1978

Property Tax Limitation

13 Tax Limitation—Initiative Constitutional Amendment

Official Title and Summary Prepared by the Attorney General

TAX LIMITATION—INITIATIVE CONSTITUTIONAL AMENDMENT. Limits ad valorem taxes on real property to 1% of value except to pay indebtedness previously approved by voters. Establishes 1975–76 assessed valuation base for property tax purposes. Limits annual increases in value. Provides for reassessment after sale, transfer, or construction. Requires ⅔ vote of Legislature to enact any change in state taxes designed to increase revenues. Prohibits imposition by state of new ad valorem, sales, or transaction taxes on real property. Authorizes imposition of special taxes by local government (except on real property) by ⅔ vote of qualified electors. Financial impact: Commencing with fiscal year beginning July 1, 1978, would result in annual losses of local government property tax revenues (approximately $7 billion in 1978–79 fiscal year), reduction in annual state costs (approximately $600 million in 1978–79 fiscal year), and restriction on future ability of local governments to finance capital construction by sale of general obligation bonds.

Analysis by Legislative Analyst

Background:

The following are some basic facts about California property taxes.

1. Under existing law cities, counties, schools and special districts are permitted to levy local property taxes. During the 1977–78 fiscal year these governments will collect about $10.3 billion in property taxes.

2. The state will give $1.2 billion to local governments to replace the property taxes that cannot be collected because a portion of a business's inventory and a homeowner's property value is exempt from taxation.

3. Total local property tax revenues (tax collections plus state tax relief payments), therefore, will be about $11.5 billion during 1977–78.

4. The share of total income that comes from property tax revenues is higher for some types of local governments than it is for others.
   a. Cities receive about 27 percent of their income from property tax revenues,
   b. Counties receive about 40 percent from property tax revenues,
   c. Schools receive about 47 percent from property tax revenues, and
   d. In many special districts the property tax is the only significant source of revenue. For example, fire districts receive about 90 percent of their income from property tax revenues.

5. In addition to property tax revenues, many local governments impose other taxes and receive federal and state funds to pay for the services they provide. However, some of these revenues can only be used for certain purposes such as transportation, education, health or welfare. Therefore such revenues are not available to replace property taxes, except to the extent they eliminate the need to use property tax revenues for such purposes.

6. The total local property tax roll consists of county assessments on real property (land and buildings) and personal property (inventories) and state assessments on public utilities and railroads. Total assessments are updated periodically to reflect changes in value due to inflation, new construction, and a greater volume of personal property.

7. Total local property tax revenues are equivalent to 2.7 percent of the full cash value of all taxable property in California.

Proposal:

This initiative would: (1) place a limit on the amount of property taxes that could be collected by local governments, (2) restrict the growth in the assessed value of property subject to taxation, (3) require a two-thirds vote of the Legislature to increase state tax revenues, and (4) authorize local governments to impose certain nonproperty taxes if two-thirds of the voters give their approval in a local election.

In several instances the exact meaning of language used in this measure is not clear. Where this occurs we have based our analysis on an opinion of the Legislative Counsel regarding the probable court interpretation of such language.

The following is a summary of the main provisions of this initiative:

1. *Property tax limit.* Beginning with the 1978–79 fiscal year, this measure would limit the amount of property taxes that could be collected from an owner of county assessed *real* property to 1 percent of the property's full cash value. This measure does not mention county assessed personal property (such as business inventories), or state assessed property (such as public utilities), but the Legislative Counsel advises us that the 1 percent limit would apply to *all* types of taxable property.

This measure does not permit local voters to raise the

1 percent limit; that would require a new constitutional amendment. The limit could be exceeded only to repay bonded debt approved by the voters *before* July 1, 1978. The limit could not be exceeded to repay bonded debt approved by the voters on or *after* July 1, 1978.

Property taxes to repay existing bonded debt correspond to about ¼ of 1 percent of the full cash value of taxable property in California.

The limit on property taxes plus the restrictions on assessed values noted below, would substantially reduce local property tax revenues.

2. *Distribution of remaining property tax revenues.* The reduced property tax revenues which could be raised under the 1 percent limit would be collected by the counties and then distributed "according to law to the districts within the counties".

At present there is no state law which would provide for the distribution of these revenues. Therefore we are unable to determine how the substantial reductions in property tax revenues would be distributed among cities, counties, schools and special districts.

Also, this measure refers only to the distribution of property tax revenues to "districts within the counties". It does not say whether cities and counties (which technically are not "districts") could share in these revenues. However, the Legislative Counsel advises us that unless the ballot arguments by the proponents of this measure, which are included in this pamphlet, make it clear that counties and cities are *not* to receive property taxes, they could continue to receive some portion of these revenues.

3. *Restrictions on the growth in assessed values.* Initially this measure would roll back the current assessed values of real property to the values shown on the 1975–76 assessment roll. However county assessors could adjust the values shown on the 1975–76 assessment roll if these values were lower than the estimated market value as of March 1, 1975. The adjusted values could then be increased by no more than 2 percent per year as long as the same taxpayer continued to own the property. For property which is sold or newly constructed after March 1, 1975, the assessed value would be set at the appraised (or market) value at the time of sale or construction. As a result, two identical properties with the same market value could have different assessed values for tax purposes if one of them has been sold since March 1, 1975.

4. *Increases in state taxes.* Currently state taxes can be increased by a majority vote of both houses of the Legislature and approval by the Governor (that is, if the Governor signs the measure increasing taxes). This initiative would require a two-thirds vote by the Legislature to increase state taxes and would prohibit the Legislature from enacting any new taxes based on the value or sale of real property.

5. *Alternative local taxes.* This measure would authorize cities, counties, special districts and school districts to impose unspecified "special" taxes only if they receive approval by two-thirds of the voters. Such taxes could not be based on the value or sale of real property.

The Legislative Counsel advises us that provisions in the existing Constitution would prohibit general law cities, counties, school districts and special districts from imposing new "special taxes" without specific approval by the Legislature. Such restrictions limit the

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Text of Proposed Law

This initiative measure proposes to add a new Article XIII A to the Constitution; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED ADDITION OF ARTICLE XIII A

ARTICLE XIII A

Section 1. (a) The maximum amount of any ad valorem tax on real property shall not exceed One percent (1%) of the full cash value of such property. The one percent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties.

(b) The limitation provided for in subdivision (a) shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to the time this section becomes effective.

Section 2. (a) The full cash value means the County Assessors valuation of real property as shown on the 1975–76 tax bill under "full cash value", or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occured after the 1975 assessment. All real property not already assessed up to the 1975–76 tax levels may be reassessed to reflect that valuation.

(b) The fair market value base may reflect from year to year the inflationary rate not to exceed two percent (2%) for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction.

Section 3. From and after the effective date of this article, any changes in State taxes enacted for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computation must be imposed by an Act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed.

Section 4. Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such City, County or special district.

Section 5. This article shall take effect for the tax year beginning on July 1 following the passage of this Amendment, except Section 3 which shall become effective upon the passage of this article.

Section 6. If any section, part, clause, or phrase hereof is for any reason held to be invalid or unconstitutional, the remaining sections shall not be affected but will remain in full force and effect.

Arguments in Favor of Proposition 13

Limits property tax to 1% of market value, requires two-thirds vote of both houses of the legislature to raise any other taxes, limits yearly market value tax raises to 2% per year, and requires all other tax raises to be approved by the people. Why then the amendment? President Carter said "our tax system is a National disgrace".

Our audit figures show loss to local governments at about $5 billion, not $7 billion as claimed by the state finance director.

Assembly leader Paul Priolo said "it's a tough amendment but the state can live with it. It means public officials will have to go to work".

Noted UCLA tax expert Dr. Neil Jacoby writes "This unjust process must be brought to an end". "A 1% limit would still leave property tax revenue *far above* the level required to pay for property-related governmental services, street lighting maintenance, sewers, trash collection and *POLICE* AND *FIRE PROTECTION*".

According to the State Controller's office, state agencies will still collect more than 33 thousand million tax dollars every year after this amendment passes. We think this is more than enough. *The people will save 7 thousand million dollars every year* for themselves.

This amendment will make rent reductions *probable*. Otherwise *rent raises are certain as property taxes go up*. It will help farmers and keep business in California. It will make home and building improvements possible *and create thousands of new jobs*.

The amendment DOES NOT reduce property tax exemptions for senior citizens. DOES NOT remove tax exemptions for churches or charities. DOES NOT prohibit the use of property tax money for schools.

To make California taxes FAIR, EQUAL and WITHIN THE ABILITY OF THE TAXPAYERS TO PAY, vote YES on Proposition 13.

HOWARD JARVIS
Chairman, United Organizations of Taxpayers

PAUL GANN
President, Peoples Advocate

The Legislature will not act to reduce your property taxes. As a Senator and Legislator for 11 years, I, like you, have been totally frustrated with the Legislature's failure to enact a meaningful property tax relief and reform bill.

What Ronald Reagan describes as the "spenders coalition" of spendthrift politicians and powerful special interests are spending millions to defeat Proposition 13.

Your Yes vote will NOT require a reduction of vital services like police or fire, nor any tax increase. Your Yes vote will require a tough Governor take the lead in cutting wasteful, unnecessary government spending 10 to 15%.

More than 15% of all governmental spending is wasted! Wasted on huge pensions for politicians which sometimes approach $80,000 per year! Wasted on limousines for elected officials or taxpayer paid junkets. Now we have the opportunity to trade waste for property tax relief!

If we want to permanently cut property taxes about 67%, we must do it ourselves. Join Democratic Senator Robert "Bob" Wilson and me, a Republican Senator, in voting Yes o Proposition 13.

JOHN V. BRIGGS
State Senator, 35th District

Rebuttal to Arguments in Favor of Proposition 13

PROPOSITION 13:

GIVES nearly two-thirds of the tax relief to BUSINESS, INDUSTRIAL property owners and apartment house LANDLORDS;

TRANSFERS your LOCAL CONTROL over neighborhood and community program funding to state and federal government bureaucracies;

PROVIDES absolutely NO TAX RELIEF for RENTERS;

REDUCES drastically police patrol services and fire protection while INCREASING home insurance COSTS by 50% to 300%;

REQUIRES new taxes to preserve CRITICAL SERVICES. Doubling the sales tax, substantially increasing the income tax or increasing the bank and corporation tax by 500% are the potential alternatives;

SLASHES current local funding for PARKS, BEACHES, MUSEUMS, LIBRARIES and PARAMEDIC PROGRAMS;

PENALIZES our school CHILDREN by CUTTING operating school budgets by nearly $4 billion, further lowering the quality of education;

PLACES a disproportionate and unfair tax burden on anyone purchasing a home after July 1, 1978;

INCREASES your state and federal INCOME TAXES and HANDS the IRS nearly $2 BILLION of your tax dollars.

Check the FACTS. Talk to your local officials; talk to your schools and talk to your business and labor organizations and demand to know what cutbacks in essential services would occur if Proposition 13 passes.

JOIN the LEAGUE OF WOMEN VOTERS
CALIFORNIA TAXPAYERS ASSOCIATION
LOS ANGELES CHAMBER OF COMMERCE
LEAGUE OF CITIES
COUNTY SUPERVISORS ASSOCIATION
CALIFORNIA RETAILERS ASSOCIATION

and countless others who are opposed to this IRRESPONSIBLE MEASURE which CUTS $7 BILLION from critical services.

VOTE NO ON 13!

HOUSTON I. FLOURNOY
Dean, Center for Public Affairs,
University of Southern California
Former State Controller

TOM BRADLEY
Mayor, City of Los Angeles

GARY SIRBU
State Chairman, California Common Cause

Arguments printed on this page are the opinions of the authors and have not been checked for accuracy by any official agency.

Argument Against Proposition 13

Proposition 13 invites economic and governmental chaos in California. It will drastically cut police and fire protection and bankrupt schools unless massive new tax burdens are imposed on California taxpayers. It will take decision-making away from the local level and weaken home rule.

Proposition 13 is a vague, poorly drafted and incomplete proposal which will seriously damage the economic stability of state and local governments. Shocking increases in state and local taxes are virtually inevitable. Many homeowners who expect to benefit will actually suffer a net tax increase.

Homeowners will be in for several unpleasant economic surprises if Proposition 13 is adopted. They will be paying higher federal income taxes, yet at the same time the community they live in will lose its rightful share of federal revenue sharing funds. Homeowners living in identical side-by-side houses will pay vastly different property tax bills.

Millions of renters will be doubly jeopardized. Renters have no guarantee that their landlord's property tax savings will be voluntarily passed through to them. But they can be certain they will be forced to pay the new or additional taxes necessary to keep our local governments out of bankruptcy.

Passage of Proposition 13 will slash $7 billion from school and local government budgets—an amount nearly equal to one-half of the General Fund budget for the entire State of California. This crippling blow simply cannot be absorbed. For example, it would require a doubling of your present income tax, or the sales tax to simply replace the lost revenues.

Homeowners and renters are most in need of property tax relief. But Proposition 13 gives two-thirds of the property tax decrease to commercial and industrial property owners.

Proposition 13 will seriously cripple local government services, including police and fire protection. Proposition 13 will force default on many redevelopment and revenue bond issues and prohibit future general obligation bond issues to pay for needed schools, hospitals, and water facilities. Business will not locate or expand in California if the local services necessary for economic development and new jobs are slashed.

This irresponsible initiative is not a solution. Proposition 13 goes too far. It is an invitation to poor community services, less local control and inequitable taxation for all Californians.

Vote "no" on Proposition 13.

HOUSTON I. FLOURNOY
Dean, Center for Public Affairs, University of Southern California
Former State Controller

TOM BRADLEY
Mayor, City of Los Angeles

GARY SIRBU
State Chairman, California Common Cause

Rebuttal to Argument Against Proposition 13

We who own homes, farms, property or rent must not let the political horror stories scare us. We must vote proposition 13 into law June 6, 1978. We must not let the spendthrift politicians continue to tax us into poverty. *Proposition 13 will NOT cut fire protection, police protection, sewers, streets, and lighting or garbage collection. All property related services. It will cut spending about 15%.*

Proposition 13 will NOT give business a NEW WINDFALL. It does NOT change the tax ratio between residences and business property in effect for 75 years. It will stop business from leaving California and bring new companies to California, creating thousands of new jobs. Proposition 13 will *NOT* prohibit the use of property taxes to finance schools.

Proposition 13 will make property taxes FAIR, EQUAL and within the *ABILITY to pay for all Californians.*

Proposition 13 will make lower rents certain. It will reduce the monthly impound tax payments on home mortgages.

As expected, the opposition to proposition 13 is signed by 2 persons long on the taxpayers payroll and one person from a tax free foundation. *Proposition 13 makes sense for California. Means thousands of extra dollars for you and your family each and every year. Restores government of, for and by the people.*

Also for 13: Assemblymen Robert Cline (R), Wm. Dannemeyer (R), Mike Antonovich (R) and Senator Bob Wilson (D).

VOTE YES ON PROPOSITION 13, YOUR LAST CHANCE FOR PERMANENT TAX RELIEF.

HOWARD JARVIS
Chairman, United Organizations of Taxpayers

PAUL GANN
President, Peoples Advocate

JOHN V. BRIGGS
State Senator, 35th District

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ANALYSIS OF PROPOSITION 13—

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ability of these local governments, even with local voter approval, to replace property tax losses resulting from the adoption of this initiative.

Fiscal Effect:

This measure would have the following direct impact on the state and local governments:

1. Local governments would lose about $7 billion in property tax revenues during the 1978–79 fiscal year. This is because the measure would reduce local property tax revenues (estimated at $12.4 billion under current law) by 57 percent, statewide. Some counties would lose more, and others would lose less.

2. The ability of local governments to sell general obligation bonds in the future would be severely restricted. These bonds are used to finance the construction of new schools, local government buildings, and a variety of other facilities such as parks and sewage treatment plants.

3. The reduction in local property taxes would reduce state costs for property tax relief payments by about $600 million in 1978–79.

The full fiscal impact of this initiative would depend on whether or not the $7 billion in local property tax revenue losses were replaced. Replacement revenues could come from two sources:

1. The initiative permits local governments to raise additional revenues by levying other unspecified taxes. Under existing law, most local governments would have to receive specific approval from the Legislature before levying new taxes. If the initiative is approved, new taxes would also have to be approved by two-thirds of the local voters. Thus the initiative would restrict the ability of local governments to impose new taxes in order to replace the property tax revenue losses.

2. Although there is nothing in the initiative or in current law that would require the state to replace any part of the property tax revenue losses, the state could agree to do so.

If these property tax revenue losses *were substantially replaced,* local governments could maintain the existing level of government services and employment. Part of these revenue losses could be covered *temporarily* by using the state surplus. Additional revenues to pay for these services would have to come from higher state or local taxes such as those imposed on personal income, sales and corporations. Depending upon which tax sources were used to replace local property tax losses, there could be a shift in who initially bears the tax burden. This is because most sales and personal income taxes are paid by nonbusiness taxpayers, whereas about 65 percent of property taxes are initially paid by business firms.

If the $7 billion in local property tax revenue losses *were not substantially replaced,* there would be major reductions in services now provided by local governments and in local government employment. We cannot predict which particular local services (such as schools, law enforcement, fire protection, health and welfare) would be affected because we do not know how the remaining property tax revenues would be distributed. Because state law requires local governments to pay for certain local programs at specified levels (for example, unemployment compensation benefits and most local welfare costs), the cuts could not be made in these areas without further action by the Legislature.

The 2 percent limit on assessment increases would not allow property tax revenues to rise as rapidly as prices are expected to increase. This limit would tend to require additional cutbacks in local government services and employment in future years unless additional replacement revenues were available. By requiring that property be reassessed when sold, this initiative would, over time, cause homeowners to pay an increasing proportion of local property taxes because homes are sold more often than other types of property such as commercial and industrial.

If the state surplus is used to cover part of local revenue losses in 1978–79, it would not be available to maintain the level of government services in subsequent years.

In the long run, a major *net* reduction in property tax revenues and local spending could have significant economic effects on the level of personal income and employment in California. Such changes, in turn, eventually would produce unknown additional state and local fiscal effects.

TEXT OF PROPOSITION 1— *Continued from page 9*

~~sale at the coupon rate or rates specified in the bid, such computation to be made on a 360/day year basis.~~

~~17610. The committee may authorize the State Treasurer to sell all or any part of the bonds herein authorized at such time or times as may be fixed by the State Treasurer.~~

~~17611. All proceeds from the sale of the bonds herein authorized deposited in the fund, as provided in Section 16757 of the Government Code, except those derived from premium and accrued interest, shall be available for the purpose herein provided, but shall not be available for transfer to the General Fund pursuant to Section 19305 to pay principal and interest on bonds.~~

~~17612. With respect to the proceeds of bonds authorized by this chapter, all the provisions of Sections 17700 to 17766, inclusive, shall apply.~~

~~17613. Out of the first money realized from the sale of bonds under this act, there shall be repaid any moneys advanced or loaned to the State School Building Lease/Purchase Fund under any act of the Legislature, together with interest provided for in that act.~~

SEC. 2. Chapter 21 (commencing with Section 17600) is added to Part 10 of the Education Code, to read:

CHAPTER 21. STATE SCHOOL BUILDING AID BOND LAW OF 1978

17600. This act may be cited as the State School Building Aid Bond Law of 1978.

17601. The State General Obligation Bond Law (Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the Government Code) is adopted for the purpose of the issuance, sale, and repayment of, and otherwise providing with respect to, the bonds authorized to be issued by this chapter, and the provisions of that law are included in this chapter as though set out in full in this