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PROPOSITION 13: IT'S TIME FOR A CHANGE

by Elaine Schussler

In 1978, Californians overwhelmingly passed Proposition 13, providing immediate tax relief to California homeowners. Proposition 13, the beginning of a larger "tax revolt" felt across the country, forced local governments in California to cut back their spending. However today, local governments are faced with a shortage of funds, limiting their ability to provide essential services such as police and fire protection. Proposition 13 has also created unfortunate inequities in the property tax system. Because of these problems, many unions and community organizations are now working to reform Proposition 13 by sponsoring the Split Roll Initiative to be placed on the November 1982 ballot.

Problems with Proposition 13

(1) Since the passage of Proposition 13, local governments have been forced to make dramatic cutbacks in social services. By 1980, city and county expenditures had already declined by 10% per capita in real terms. The only area which had not experienced a real decline in expenditures was police and fire protection. But even here, the ratio of police officers and fire fighters per 10,000 residents had declined by 7%. General city and county administrative costs had declined by 20%, library and education expenditures by 19%, and other programs such as senior citizen centers had been cut by 15%.

The immediate financial impact of Proposition 13 was blunted by the existence of a large state surplus which was distributed to local governments. From 1978 to 1981, the state government spent approximately \$5.5 billion each year to bail out local governments. But by 1981, the state surplus had dried up. With the deepening recession and federal cutbacks, the state government has begun to experience its own financial crisis. There are also three propositions on the June 1982 ballot, two wiping out the state inheritance tax and one permanently indexing the state income tax, all of which will substantially reduce tax revenues for state government. Thus, state government is less able to continue bailing out local governments.

In addition to cutting back property taxes, Proposition 13 restricted the ability of local governments to increase their own taxes by requiring all increases to be passed by a two-thirds majority of local voters. Cities have responded by increasing non-tax revenue sources such as user fees, fines and permits. By 1980, user fees levied by local governments had increased by 40%. But, these sources have a limited role in financing local governments. They still represent less than 15% of city revenues. Unless local governments find other revenue sources in addition to the state government and user fees, local services will have to be cut even further.

2) New homeowners now pay two to three times as much property tax as their neighbors who haven't moved, even though they live in identical homes and receive similar services. This inequity resulted from a basic flaw in Proposition 13. Under Proposition 13, all property is taxed at 1% of its full value as estimated in 1976 unless it has changed ownership since then. In this case, it is reassessed at its full purchase value. Thus, a three-bedroom house in California in 1975 that cost \$40,000 may cost \$120,000 today. In this case the new homeowner will pay up to three times as much property tax as the old homeowner. It is estimated that almost 60% of California homeowners have moved since 1976. These new homeowners are no longer receiving the property tax relief that was promised by Proposition 13.

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Thus, Proposition 13 has provided many homeowners with only temporary tax relief and has caused new homeowners to carry more of the tax burden than old homeowners.

(3) Proposition 13 resulted in \$7 billion of tax relief to California taxpayers in its first year of enactment, but non-residential property owners (industrial, commercial and agricultural property) received almost two-thirds of that relief. Big corporations like Standard Oil of California alone received \$20 million in tax relief, and PG&E received \$60 million. PG&E was required to pass on a portion of their savings to consumers, but most companies had no such plans according to a series of interviews with companies conducted in 1978. These companies were asked what they planned to do with their tax savings. The overwhelming response was typified by a Sambo's Restaurant official who asked, "What is a half a million dollars to a billion dollar corporation?", implying that these tax savings would have a minimal impact on corporate decisions. Proposition 13 was supposed to provide tax relief to homeowners, but because Proposition 13 applied to all property, non-residential property received more benefits than homeowners.

The Split Roll Tax Initiative. This initiative is designed to alleviate all three of these problems created by Proposition 13.

(1) First of all, the one percent tax rate on residential property, implemented by Proposition 13 will remain unchanged. Those who bought their home prior to 1976 will not be affected by this initiative. But, all homes bought after 1976 will be taxed on half of their assessed value rather than 100% of their assessed value. Thus, anyone who bought their home since 1978 will pay lower property taxes.

(2) The tax rate on commercial property will increase from one percent to one and one-third percent and all commercial property will be reassessed at its current market value. Commercial property will be taxed differently than residential property, but only because it is different. Commercial property is rarely sold and thus never reassessed for tax purposes; so it keeps accumulating tax breaks while the rest of us have lost ours. Even with this slight increase, businesses will still only pay 50% of what they paid prior to the passage of Proposition 13.

(3) This initiative will generate \$1.6 billion for local governments so that they may continue to provide essential services such as education, and police and fire protection.

The state surplus is gone, the federal government is cutting back aid, and local governments are beginning to reduce essential services. New homeowners are being denied property tax relief while big companies have become the big winners under Proposition 13. The split roll tax initiative gives us a chance to correct these inequities. For more information write to Taxpayers for California, 1228-1/2 H Street, Sacramento, CA 95814, or call 916/446-0145.

- Elaine Sorensen

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