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Teresa Casazza: Proposition 13: 30 years of protecting taxpayers

By Teresa Casazza - Special to The Bee
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Today marks the 30th anniversary of Proposition 13, the landmark reform that helped property owners and government alike by making California's property tax system stable and predictable. Proposition 13 has survived three decades of legal challenges and nonstop attacks from those who want to increase taxes, but it remains a crucial protection for taxpayers.

A trip back in time is warranted, since many current homeowners and business owners never had to pay property taxes in the pre-Proposition 13 era. Under the old system, property was assessed every year, based on the county assessor's estimate of current market value. There were many problems, the most notable being that property taxes skyrocketed when the housing market boomed – such as when home prices more than doubled in Southern California during a five-year span in the late 1970s – making it impossible to predict one's property tax bill.

Compounding the problems, assessors based their estimates not on what a property actually was worth in its existing use, but what it would be worth if it were used for its "highest and best use." This is a very unfair and subjective standard, based on an opinion of value.

Business owners were hit hard, too. An entrepreneur could start a business, hire employees and establish a prudent operating budget, and then a massive, unforeseeable increase in property taxes could wipe out the entire operation overnight. (Today, some groups are agitating for a "split roll" system that would remove Proposition 13's protection for businesses and return to the discredited method of assessing property based on what it might become, rather than what it is. The multibillion-dollar tax hikes on businesses would lead to higher consumer prices, layoffs and more bad news for the economy.)

Property owners had been complaining since the 1960s, and their complaints escalated along with property values in the 1970s. When they were ignored by legislators, voters took matters into their own hands in 1978 and approved Proposition 13. The initiative succeeded because property owners had had enough, and because sponsors Howard Jarvis and Paul Gann didn't let the brutal opposition campaign sap their resolve.

Proposition 13 reduced the tax rate, limited increases to no more than 2 percent a year, required a two-thirds vote for tax increases and took the guesswork out of property taxes. Buyers now know what their tax will be because it is based on the purchase price, not an assessor's opinion of market value.

There is another major benefit. Since the passage of Proposition 13, the amount of property taxes going to local government has steadily increased every year, even when the real estate market tanked. The increases, averaging 7.5 percent per year, are due primarily to the turnover of property. Consider a seller who bought a home in 1980 for \$150,000, the "base year" value for property taxes. If the house sells today for \$450,000, there is a reservoir of \$300,000 in value that now will be taxed. If the homeowner is forced to drop the price to \$350,000, local government still will collect a windfall because the assessed value will increase by \$200,000.

Even last year, as the housing market withered, the value of assessed properties in California increased 9.6 percent over the previous year, and the government collected more property taxes. If property still were being reassessed annually at market value, local governments would be facing major year-to-year swings in

revenue.

Happy anniversary, Proposition 13, and may you continue protecting taxpayers and stabilizing local government's primary source of revenue.

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