

Chapter 1 The Time Before Proposition 13: A Tortured History of the Property Tax

By
J. Fred Silva
Senior Fiscal Policy Advisor
California Forward



Early History of the Property Tax

- State vs. Local Tension
- Early turmoil 1849 to 1910
 - Property tax Law of 1850
 - Local and state property tax rates
 - Over half of the state budget financed by a state property tax rate.



PROPERTY TAX REFORM AT THE TURN OF THE CENTURY

- Tax reform commissions recommend the property tax as a local tax.
- Separation of Sources Act of 1910
 - Property tax used exclusively for local purposes.
 - State no longer would levy a property tax.
 - Shifted the state tax burden to utilities, banks and corporations, with rate changes requiring a 2/3rds vote.



The Great Depression and the Property tax

- Property tax revenue is in decline as assessors are reducing the value of property.
- In 1932 CTA puts an initiative on the ballot requiring the legislature to impose an income and sales tax - Defeated 2 to 1
- Legislature puts the Riley-Stewart Plan on the ballot in 1933 – New tax authority with a spending limit



Property tax reform in the 1960s lays the foundation for Proposition 13

- Assessment scandals
- Property tax assessment reforms brought standard assessment ratios
- - assessed value and “highest and best use”
 - Reassessment cycles every 4 or 5 years caused significant increases in assessed value.
- By the mid 1960s the tax revolt was
5 underway.



The tax revolt makes it to the ballot

- 1968 – Watson Initiative
 - Tax rate limit of 1% proceed limited to “property related services.”
- Legislature proposes a Home owners exemption of \$750.
- Watson measure fails.
- 1970s – Property tax relief was chasing assessed value increases.
- From 1970 until 1978 12 property tax relief measures were filed but none made it to the ballot



PROPOSITION 8 VS. PROPOSITION 13

- The Legislatures answer to Proposition 13.
 - Authorized the legislature to enact a “split tax rate” for home owners and all other property
 - Enacted an implementation statute that reduced homeowner property tax rate by 30%, with an interaction with the assessment roll, increased the renters credit and provided senior property tax relief.

Assessed value and tax rate growth in the 1970s

Year	Single Family Assessed Value	Statewide Average Tax Rate
1967-68	6%	4%
1968-69	6%	1%
1969-70	7%	5%
1970-71	9%	5%
1971-72	6%	9%
1973-74	7%	0%



In 1975 the Property Tax matters to local services

- Counties
 - Property tax is 35% of county revenue but 67% of own source revenue.
 - Property tax revenue growth is averaging 12% in the 1970s.
 - 40% of expenditures were as agents of the state and 47% of county revenue came from the state or federal governments



In 1975 the Property Tax matters to local services

- Cities
 - Property tax is 23% of city revenue.
 - Property tax revenue growth is averaging 11% in the 1970s.



Share of the Property Tax from Local Levy to State Distribution

Year	Schools	County	City	Other
1977	53%	30%	10%	7%
1979	39%	19%	13%	16%



Changing Reliance on Big Three Taxes (Billions)

<u>Tax source</u>	<u>1977</u>		<u>2010</u>	
Income tax	\$6.6	29%	\$61	40%
- Personal	(\$4.6)		(\$51)	
- Corporate	(\$2)		(\$10)	
Sales Tax	\$6.4	28%	\$41	28%
Property tax	\$10	43%	\$49	32%



Chapter 2 is April 11

Stay tuned for the next exciting chapter covering the implementation of Proposition 13 as the legislature viewed it and in the words of Oliver Hardy....

“Here is another fine mess you have gotten us into....”

