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WHAT IS KNOWN ABOUT THIS TOPIC

Prior research suggests that California's tax system has mixed impact on vehicle miles traveled (VMT), but it probably increases car travel.

WHAT THIS STUDY ADDS

The empirical analysis helps us understand better the relationship between tax structure and development. The potential for reducing VMT is greatest in the suburbs, which also rely disproportionately on both property and sales tax revenue. And yet, the state has seen little conversion in recent years of vacant or low-density areas to the high-density residential use that could reduce dependence on the automobile. Jurisdictions that receive a low share of their revenues from property and sales taxes are more inclined to encourage the development of vacant or underutilized land within built-up areas, particularly for residential use.

IMPLICATIONS FOR PRACTICE & POLICY

Property and sales tax reform might spur more compact, mixed-use development, with principles that include returning more property tax to municipalities, sharing taxes regionally, and connecting future taxes directly to environmental goals.

Integrating California's Climate Change and Fiscal Goals: The Known, the Unknown, and the Possible

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California is a global leader in climate policy and sustainability planning, yet its tax system may not be supporting its climate goals. The state's reliance on a particular mix of income, property, sales, and other taxes may be contributing to sprawling land use patterns, which increase vehicle miles traveled. In turn, this could make it challenging for the state to meet its greenhouse gas reduction goals for passenger vehicles.

This white paper uses a combination of literature review and original data analysis to examine the relationship between fiscal structure and land development patterns. Previous studies have established how tax systems affect state growth, fiscal stability, and social equity, as well as how property and sales tax shapes development patterns (and thus vehicle miles traveled). Since the literature specific to California is somewhat out of date, this research adds a new analysis of city tax revenue data linked to parcel- and neighborhood-level data on development and travel characteristics.

California's biggest impact on global greenhouse gas (GHG) emissions comes not through its ability to reduce its emissions in absolute terms, but its innovation of climate change policies that make a difference. Reforming the tax code, even if it will not have a large impact, still sends a signal that states and countries can change course and also address climate change goals throughout their regulatory structure. Both theory and evidence suggest some basic policy principles that would help to incentivize new compact development where most needed within regions: 1) return more property tax to municipalities; 2) share property and/or sales tax regionally; 3) avoid penalizing new development; and 4) connect future taxes directly to environmental goals.

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