

# A Brief History & Enduring Legacy of Prop 13



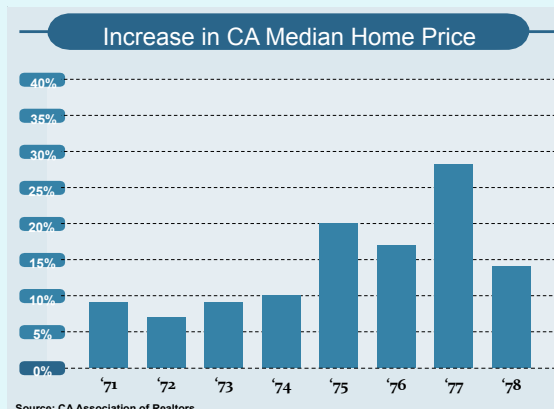
Jeff Kiernan  
Regional Public Affairs Manager  
League of California Cities

Prepared for the South Bay COG  
Board of Directors Meeting  
10/24/2013



## Background

- Before Prop 13, State and local governments set their own property tax rates, which averaged ~3% of market value.
- From 1971 to 1978 the median home price rose 164% - far outpacing gains in both income and inflation, leading to public outcry for help.



## Enter Howard Jarvis...



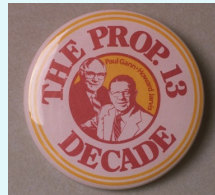
- His LA home, purchased for \$8,000 in 1941, which was assessed at \$80,000 in 1976.
- Jarvis began circulating initiative petitions for simple property tax reform which he also argued would enact a necessary constraint upon the size of government

## The Legislature Fails to Act

- Prop 13 was the fourth attempt by Jarvis to put a tax reform measure on the ballot.
- In 1977, under threat of yet another reform initiative, the CA Legislature proposed 22 different tax reform plans, but adjourned in the fall of 1977 without passing any of them
  - Voters reacted by signing petitions and the Jarvis proposition secured a place on the ballot.
- Upon reconvening in 1978, the Legislature put a watered down measure on the ballot alongside Prop 13, but it failed.

## The 1978 Election

- June 6, 1978: Prop 13 was passed by California voters on a statewide gubernatorial primary ballot.
- It received more than 4.2 million votes or ~62%
- Also on the ballot: Incumbent Governor Jerry Brown
  - Gov. Brown did not support Prop 13 during the primary, but afterward announced “the people have spoken, and as Governor I will diligently enforce their will.”



## Prop 13: Immediate Effects

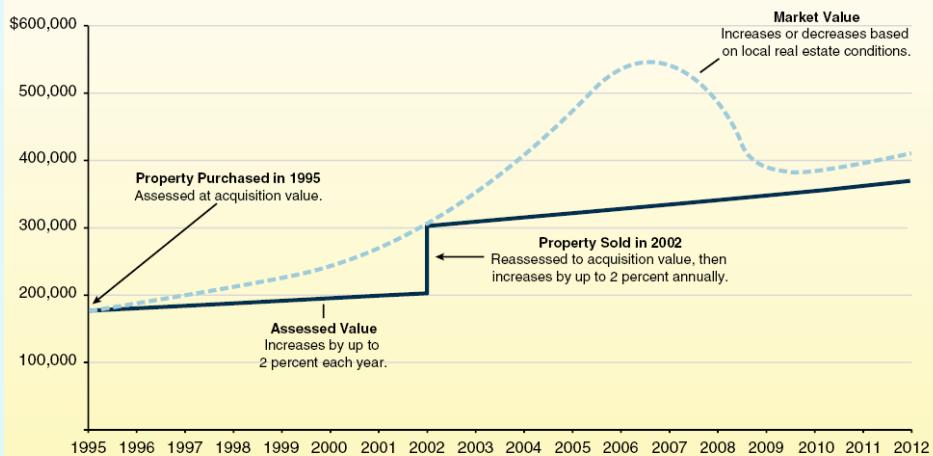
- Property tax revenues fell by 57% or about \$6 billion dollars in the first year
  - Provided stability for property owners
  - Lower property tax bills actually meant a windfall of increased personal income revenue for the state and federal governments
- The Legislature quickly passed SB 154 – a **bailout** of local governments – and followed up with AB 8 the following year. These bills created much of the local government funding formula still in place today.
  - The property tax is no longer a local tax; it is collected by the State and redistributed to the local governments.
  - School Districts: now funded primarily through the state budget using a complicated formula.

## Prop 13 Basics

1. Limits property tax rate to 1% of full market value
2. Caps the increase in property value at 2% with reassessment at full market value *only* upon change of ownership\*
3. Rolled back property values for tax purposes to 1976 levels
4. Requires 2/3 voter approval to raise “special taxes”
5. Requires any increase in state taxes to be approved by 2/3 vote of the state legislature
6. Effectively transferred the authority for allocating property tax revenues from local government to the state.

## Prop 13 In Practice

### Market Value Can Exceed Assessed Value



Source: Legislative Analyst Office

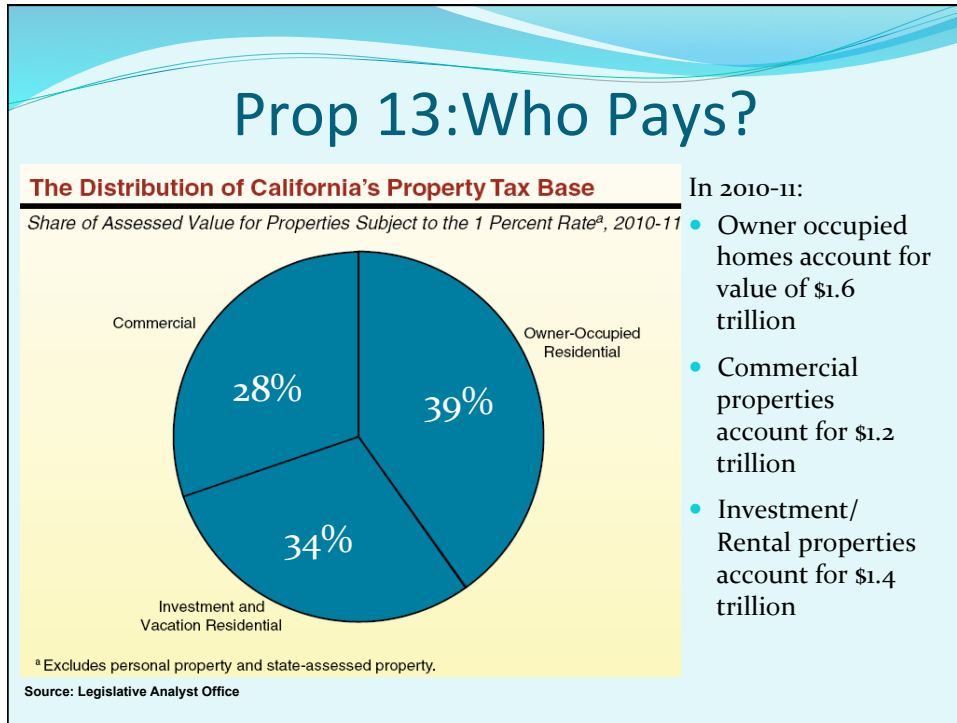
## \*Improvements are Assessed Separately

- E.g. If you purchased a home in 2002 and added a garage in 2010, the home and the garage would be assessed separately – each based on the market rate when they were acquired.
- Specific property improvements that do not increase the assessed value:
  - Reconstruction following a natural disaster (1978)
  - Solar energy construction (1980)
  - Fire-safety improvements (1984)
  - Accessibility construction (1990 & expanded in 1994)
  - Reconstruction/repair of environmental contamination (1998)
  - Seismic safety improvements (2010)

## Prop 13: City Perspective

Prop 13 took control of property tax away from cities, with no acknowledgement of service demands, differing property value or willingness to pay.

- Stable & Predictable Revenue Stream
- Fiscalization of Land Use
  - Reliance on sales tax shifts cities land use priorities
- The Rise of Fees
  - Construction/Development
  - Transient Occupancy Tax



## Prop 13 Reform?

- Split Roll: Do businesses pay their fair share?
  - Less turnover in ownership
  - Higher market value relative to home prices
  - Predictability of property tax is a bright-spot for businesses in CA's tax rich environment

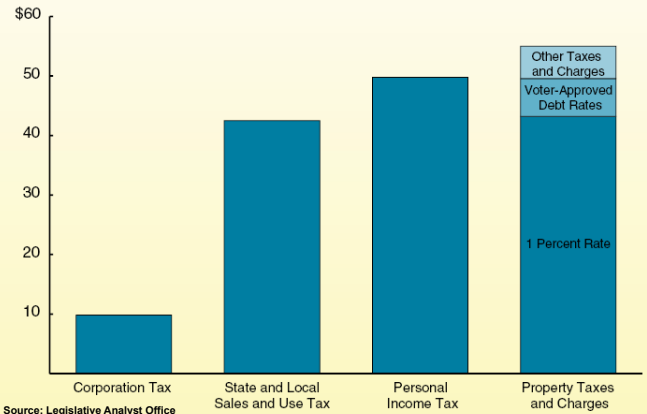
YOUR CASTLE	SLEEPING BEAUTY'S CASTLE
Property Taxes Owed: \$40 per square foot	Property Taxes Owed: \$05 per square foot
	
Average Californian Family Income: \$61,635	Walt Disney Corp. Annual Income: \$42,278,000,000

The average homeowner is paying **8 TIMES** what Disneyland pays in property taxes. Voters passed Prop 13 to protect Your Castle, not Sleeping Beauty's Castle.

## Prop 13: How much is 1% worth?

### Property Tax Revenue Compared With Other Major Revenue Sources

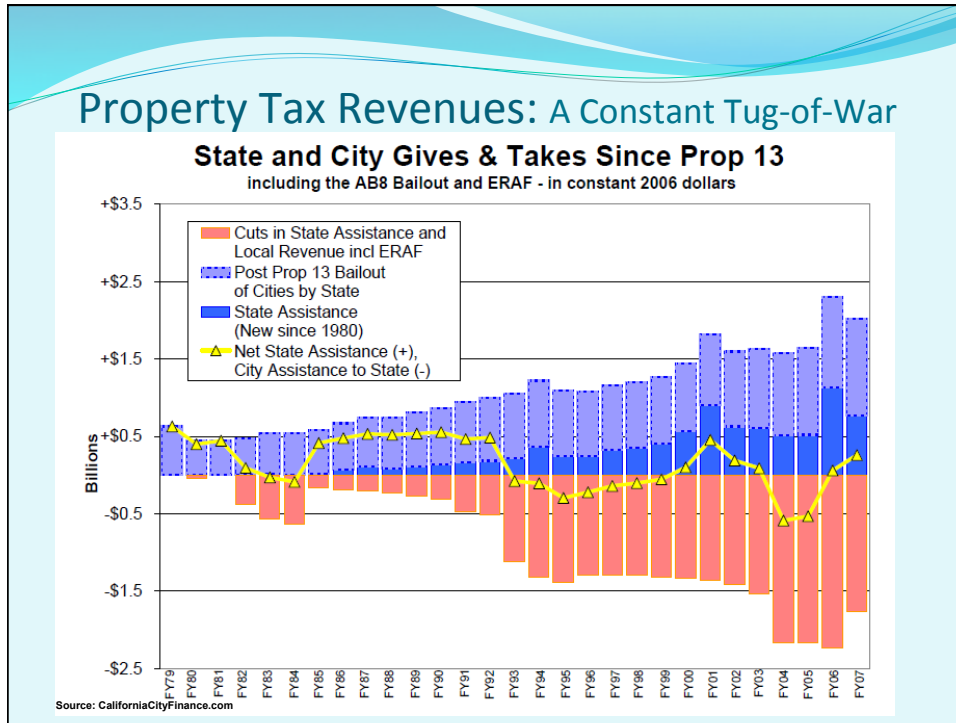
2010-11 (In Billions)



- In 2010-11, **\$55 billion** was collected in property tax revenue.
- \$43.2b from the 1% plus \$5.7b from voter approved additions

## ERAF: The Educational Revenue Augmentation Fund

- A reduction of the “bailout” funds originally spent under the 1978 AB 8 legislation.
  - Cities incorporated AFTER 1978 were not liable
  - \$6 billion annual on-going shift of city, county and special district property tax revenue to the state general fund began in 1991-92.
  - by shifting to local schools thereby relieving state general fund obligation for school \$
- City property tax shares reduced by 24% (on average)
- Most ERAF funds are now used to repay local governments for other local tax revenues cut by the state (VLF, Sales Tax).



- ## Prop 13: Legislative Proposals
- **SCA 3 (Leno) 55% Vote for School Parcel Taxes:** Authorizes a parcel tax for specified programs or services by a school district, county office of education or a community college district. Prohibits funds from paying for administrator's salaries. League Position: Support
  - **SCA 4 (Liu) and SCA 8 (Corbett): 55% Vote for Transportation Special Taxes:** Authorizes a special tax by a local government to provide funding for local transportation projects. Requires the Legislature to define "local transportation projects." League Position: Support
  - **SCA 7 (Wolk) 55% Vote for Library Parcel Taxes, Special Taxes and Bonded Indebtedness:** Authorizes a parcel tax, special tax or the issuance of debt backed by ad valorem property taxes for funding public libraries. League Position: Support
  - **SCA 9 (Corbett) 55% Vote for Special Taxes for Local Community and Economic Development:** Authorizes a special tax for funding local community and economic development public projects by local government with a 55% vote. Defines "community and economic development" to *include* projects that improve, upgrade or revitalize areas that have become blighted because of deterioration, disuse or unproductive economic conditions. League Position: Support
  - **SCA 11 (Hancock) 55% Vote for Parcel Taxes and Special Taxes for Local Purposes:** Authorizes a parcel tax or a special tax for general local government purposes. This is the most flexible of the measures introduced so far and allows more discretion for affected communities to identify their priorities. League Position: Support
  - **ACA 3 (Campos) 55% vote for Public Safety Buildings and Supplemental Services Special Taxes and Bonded Indebtedness:** Authorizes a special tax or bonded indebtedness for funding the construction of local public safety buildings and augmenting public safety services with a 55% vote.
  - **ACA 8 (Blumenfield) 55% vote for Public Safety Buildings Bonded Indebtedness:** This measure authorizes bonded indebtedness with a 55% vote for funding a wide variety of infrastructure, public improvements and local public safety buildings. League Position: Support



# Questions?



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## Save the Date

3<sup>rd</sup> Annual All Cities Holiday Reception

5:30 – 8 PM on Thursday, December 5<sup>th</sup>

Ernst & Young: 725 South Figueroa St. Los Angeles