# Sixth Annual Meeting of the Minds Symposium Oral Presentation Winners

Mary Elizabeth Bucayu, Fatimah Safari

*Best Undergraduate Oral Presentation Award*

**Program:** Public Administration

**Faculty Sponsor: Dr.** Marc Fudge

**Title:** What Have California Cities Learned As a Result of the Great Recession? The Impact of the Local Option Sales Tax on Rainy Day Stabilization Funds

**Abstract:** The current fiscal environment continues to place tremendous pressures on local governments' operating budgets. To ameliorate fiscal stress and stabilize revenue, governments deploy a variety of budgeting strategies including increasing tax rates, decreasing expenditures, or simply borrowing funds from the public. Contingency funds, commonly referred to as rainy day stabilization funds (RDSF), are also used to combat fiscal stress (Marlowe, 2005; Hou, 2004). An RDSF is one counter-cyclical budget management strategy that allows excess revenue during strong economies to be saved for and spent during weak economies in an effort to reduce budgetary volatility (Rodríguez-Tejedo, 2012). Another strategy to address fiscal stress is the local option sales tax (LOST), which many states allow their local governments to impose (Burge & Piper, 2012; Sjoquist et al., 2007). At present, thirty-six states, including California, authorize their local governments to levy a LOST (Afonso, 2015). While the literature on both RDSF and LOSTs is robust, it has thus far failed to consider that the two may be related. LOSTs have been found to prompt an increase in local expenditures (Afonso, 2014), but scholars have yet to investigate where the marginal dollar is spent. By further diversifying its revenue stream, local governments could save surplus LOST for future use. Therefore, one way the marginal LOST dollar could be spent is on future expenditures or for offsetting future tax increases. This possibility yields a testable hypothesis with a strict falsification test: Do California local governments with more LOST revenue save more than local governments with less LOST revenue? An answer in the negative falsifies the hypothesis, thereby indicating that LOST