Burdens and Benefits

Investigating Prop. 13’s unequal impacts in Oakland
Acknowledgments

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The findings and recommendations of this report are SPUR’s and do not necessarily reflect the views of those listed below. Any errors are the authors’ alone.

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Introduction

California's Proposition 13 is one of the most studied and discussed property tax laws in the United States. One study by a political scientist shows that Prop. 13 has dramatically reduced municipal government revenues and forced cities to find alternative revenue streams to fund basic services.\(^1\) Research from the National Bureau of Economic Research shows that Prop. 13 — which limits property tax rates and effectively freezes property assessment at the time of sale — reduces mobility, keeping some homeowners in the same home longer than they would have stayed and prolonging others' tenure as renters.\(^2\) Prop. 13 has also been found to contribute to inequality by entrenching property wealth across generations in some families and effectively denying it to others.\(^3\) Yet little research has been done on how Prop. 13 impacts different homeowners and neighborhoods within the same city. To better understand this, we chose to examine the impact that Prop. 13 has had in Oakland, particularly on low-income households and communities of color. Produced in partnership with the Tax Fairness Project, this brief provides a window into who benefits the most from Prop. 13 and how this decades-old law perpetuates racial and economic divides in the city.

Prop. 13 is often understood as benefitting those who were able to buy homes long ago and disadvantaging newer homeowners by comparison. But this brief focuses on a new finding: It is often whiter and wealthier homeowners who benefit most — sometimes regardless of how long ago they bought their homes. This is because homes in higher-income communities have increased in value at a faster pace than other homes, making the effects of Prop. 13 much larger for those homeowners. Since its passage in 1978, many have called for reform of Prop. 13. But as our research reveals, the effects of this law are only partially understood. Before the state considers whether to update or replace Prop. 13, policymakers will need a fuller picture of its impacts. This brief does not make policy recommendations but begins the conversation by examining how Prop. 13 benefits or burdens two different census tracts in Oakland. Future research will be needed to determine how to address the challenges of Prop. 13 in a way that will not harm California households and communities.

Our research shows that Prop. 13 disproportionately benefits wealthy Oakland homeowners, generating annual tax savings in excess of $10,000. Lower-income homeowners receive much smaller benefits, usually around $2,000. Black and Latinx neighborhoods also have lower rates of homeownership than white neighborhoods, and even when people of color do own their homes, their tax savings from Prop. 13 are smaller than those of majority white communities. Black and Latinx homeowners are also likely to pay higher proportions of their income in property taxes.

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One limitation of our analysis is that it uses household income estimates from the U.S. Census Bureau that include both renters and homeowners. In a city like Oakland, where a majority of residents are renters, this overstates the tax benefits to middle- and low-income residents and understates the benefits for landlords, who are likely to be higher-income people or private businesses. This analysis also explores Prop. 13 at the census tract level, which can have the effect of missing the nuances of the law. For example, low- and middle-income homeowners in neighborhoods throughout Oakland may receive substantial benefits from Prop. 13 by virtue of living in neighborhoods that are predominately made up of high-income households, where home values increase at the fastest rates. These homeowners receive large benefits under Prop. 13 in the form of tax relief but are largely invisible in our analysis because of our focus on neighborhoods rather than on individuals.

What Is Proposition 13?

For much of California’s history, property tax was the preferred method of raising local revenue for public goods and services. This practice changed in 1978, when voters passed Prop. 13, which made two major changes to property tax law. First, it reduced the tax rate on properties to 1% of a property’s value. Second, it artificially constrained yearly increases in property values to 2% of assessed value or the rate of inflation, whichever was lower. In essence, a property would always be assessed at the price it last sold for — no matter how long ago that was.

Before Prop. 13, if a property rose in value, its assessed value would also increase, and a property owner’s taxes would increase with it. In addition, a local government could raise the property tax rate over time to meet new fiscal obligations or adapt to local changes. Prop. 13 effectively stops both of these things from occurring by disconnecting tax rates from assessed values. Instead of granting the government the authority to collect higher property taxes commensurate with increasing value and to use that revenue to fund public goods, Prop. 13 essentially created a tax subsidy for homeowners.

For some, this effective subsidy from Prop. 13 has been a significant benefit. Homeowners who live in neighborhoods or cities with rapidly increasing property values benefit from a lower tax payment relative to the value of their homes. And those who bought a home many years ago and have seen dramatic increases in value benefit from an assessment that is much lower than market value, and thus a much lower tax payment than they would otherwise pay.

Oakland Tax Revenue Today

Property taxes are just one of many sources of revenue for municipal governments. Oakland’s general fund — the discretionary budget that pays for many of the city’s essential services and public goods — includes a variety of revenue streams. Property taxes make up the largest portion, representing 34% of the fund’s revenue, followed by business license taxes, real estate transfer taxes, service charges and local sales tax. In total, 11 different revenue streams make up Oakland’s general fund.

![Property taxes make up the largest source of revenue for Oakland's general fund.](image)

Oakland general fund revenue, fiscal year 2020–2021

Source: City of Oakland, Budget
How We Estimated Prop. 13 Subsidies

This analysis relies on data comparisons made by the Tax Fairness Project to estimate the difference between what a property’s annual tax payment would be according to its market value and what the actual tax payment is. The project bases its analyses on county tax records, estimated November 2020 home market values from public sources such as popular housing websites, and current tax rate estimates by county. For example, a typical home in San Carlos has a market value of $2.3 million. Without Prop. 13, the property owner might be expected to pay $27,000 in annual property tax. But in 2019, this homeowner only paid $3,000. Their tax subsidy for that year was $24,000.

This brief then compares these Prop. 13 subsidies to income and demographic characteristics of two census tracts in Oakland.
Who Does Proposition 13 Benefit?

Prop. 13 provides some Oaklanders with tens of thousands of dollars of tax subsidies each year, giving those households the opportunity to build wealth at the expense of unfunded or underfunded public goods and services. In this section, we show that households in Oakland’s wealthiest neighborhoods benefit the most from this law, while households in Oakland’s lowest-income neighborhoods — who would be most likely to benefit from increased spending on public goods and services — see much less utility from Prop. 13, if they see any benefit at all. Prop. 13 also disproportionately benefits homeowners in whiter neighborhoods, while homeowners in neighborhoods with greater Black and Latinx populations see much smaller benefits.

Prop. 13 Helps Those in the Highest-Income Neighborhoods the Most

Under Prop. 13, people whose home values have increased at more than 2% per year since they bought their home benefit from property tax subsidies each year. These homes can be said to be “under-assessed.” Our collaborators at the Tax Fairness Project calculated under-assessment by comparing official home assessments on county tax records with the estimated market prices for the same homes on popular real estate websites. Our analysis of this data shows that in Oakland, the higher the median income in a neighborhood, the more likely those homeowners are to pay taxes at an assessment well below their home’s market rate. Within these neighborhoods, higher-income households are more likely to own their homes and therefore benefit from the tax subsidy.5

All of this translates to tangible annual tax savings for the city’s richest: For every increase of $10,000 in median household income, the average annual tax savings increases by $290.6 (See figures 2 and 3 on page 9.)

Why is this the case? Prosperity is often self-reinforcing. A higher-income household may have had the resources to buy a home many years ago, or to buy a home in a neighborhood with high property values. Owning a valuable asset then helps to grow that household’s wealth further: As the home increases in value at a higher-than-average rate and the homeowners are able to save more on taxes, they receive double the benefit in both asset appreciation and tax savings. Such tax savings allow these homeowners a level of financial freedom and flexibility that they otherwise would not have. For example, an average annual tax subsidy of $12,000 over 18 years translates to $216,000 in savings. Even if a family kept this money without accruing any interest, that’s more than the cost of four years of tuition at Stanford. This provides foundational security that in turn allows economic mobility, wealth building and the ability to secure the best future possible for one’s family.

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6 This analysis relies on median household income data from the U.S. Census Bureau as a proxy for homeowner’s household income. This data includes both households who rent and who own their homes. Data limitations at the geographic level require us to use this data as a proxy for homeowners’ household income. It is likely that in some cases the median household income estimates are lower than homeowners’ household income because of the share of households in the geographic area who are renters.
FIGURE 2
For every $10,000 increase in a neighborhood’s household income, houses are under-assessed by an additional $35,000, on average.

Each dot represents a census tract in Oakland. In plotting the household median income of each tract against how much home values in that tract are under-assessed, a clear trend line emerges. Generally speaking, as neighborhood income goes up, so does the amount by which homes in that neighborhood are under-assessed.

Sources: Tax Fairness Project analysis, https://www.taxfairnessproject.org (graphs), Google (images.)

FIGURE 3
For every $10,000 in neighborhood household income, homeowners receive an additional $290 a year in tax subsidy, on average.

In a trend similar to the one seen in Figure 2, the amount of subsidy that homeowners receive from Prop. 13 generally goes up as the household income in their census tract rises.

Sources: Tax Fairness Project analysis, https://www.taxfairnessproject.org (graphs), Google (images.)
Households in Whiter Neighborhoods Get the Most Out of Prop. 13

A minority of households in Oakland — around 40% — receive benefits from Prop. 13, and those that do are disproportionately in white neighborhoods. White households in Oakland are much more likely to benefit from Prop. 13 because they are much more likely to own a home. While white people make up just 28% of Oakland’s population, 43% of all homeowners in the city are white, which means they make up a larger share of homeowners than any other racial or ethnic group.

One of the reasons that Prop. 13 provides little benefit to Oakland’s residents of color is because few of them own homes in the city. Black and Latinx households are much more likely to be renters than owners in Oakland, with close to 70% of households in both groups renting. Among all Oaklanders, 60% of all households are renters. The reality is different for white families in Oakland: White people are the only racial or ethnic group in which a majority of households are homeowners rather than renters, with 53% of all white households owning their home.

FIGURE 4
Oakland homeowners are disproportionately white.
Percentage of Oakland population and homeowners by race and ethnicity

FIGURE 5
People of color are much more likely to be renters than their white neighbors.
Oakland homeownership and rental rates by race and ethnicity
White homeowners benefit from Prop. 13 more than twice as much as households of color in Oakland

Even among homeowners, white people likely benefit more from Prop. 13 than their Black and Latinx neighbors. Compared to households of color, white households in Oakland are more likely to be higher income, to live in expensive neighborhoods and to live in neighborhoods that have seen the largest increases in home value. To see how the benefits of Prop. 13 play out for white, Black, Asian and Latinx communities, we looked at census tracts that met the 80th percentile for each of these racial or ethnic groups, meaning areas that are on the high end of concentration for each group. No neighborhood in Oakland is 80% white or 80% Black, so we normalized the data to make it comparable. For a neighborhood to be in the 80th percentile or higher for each group: more than 53% of residents must be white to be identified as a “white neighborhood”; more than 35% must be Black to be identified as a “Black neighborhood”; more than 22% must be Asian to be identified as an “Asian neighborhood”; and more than 45% must be Latinx to be identified as a “Latinx neighborhood.” The analysis shows that white neighborhoods have average under-assessments of close to $700,000 — about the median home value for the entire city of Oakland.7 While households of all races benefit from under-assessments, homeowners in white neighborhoods benefit roughly twice as much as their counterparts in Black and Asian neighborhoods, and three times more than their neighbors in Latinx neighborhoods.

![Figure 6](https://www.taxfairnessproject.org)

FIGURE 6
Homeowners in white neighborhoods benefit from under-assessments that are much larger than those for homeowners in neighborhoods of color — up to three times as much as those in Latinx neighborhoods.

Average under-assessment of property by neighborhood demographics

Source: Tax Fairness Project analysis, https://www.taxfairnessproject.org

These under-assessments have tangible benefits for homeowners, with homeowners in white neighborhoods receiving outsized benefits compared to homeowners in neighborhoods of color. Home-owning households in white neighborhoods see an average of $10,000 in annual tax savings because of Prop. 13, while their home-owning neighbors in Latinx neighborhoods see just $3,000 on average. With more than three times the annual savings, homeowners in white neighborhoods are able — at a much higher rate than their neighbors of color — to invest in themselves and their families in ways that build wealth and promote economic stability. Given the significant gap in

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Prop. 13 disproportionately benefits white people. Homeowners in Asian, Black and Latinx neighborhoods, on the other hand, are benefiting at a much smaller rate than those in white neighborhoods.

In a city where most residents identify as people of color and where household incomes remain relatively modest by Bay Area standards — with a median household income up to $30,000 less than San Francisco’s and San Jose’s⁸ — Prop. 13 is benefiting the few at the cost of the many.

**Figure 7**

Homeowners in white neighborhoods benefit from Prop. 13 tax subsidies that are up to three times as much as those for homeowners in neighborhoods of color.

Average amount of tax subsidy by neighborhood demographics

Source: Tax Fairness Project analysis, https://www.taxfairnessproject.org

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**Prop. 13 Contributes to the Widening Gap Between Two Different Oaklands**

A comparison of two census tracts in Oakland reveals the extreme disparities in benefits from Prop. 13. Census tracts are subdivisions made within counties for the purpose of counting people for the federal census. They’re designed to be relatively homogenous and average around 4,000 residents each. We chose to study homeowners in two different tracts, one in East Oakland and the other in the Grand Lake area, with very different demographics and income levels. While they live in the same city, these two communities couldn’t be more different. For one of them, Prop. 13 reinforces wealth building and provides a large annual tax savings for homeowners. For the other, Prop. 13 only provides a small benefit to homeowners.

⁸ U.S. Census Bureau, American Community Survey.
We compared a Grand Lake neighborhood and an East Oakland neighborhood to understand how Prop. 13 impacts different communities. We looked at data from two Oakland census tracts with very different income levels and demographics to understand the differences in Prop. 13’s impacts across communities.

Source: SPUR

In East Oakland, census tract 4095 is part of a Black and Latinx neighborhood. Home to Allen Temple Baptist Church, a more than 100-year-old congregation, and a collection of schools, small businesses and single-family homes, the tract has a median household income of $43,750 — about $30,000 less than the median household income for the entire city. Most people who live within this tract make less than $20,000 a year, which is less than half of Oakland’s per capita income (reflecting what the average person in Oakland makes). Very few residents have a bachelor’s degree, and 42% didn’t graduate from high school. About 35% of all children in the neighborhood live in poverty. For homeowners in this community, Prop. 13 saves them less than $3,000 a year in taxes.

In the Grand Lake area, census tract 4038 encompasses the Grand Lake Theatre and neighborhoods surrounding the Grand Avenue commercial corridor. About 68% of residents identify as white, close to double the share of white residents citywide. Median household income is $101,053 — 1.4 times higher than that of Oakland as a whole. Most people in the neighborhood make close to $80,000, almost double the per capita income for the entire city. A majority of residents (78%) have a bachelor’s degree or higher. About 5.5% of residents live in poverty, and no children in this neighborhood live in poverty. Prop. 13 saves homeowners in this neighborhood more than $12,000 a year in taxes.

For homeowners in Grand Lake, Prop. 13 provides a large annual tax savings that helps them build wealth. The $12,000 saved each year represents an annual opportunity to secure a better future for themselves and their families. For the homeowners of East Oakland, Prop. 13 provides very little value. Their property tax savings are about one-fifth of those in the whiter, higher-income neighborhood. For this community, which would benefit greatly from resources like public education, Prop. 13 also deprives residents of the public services and goods they need to become economically secure. We’ll talk more about Prop. 13’s impact on public services in the next section.
Census tracts in East Oakland and Grand Lake show disparities in demographics, poverty rates and income, as well as in Prop. 13 subsidies.

An East Oakland neighborhood of color struggles with poverty and access to resources while receiving few Prop. 13 subsidies. Meanwhile, a wealthier and whiter neighborhood thrives, and homeowners there receive triple the tax benefit.

Who Does Proposition 13 Harm?

Prop. 13 has severely hindered Oakland’s ability to collect property taxes in two ways: The city cannot raise the 1% property tax rate, and it cannot tax properties at their market value. Setting aside the tax rate question, what would it look like if Oakland could tax properties at their current market value? With data from the Tax Fairness Project, we calculate that the city loses an estimated $400 million in annual potential revenues from residences alone, not including commercial properties. This money lost hinders the government’s ability to provide vital services to residents and disproportionately harms Oakland’s lowest-income residents.

In Oakland, property taxes are collected by the Alameda County Assessor’s Office and allocated, in accordance with state law, to cities, special districts, redevelopment agencies and school districts within the county. Before the passage of Prop. 13, the tax rate was controlled by local governments and varied considerably between cities depending on fiscal or political priorities. When Prop. 13 passed, it not only restricted property tax rates and limited their increase, but it also froze each county’s property tax revenue allocations among its cities, special districts and school districts at their 1978 levels. At the time, Alameda County’s allocations mostly supported school districts, and this prioritization has stayed in place ever since, blocking the county’s ability to change revenue allocation based on need.

![FIGURE 10](https://www.census.gov/content/dam/prod/programs/acs/asset/2018/technical-document/18-1-01.pdf)

Alameda County cannot increase revenue allocation for cities, even as need grows.

Prop. 13 froze property tax revenue allocations at their 1978 distributions. California counties are not able to change how much tax revenue they allocate to different types of services, despite changing needs.


The more than $400 million in residential property tax revenues that Oakland misses out on every year amounts to about 24% of the current annual city budget. That’s equal to what Oakland spends on its fire department, human services, housing and community development, and transportation departments combined. This estimate excludes taxes on business properties, which also generate Prop. 13 subsidies for their owners.

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Oakland misses out on $400 million in Prop. 13 residential taxes every year, equivalent to what it spends on four city departments combined.

The residential property tax revenues that Oakland misses out on every year because of Prop. 13 amount to about 24% of the current annual city budget. This money lost hinders the government’s ability to provide vital services to residents and disproportionately harms Oakland’s lowest-income residents.


If Oakland were able to collect this missing money, the city could invest hundreds of millions of dollars in the public goods and services that would most help Oakland’s lower-income residents. The uncollectible taxes are more than ten times the amount the city has currently budgeted for helping people experiencing homelessness, seven times more than it spends to protect tenants and create affordable housing, and more than five times the city’s spending on programs and services for children in the city.10

In the decades since Prop. 13 passed, the city has been denied billions of dollars that could have been used to help combat poverty and create equitable outcomes for Oakland residents.

Proposition 13 Doesn’t Help Oakland

Prop. 13 does very little to benefit the majority of Oakland residents while preventing the city from collecting revenue that could be used to provide vital goods and services to residents. The law contributes to the Bay Area’s racial wealth gap, allowing homeowners in higher-income and whiter neighborhoods to save thousands of dollars in taxes, while limiting the government’s ability to invest in services that could benefit the people who need it most. Because of this effective subsidy for wealthy homeowners, the city has to make up for the lost revenue with sources like sales taxes and income taxes, burdens that are borne more broadly. In effect, Prop. 13 represents a cross-subsidy from Oakland’s average residents to its wealthiest residents.

More research is needed to better understand how Prop. 13 impacts the Bay Area. It has shaped our region on many levels, with each city and town experiencing multiple effects from the landmark law. Understanding the ways in which Prop. 13 has touched Bay Area communities is essential to determining how to change the law. Our research shows that in Oakland, Prop. 13 benefits the few at the expense of the many.
Through research, education and advocacy, SPUR works to create an equitable, sustainable and prosperous region.

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