Triskaidekaphobia:
A Primer on Proposition 13

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California Local Government Finance Almanac
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Proposition 13 (1978) - nuts & bolts

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. Rolls back property values for tax purposes to 1975-76 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,

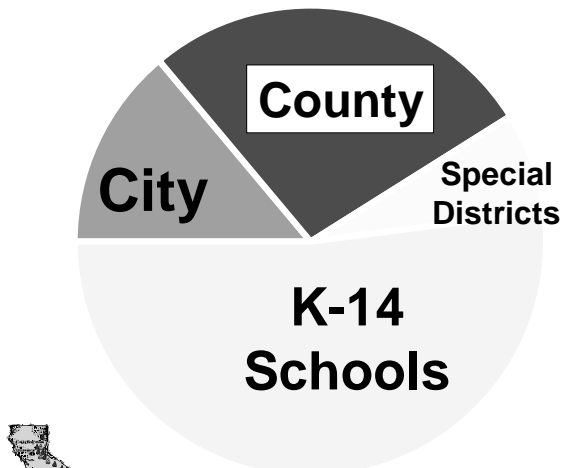6. Effectively transferred the authority for allocating property tax revenues from local government to the state.

Proposition 13 – Taxpayer effects
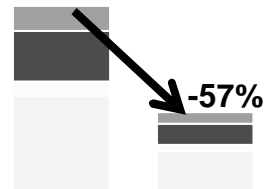
✓ Property tax revenues cut by nearly <u>60%</u>


-57%

Proposition 13 – Taxpayer effects

✓ Property tax revenues cut by nearly <u>60%</u>

✓ Elderly and Low Income Homeowners' tax burden lowered

- Mostly due to the rollback and 2% AV cap
- Younger households more mobile, so less benefit

✓ Even more savings to commercial / rental property owners

✓ Revenue windfalls:

- State $1 billion, Federal $1.6 billion

✓ Disparate tax treatment of similar properties

- Nordlinger v Hahn 1992

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Proposition 13 $ Winners
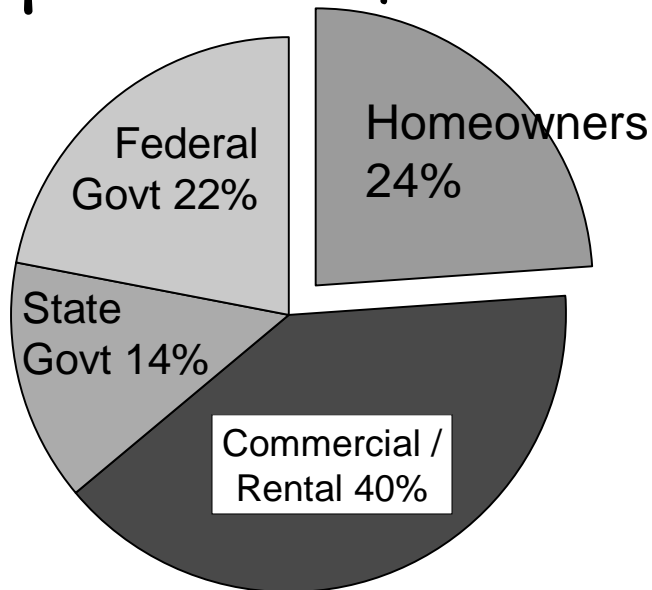
- Federal Govt 22%
- Homeowners 24%
- State Govt 14%
- Commercial / Rental 40%

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California Property Tax

The AB8 "Bailout":

State legislature

• increased non-school shares,

• reduced school shares,

• paid more state general fund to schools.
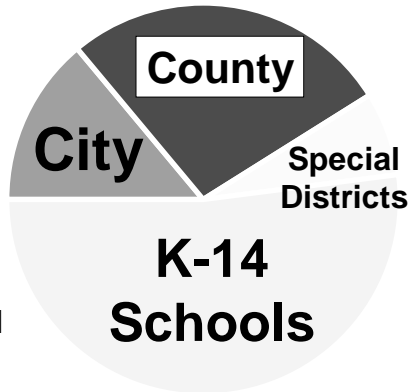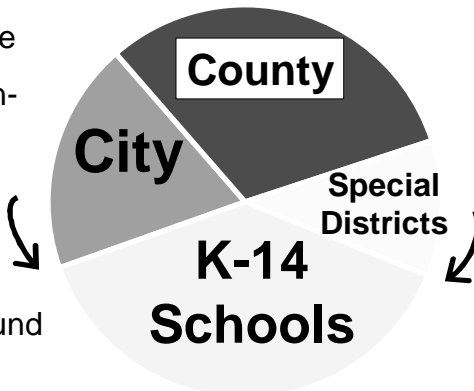
California Property Tax

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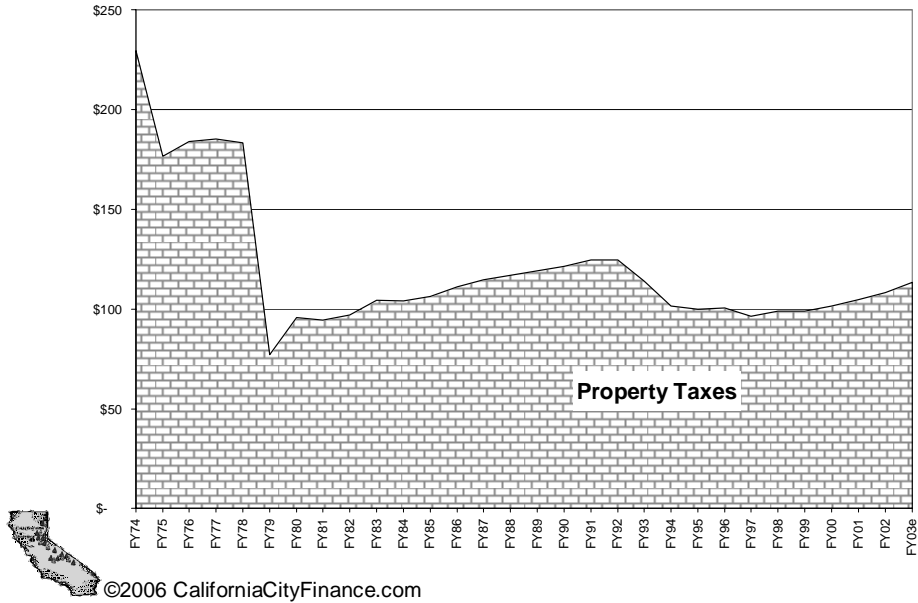
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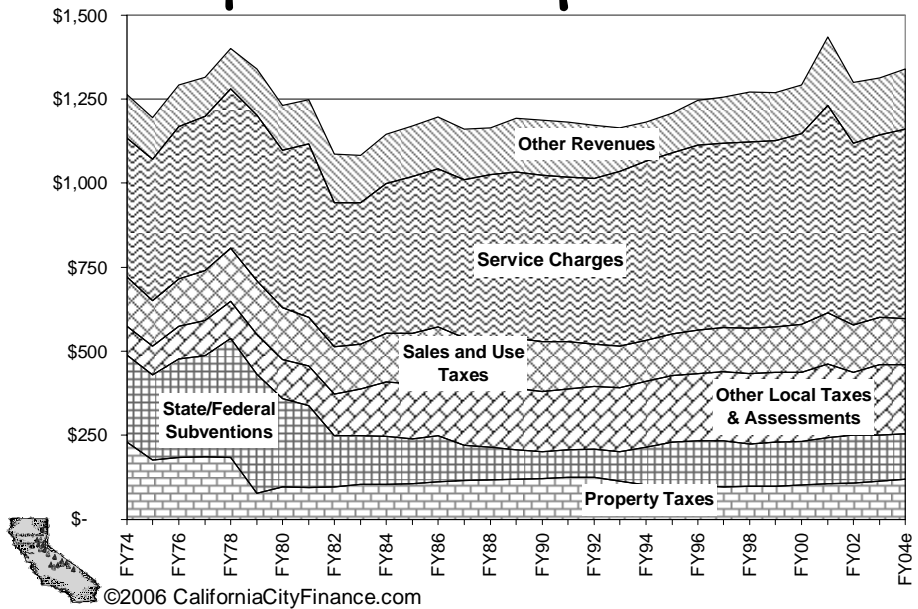
• paid more state general fund to schools.

Prop 13 and PropTax Revenues

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Prop 13 and City Revenues

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Leading Sources
of California City Revenues

FY 1974-75 (pre Prop 13)	FY 1980-81 (after Prop 13)	FY 2001-02 (recent)	FY 2004-05 (VLF-PropTaxSwap)
1. SrvcCharges 35%	1. SrvcCharges 37%	1. SrvcCharges 40%	1. SrvcCharges 40%
2. State/Fed 21%	2. State/Fed 23%	2. State/Fed 11%	2. State/Fed 10%
3. Prop Tax 15%	3. SalesTax 12%	3. SalesTax 10%	3. Prop Tax 11%
4. SalesTax 11%	4. Prop Tax 6%	4. Prop Tax 8%	4. SalesTax 10%
5. Rents,etc. 4%	5. Rents,etc. 4%	5. Rents,etc. 5%	5. Rents,etc. 5%
6. Veh.Lic.Fee 4%	6. Veh.Lic.Fee 3%	6. Veh.Lic.Fee 4%	6. UtilityUserTax 4%
7. Other 10%	7. Other 15%	7. UtilityUserTax 4%	7. Veh.Lic.Fee 1%
		8. Other 18%	8. Other 19%

PropTax-VLF Swap

Source: Calif. State Controller reports

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Progeny of Proposition 13

1980 Proposition 4 Spending limits

1986 Proposition 62 Vote req'd for general / special taxes

1988 Proposition 90 PropTax value transfer for seniors

1986 Proposition 58 PropTax value transfers w/in family

1990 Proposition 110 PropTax value transfer for disabled

1992 Proposition 160 PropTax exemption for service related deaths

1988 Proposition 93 PropTax exemption for veterans

1994 Proposition 176 Tax exemptions for non-profits

1994 Proposition 177 PropTax exemption access imprvmts for disabled

1996 Proposition 218 Votes & procedures for taxes, assessment & fees

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Proposition 13 - effects

✓ Local government property tax shares now depend on pre-Prop 13 tax rate relative to others

- service levels, local politic
- assessed valuation
- differences in service responsibility

✓ Tax rates / shares out of sync with service demands

Proposition 13 - effects

✓ Greater reliance on state general fund for county and school funding (especially)

- commensurate shift of power

✓ Cities and counties raised user fees and local taxes

- variety/complexity of municipal revenue

✓ State authority to allocate local property tax

✓ "Fiscalization of land use"

California School Funding

✓ Before Prop 13

- State aid by formula
- Local property taxes levied by school district up to "revenue limit" = 60% avg.

✓ *Serrano v Priest* (1974) forces equity issue

✓ State responds to booming property tax revenues in 1970s by reducing state aid. State general fund surplus increases.

✓ Taxpayers see more taxes being paid ... no similar boost in school funding / services

Proposition 13 Effects on Schools

✓ Per pupil property tax revenues reduced by more than half.

✓ State & Fed aid made up some of this loss but funding still cut 10% to 15%.

✓ Per pupil spending:

- 1977 = 18th in nation, 6% above national avg.
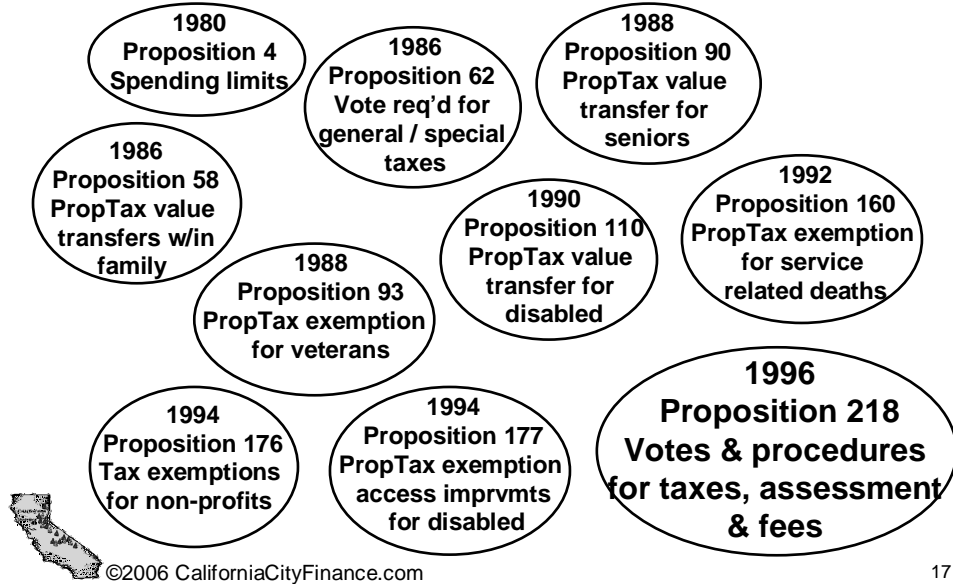- 1997 = 42nd, 20% below national avg.

  ½ of New Jersey, New York

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ERAF – The Property Tax Shifts

- ➢ $6 billion annual on-going shift of city, county and special district 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)
- ➢ State action enabled by a provision of Proposition 13
- ➢ State policy rationale: retraction of Proposition 13 "bail-out" which began in 1980.
- ➢ Most ERAF funds are now used to repay local governments for other local tax revenues cut by the state (VLF, Sales Tax).
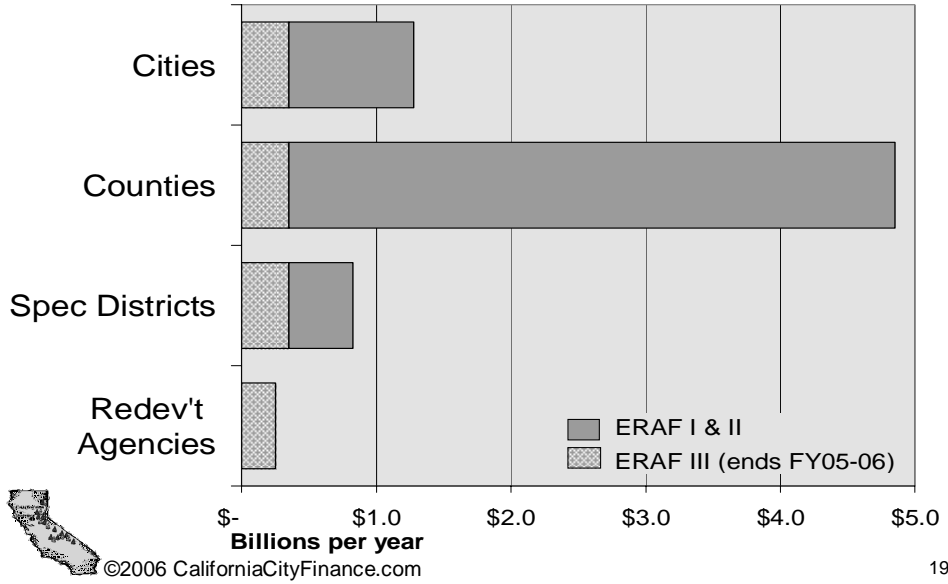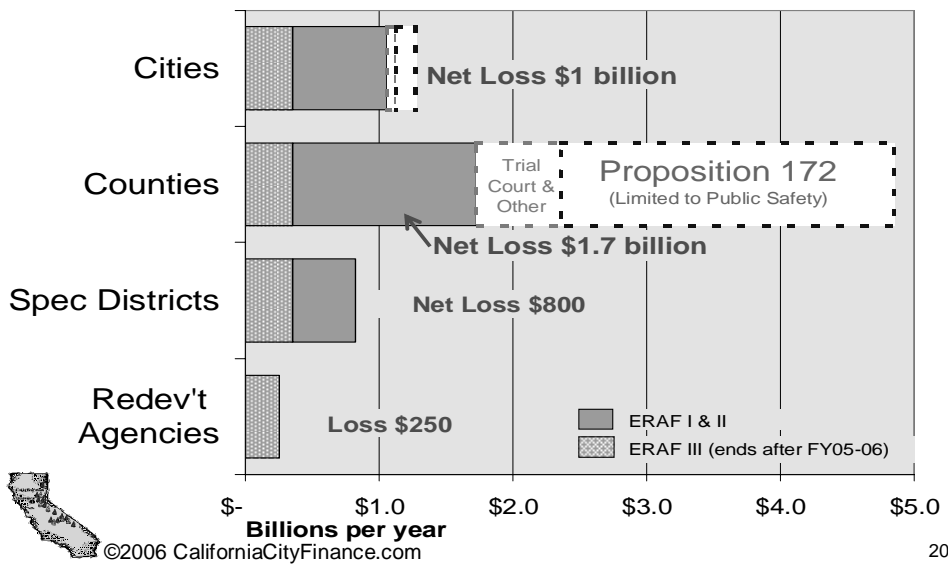
Loss from E.R.A.F. Grab

Annual Statewide in 2005-06

Legend:
- ERAF I & II
- ERAF III (ends FY05-06)

X-axis: $- $1.0 $2.0 $3.0 $4.0 $5.0
Billions per year

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Net Loss: E.R.A.F.

annual statewide in 2005-06

- Cities — **Net Loss $1 billion**
- Counties — Trial Court & Other / Proposition 172 (Limited to Public Safety) / **Net Loss $1.7 billion**
- Spec Districts — **Net Loss $800**
- Redev't Agencies — **Loss $250**

Legend:
- ERAF I & II
- ERAF III (ends after FY05-06)

X-axis: $- $1.0 $2.0 $3.0 $4.0 $5.0
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Proposition 218

The Right to Vote on Taxes (and more)

✓ General Tax increase > <u>majority voter approval</u>

✓ Property Assessment > <u>vote by mail (weighted by assessment $ amount)</u>

✓ Property-Related Fees > <u>majority vote of the fee payers</u> or <u>2/3 vote of electorate</u>. (except sewer, water & refuse collection)

Proposition 218

General Taxes and Property Assessments

✓ General Tax increase requires <u>majority voter approval</u>
  - Constitutional requirement > charter cities

✓ Property Assessments
  - Limited to "special benefits"
  - Vote by mail approval (weighted by assessment $ amount)
  - Government agencies assessed

Proposition 218
Property-Related Fees

✓ New noticing procedures - Majority protest nixes it

✓ Approval by <u>majority vote of the fee payers</u> or <u>2/3 vote of the electorate</u>.

- Exceptions: sewer, water & refuse collection

✓ Fees may not exceed the cost of service

- may not be used for other purposes
- may not exceed the proportional cost of service to the parcel
- must be actually used by or immediately available to the fee payer - "stand-by charges" and "future facilities fees" must be adopted as assessments