expend the funds equitably. However, it is possible to hypothesize that wealthier jurisdictions, which already have enough revenues to fund government services and have a higher income constituency, have the ability and voter support to use increased sales taxes for these purposes. The inverse could also be true; less wealthy jurisdictions must first focus on meeting essential government services, possibly using the general/special taxes to balance the budget. Further, if a constituency is low-income, they may not have the voter support for additional sales or parcel tax. This hypothesis leads to a dynamic where there is equity on a micro level for wealthy jurisdictions but inequity on a macro level where, short of being low income in a wealthy area, the less wealthy are less likely to be able to afford to live in an area that has the local government with redistributive revenue sources helping to fund the services they would benefit most from.

Penalties to Discourage Behavior, Expenditures to Promote a Policy Purpose

Local governments can also structure revenue to discourage behavior while using the funds collected to promote a policy purpose that supports equitable purposes. For example, in March of 2020, voters in the City and County of San Francisco approved an excise tax charged to street-facing business owners who left their business vacant for most of the year, with the proceeds going to support small businesses (City and County of San Francisco, 2020). Yes, excise taxes are regressive, but the revenue structure allows business to avoid the tax and the San Francisco guaranteed the funds will support an equitable purpose. Many would agree that the overall structure of this tax is equitable, given the dual policy objectives that local governments are accomplishing.

Targeting Wealthier Households and Guaranteeing Funds Be Used for Equitable Outcomes

It is possible to structure revenue in a way that explicitly targets wealthier households, and this becomes an especially equitable approach when funds promote an equitable purpose. For example, the City of Los Angeles passed Measure ULA in 2022, which places a real property transfer tax on properties of more than $5 million (City of Los Angeles, n.d.). Revenues collected fund affordable housing projects and provide resources to tenants at risk of homelessness. However, it is essential to note that some contest legality of this revenue structure (Shelley, 2024), and not all local governments will have the will of voters to pass this type of initiative. However, this demonstrates a relatively unique and innovative revenue structure and illustrates how local governments can use revenue structures within their control to design a more equitable collection of funds.

Conclusion: Degree of Equity in Expenditure of Revenues

This section demonstrated a spectrum of considerations on how fund expenditures can increase the equity of a revenue structure. Expenditures are generally not inequitable, and the equity scale begins at a neutral level, with the revenue funds going toward the local government's general fund. More equitable structures will lock in the funds for an equitable purpose, and the most equitable revenue structures will have unique characteristics, such as creating a penalty to discourage behavior while using the funds towards equitable outcomes or specifically targeting very high-income households.

Table C. Questions to Analyze Degree of Equity in Expenditure of Revenue

Question	Considerations
Are the funds dedicated to the general fund or earmarked towards an equitable purpose?	A characteristic of neutral revenues is that they direct the funds to the general fund, while local governments will direct more equitable revenues towards special purposes that are equitable.
Can the local government structure the revenue in a uniquely equitably way?	For example, highly equitable revenues can penalize certain behaviors while promoting equitable outcomes, or local governments could design the revenue to target high-income households.

4.4 Section Conclusion

This section examined characteristics that can influence the equity of a local government's revenue structure, such as the equity of who carries the payment burden, the degree of impact on historically marginalized groups, and how local governments could use funds towards equitable expenditures. Each of the three equity characteristics concluded with a set of questions local governments can ask to consider the equity implications of potential revenue sources. These questions are imperative, as the establish the foundation of the framework for local government to consider equity of new own-source revenues discussed in the following section.

5. Framework for Local Government to Consider Equity of New Own-Source Revenues

The preceding sections have provided insight into what equity means, explored local government own-source revenues, and discussed three equity considerations in local government own-source revenues. This has built up to the purpose of this paper – establishing a framework for local governments to analyze equity when considering a new revenue source, which Table D outlines and is intended to be used in conjunction with the preceding tables (A, B, and C).

When analyzing a new revenue, a local government may create a row for each option. They can then use Tables A-C to ask questions to evaluate the revenue and fill in each cell in Table D to rank each revenue's equity in the three categories. This framework is flexible, where the local government can rank each equity category relative to the other available revenues, or rank each category on a scale of 1-5, with one being inequitable and five being highly equitable. They can add weights to the three categories if one equity consideration is more important to the local government than others.

Table D. Equity Framework to Consider New Local Government Own-Source Revenue

Revenue Options	Equity of Who Carries Payment Burden	Equity of Impact on Historically Marginalized Groups	Equity of Expenditures
Revenue Option 1			
Revenue Option 2			
Revenue Option 3			

6. Case Study: City of Sacramento

This section will use the equity framework in Table D to analyze new revenues for the City of Sacramento. In 2024, Sacramento found itself in the unenviable position of facing a $66 million budget deficit (Coletto, 2024). Immediate leavers the city can pull to reduce the deficit are to reduce expenditures and increase revenue. Although the equity in what programs get cut is an interesting discussion, it is beyond the scope of this paper. This section will focus on revenues that can assist the city in mitigating the budget deficit.

Notably, the city took a crucial first step in an equitable approach – they engaged the community through a survey and community meetings. Since equity is determined by each person individually and budget resources are finite, this first step helped the city understand the constituents' needs and wants. The survey received about 1,600 responses, with four from non-English speakers. With a population of over 500,000, 1,600 survey responses are a low sample and there was underrepresentation of non-English minority groups. While this is a significant first step in ensuring equity in decisions, it could have used a more robust approach.

6.1 Equity Analysis of Service Fees

Included in Coletto's report is a list of ways to increase revenues. However, only one source of revenue is readily available to local government – service fees. The proposal includes about $15 million in additional revenue, almost exclusively from the addition or increase in service fees. Sacramento did not provide the analysis that went into determining how they identified fees to increase; however, given the large budget deficit, this paper presumes that the city included any available fee that they could increase or add. It is unclear, but presumably, the city did not consider the equity of the increased fees as part of their analysis.

Readers should note that the city is increasing many fees in line with changes to the Consumer Price Index (CPI), which the report advises was about 10% over the past two years. This method of fee changes is a standard method of increasing fees to align with inflation. However, a 10% increase in fees for, for example, youth programs and kids' camps are a sharp increase for constituents struggling with inflation of other household costs. To be truly equitable, the city should evaluate if this substantial fee increase aligns with the actual costs of performing the services.

Table E on the next page uses the equity framework to analyze the first revenue option for Sacramento – their proposed increase of service fees. This table applies the following scores for each equity category: Inequitable (-2), Partially Inequitable (-1), Neutral (0), Partially Equitable (1), and Equitable (2). This analysis was based on the fees Coletto's report identified to increase and considered questions from Tables A-C. Notable examples of fee increases from Coletto's report include a $321,915 increase to youth sports field permit fees, $688,467 new fees for previously free services related to community recreation admission and rental fees, $61,030 elimination of waivers for youth programs, and $619,000 adjustment to parking citation penalties.

Table E. Equity Analysis of Sacramento Service Fee Revenue Option

Revenue Option	Equity of Who Carries Payment Burden	Equity of Impact on Historically Marginalized Groups	Equity of Expenditures
Service Fees	Increasing service fees will disproportionately burden lower income groups due to their regressivity and lower-income groups are more likely to use the services for the increased or added fees.	Increasing service fees will disproportionately burden historically marginalized groups. Further, some of the fees the city proposes increasing are penalties, which can increase poverty trap for these groups.	Revenues from proposed fee increases appear to target reducing the general fund deficit. As such, they are not equitable or inequitable.
Score	**Inequitable (-2)**	**Inequitable (-2)**	**Neutral (0)**

While this is a particularly inequitable option, the city must likely put aside idealistic equity considerations to address the immediate need to minimize the budget deficit. This situation highlights a notable point of equity in ensuring a city's overall fiscal health, as low-income individuals tend to carry the burden of urgent fiscal stress. Coletto, the City's director of finance, advised the Council that this deficit is not the cause of a recession; it is a structural deficit due to expenses increasing faster than revenue (Estrada, 2024). The city had the opportunity to fill the deficit before an urgent situation. However, they now find themselves with limited options that are primarily inequitable. To mitigate the inequity, the city may consider a rollback on some revenue increases after the city has found other, more equitable, options.

6.2 Equity Analysis of Measure C: Business Operations Tax Measure

Voters rejected a March 2024 initiative placed on the ballot to try to increase revenues before a budget deficit (Alacala Wood, n.d.; Ballotpedia, n.d.). This measure would have increased businesses' maximum annual tax liability from $5,000 to $125,000 by 2028. The structure would be progressive, based on the business's total gross receipts. Given that this tax was on businesses and not consumers and that the structure was progressive, many would consider this tax relatively progressive and equitable compared to a traditional sales tax. It also planned on taxing professionals, which would help close the inequity gap where local governments do not tax these services, benefiting higher-income households with a higher proportion of their budget for services. This tax did not appear to impact historically marginalized groups, and the city would direct the funds toward the city's general fund.

Table F uses the equity framework to analyze Sacramento's second revenue option – a business operations tax. Table F applies the following scores to each equity category: Inequitable (-2), Partially Inequitable (-1), Neutral (0), Partially Equitable (1), and Equitable (2).

Table F. Equity Analysis of Measure C: Business Operations Tax Measure

Revenue Option	Equity of Who Carries Payment Burden	Equity of Impact on Historically Marginalized Groups	Equity of Expenditures
Service Fees	This tax is equitable given it applies to relatively medium to high income businesses and not small businesses or consumers, and the tax was progressively structured.	This tax does not appear to have any equity impacts on historically marginalized groups.	Revenues from proposed fee increases appear to target reducing the general fund deficit. As such, they are not equitable or inequitable.
Score	**Equitable (2)**	**Neutral (0)**	**Neutral (0)**

Voters ultimately denied this tax (Ballotpedia, n.d.), and opponents to the bill primarily cited undue hardship toward small businesses (Haubner, 2024). While the tax appears to address this in the progressive structure, the tax needed more clarity on the actual effect on small businesses and received enough opposition from the voters to deny the bill. Perhaps, as quoted by a small business owner in Haubner's article, the measure would have garnered additional support if the city guaranteed some of the revenue would go towards supporting small businesses – which this research would have viewed as locking in some of the funds for equitable outcomes and would resulted in an increased equity score.

6.3 Equity Analysis of an Alternative Revenue Structure: Increase Real Property Transfer Tax

The City of Sacramento could consider an approach like Los Angeles' ULA tax by increasing their Real Property Transfer Tax, but only for above-average home sales (for example, for houses over $2,000,000, then an additional increase if the home sale is over $5,000,000). According to Kavanagh (2019), it may increase voter willingness to approve the tax if the city makes it clear what the funds will go towards. The city could consider directing some of the funding toward youth programs, community services, and parking fines and penalties that the city modified in the initial stages of the budget deficit. The progressive scaling, targeting higher-income households, and expenditure of funds would make this revenue structure more equitable.

Table G uses the equity framework to analyze Sacramento's third revenue option – an increase to the real property transfer tax on high-dollar transactions. Table G applies the following scores to each equity category: Inequitable (-2), Partially Inequitable (-1), Neutral (0), Partially Equitable (1), and Equitable (2).

Table G. Equity Analysis of Increasing Real Property Transfer Tax

Revenue Option	Equity of Who Carries Payment Burden	Equity of Impact on Historically Marginalized Groups	Equity of Expenditures
Increase Real Property Transfer Tax	Targeting higher value real estate transfers and progressively scaling this revenue's structure would make this an equitable option.	This tax specifically targets higher-dollar real estate transactions, which reduces concerns about its impact on historically marginalized groups.	Revenues from the proposed revenue would, at least partially, go towards correcting inequities from the 2024 budget cuts and fee increases.
Score	**Equitable (2)**	**Equitable (2)**	**Equitable (2)**

6.4 Subsection Conclusion

This section used the equity framework established in Table D to analyze new revenues that could assist the City of Sacramento's budget deficit. Table H summarizes the conclusions from the preceding subsections and tables F-G. This model applies equal weights to each of the equity criteria, so simple addition of each of the rows results in Increasing Real Property Transfer Tax being the most equitable option.

Table H. Equity Analysis of the City of Sacramento's New Own-Source Revenue Options

Revenue Options	Equity of Who Carries Payment Burden	Equity of Impact on Historically Marginalized Groups	Equity of Expenditures	Score
Increase Fines and Fees	Inequitable (-2)	Inequitable (-2)	Neutral (0)	**-4**
Business Operations Tax	Equitable (2)	Neutral (0)	Neutral (0)	**2**
Increase Real Property Transfer Tax	Equitable (2)	Equitable (2)	Equitable (2)	**6**

The most significant drawback of increasing real property transfer taxes is that it requires voter approval, which will take time and expenditures to bring to the ballot and risks to gaining voter approval. This long path will not assist the City of Sacramento's immediate need to address the budget deficit.

7. Conclusion and Recommendations

This paper began by discussing how academics and the public are beginning to call for more equitable local government revenue structures. However, the term equity lacks a precise definition or guidance on how governments should apply this concept. The paper established there is a lack of conclusive definition or guidelines, and the term is highly subjective, which begs the question – how can local governments evaluate equity in their revenues without a conclusive definition of the term? The purpose of this paper was to help local governments by establishing a framework that they can use to consider equity when analyzing new own-source revenue options.

The research provided an examination of local government own-source revenue, highlighting how misaligned incentives often drive revenue strategies, potentially resulting in inequities. Building upon the inequity discussion, this paper then outlined three key characteristics influencing the equity of a local government's revenue structure: the distribution of the payment burden, the impact on historically marginalized groups, and the utilization of funds for equitable expenditures. These characteristics formed the foundation of the proposed equity framework, offering a series of guiding questions for each aspect to assist local governments in assessing the equity implications of potential revenue sources. The final section of this paper used the equity framework to analyze the City of Sacramento's revenue options as it faces a budget crisis.

The culmination of research and discussion in this paper leads to the four recommendations for local governments to begin to incorporate equity into their analysis of a new revenue source:

1. **Ensure Fiscal Stability & Early Planning**
   As evidenced by the City of Sacramento, if the local government is in a budget crisis there is an increased likelihood that inequitable revenues will be the only option to meet budget needs in the timeframe needed. Achieving equity in revenue generation requires considerable time and effort, particularly with respect to navigating the voter approval process and implementation. Conversely, the most readily accessible revenue streams for local governments tend to be inequitable. Therefore, if local governments aim to pursue equitable revenue options, they must initiate planning well in advance of when they urgently require revenues.

2. **Foster Community Engagement**
   Given the subjective nature of equity, it is critical to recognize that each community may perceive equitable treatment differently. Listening sessions, community meetings, and constituent surveys serve as valuable avenues for understanding the specific needs and desires of a community. However, it's essential to approach these methods with care, as they require time and careful

execution. Improper implementation can lead to backlash and unintended consequences. Therefore, initiating these engagement efforts early on is crucial for local governments to ensure effective community involvement and mitigate potential pitfalls.

3. **Analyze Current Revenue Portfolio**
   Prior to considering new equitable revenues, local governments should inventory their current revenues for opportunities to increase equity. For example, perhaps there is an opportunity to reduce fines or fees that primarily impact low-income groups, add new subsidies for fees to better accommodate ability to pay, or evaluate if there are penalties that can lead to poverty traps. Readers should note that local governments do not have control over some highly inequitable revenues, for example the property tax would require statewide reform. As such, the analysis of their current revenue portfolio should only include revenues within the jurisdiction's control.

4. **Analyze New Revenue Options**
   Once the local government has established fiscal stability, engaged the community, and examined the existing revenue portfolio, it's prudent to analyze the equity of potential new revenue sources. Local governments could review discussions presented in this paper and utilize the equity framework outlined in Tables A-D as tools to aid this analysis.

In conclusion, the discussion surrounding equity in local government revenue sources is continually evolving and highly subjective. It's crucial to recognize there is no one-size-fits-all approach that will guarantee unanimous approval of a local government's revenue strategy. Moreover, factors beyond the control of local governments influence many of the inequities ingrained in local government revenues. However, this reality shouldn't deter local governments from taking a proactive stance and initiating the vital conversation surrounding equitable revenue structure as there are opportunities to lead the way and drive positive change. The discussions presented throughout this paper, coupled with the concluding recommendations, serve as valuable resources to assist local governments in their pursuit of a more equitable revenue structure. By leveraging these insights and engaging in thoughtful deliberation, local governments can make meaningful strides towards fostering fairness and inclusivity within their revenue frameworks.

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