

# PROPOSITION 13 REVISITED

A look at California's property tax 35 years after passage of Proposition 13.



**CalTax<sup>SM</sup> Research**

June 6, 2013

A STUDY BY THE CALIFORNIA TAXPAYERS ASSOCIATION

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## CONTENTS

SUMMARY .....	1
PART I: THE PURPOSE OF PROPOSITION 13 .....	5
Factors Leading Up to the Tax Revolt .....	5
What Proposition 13 Did .....	9
Original Shortcomings of Proposition 13 .....	10
PART II: PROPERTY TAX THEORIES AND PRACTICES .....	11
Origins of the Property Tax .....	11
Determining the Value of a Property.....	11
Highest and Best Use .....	11
Acquisition-Value Assessments.....	12
Reassessing Property.....	14
Splitting the Property Tax Roll.....	16
PART III: THE IMPACT OF PROPOSITION 13 .....	17
Theories on the Property Tax Burden .....	17
The Property Tax Burden Has Not Shifted to Homeowners .....	17
Growth of Property Tax Assessments .....	18
Stability of Acquisition-Value Assessments .....	20
CONCLUSION .....	23

“California voters sent the message loud and clear to politicians Tuesday – they want drastic, unequivocal property tax relief. Riding a bigger wave of ballots than anything in comparable elections, the tax-cut Proposition 13, an initiative which got on the ballot because the people – 1.2 million of them – earlier signed petitions to put it there, swept to an overwhelming victory.”

– Richard Bergholz, *Los Angeles Times*, June 7, 1978

## SUMMARY

For 35 years, Proposition 13 has done what it set out to do: it has brought predictability, stability and objectivity to California's property tax structure. The landmark reform also set in place key taxpayer protections to ensure that all state-imposed taxes be approved by at least two-thirds of the Legislature, and all local taxes receive a public vote.

Despite the virtues of Proposition 13, some opponents argue that the initiative created a "loophole" that allows businesses to avoid paying their "fair share" of the property tax. Many opponents argue that California should adopt a split roll – a form of property tax discrimination where the assessment roll is split, and businesses and owner-occupied homes are taxed differently. A split roll would significantly increase property

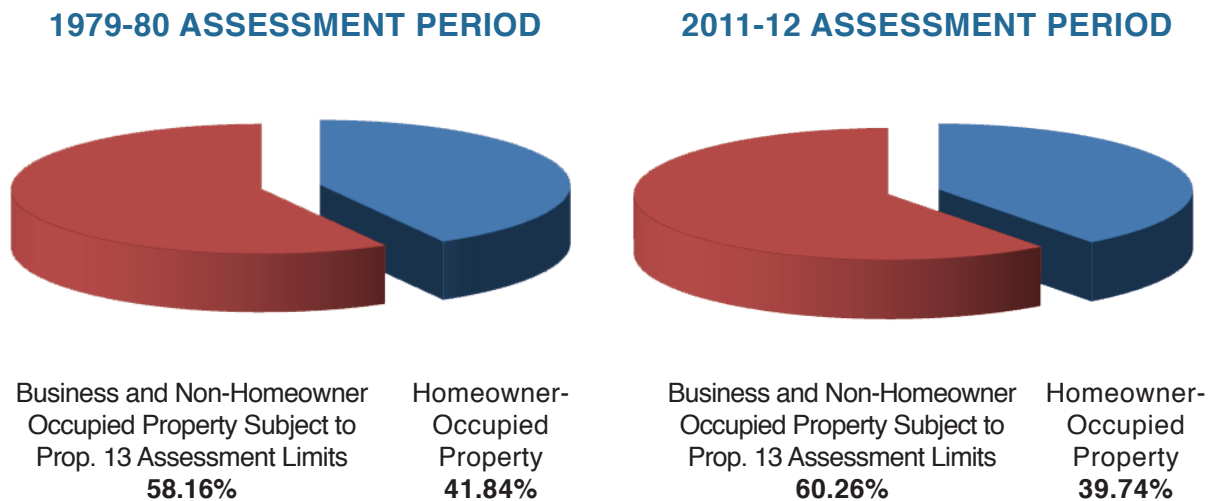


*An in-depth review of data from the State Board of Equalization shows that many of the arguments used to support a split roll are misleading or factually false.*

taxes in this state, resulting in higher rents, job losses and more expensive goods and services. Owners of agricultural, commercial, industrial and investor-owned residential properties once again could face the perils experienced during the pre-Proposition 13 era.

An in-depth review of data from the State Board of Equalization shows that many of the arguments used to support a split roll are misleading or factually false.

**FIGURE 1:  
TAX BURDEN FOR PROPERTIES SUBJECT TO  
PROPOSITION 13 ASSESSMENT LIMITS**



Source: Data from the State Board of Equalization.

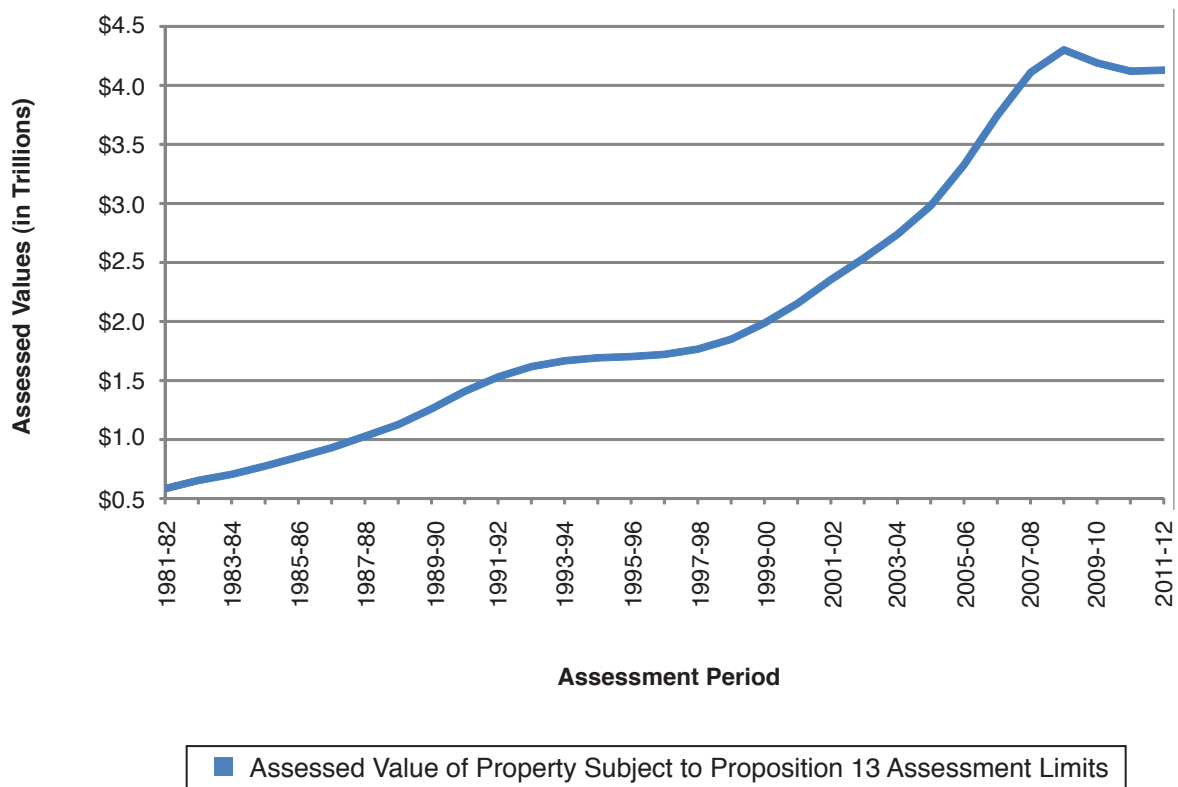
## SUMMARY

Under current law, owners of locally assessed real property are taxed 1 percent (plus an additional rate to cover voter-approved indebtedness, such as bonds) on the lower of either the acquisition value (often the price paid to purchase the property) or the fair market value of the property. Most properties are limited to an increase of 2 percent in the assessed value annually.<sup>1</sup> Property owners also are reassessed after building new structures or significantly altering existing structures on their property. Also,

businesses often are reassessed after mergers and acquisitions, or when properties change ownership or control.

Property tax assessments have a colorful history in the state of California, complete with bribery, political scandals, legislative fights and taxpayer revolts – all of which played a role in shaping California’s current property tax structure. This study examines empirical property tax data collected by the State Board of Equalization, the Department of Finance and county assessors,

**FIGURE 2:  
GROWTH IN ASSESSED VALUES FOR PROPERTIES  
SUBJECT TO PROPOSITION 13 ASSESSMENT LIMITS**



Source: Data from the State Board of Equalization.



# PROPOSITION 13 REVISITED

and also includes historical context to provide a full understanding of California's property tax structure.

Based on the data, this report's findings lead to three primary conclusions:

**1) Homeowners remain the largest beneficiaries of Proposition 13's property tax assessment protections. The property tax burden has not shifted from businesses to homeowners due to Proposition 13.**

Since passage of Proposition 13, the assessed value of homeowner-occupied property has increased an average of 7.19 percent per year, while the assessed value of all business and non-homeowner property subject to Proposition 13 assessment limits (including investor-owned property) has grown an average of 7.53 percent per year. This increase is higher than the 2 percent annual inflation limit because many properties have undergone changes in ownership or new construction that triggered reassessment at values higher than their base-year values.

In 2011-12, the assessed value of all business and non-homeowner-occupied property subject to Proposition 13 assessment limits was \$847.2 billion more than the assessed value of all homeowner-occupied property.

Looking at the share of the property tax burden for properties subject to Proposition 13 assessment limits, tax assessments on homeowner-occupied property accounted for 39.74 percent of all assessments in 2011-12, while assessments on

*“In 2011-12, the assessed value of all business and non-homeowner-occupied property subject to Proposition 13 assessment limits was \$847.2 billion more than the assessed value of all homeowner-occupied property.”*

*“Without Proposition 13's acquisition-value assessments, local government would have collapsed with the decline in real estate values.”*

business and non-homeowner-occupied property subject to Proposition 13 accounted for 60.26 percent of all assessments, as detailed in Figure 1.

**2) Proposition 13's assessment limits make the property tax a stable revenue source not subject to volatile changes in the real estate market.**

Through ups and downs of the real estate market, the assessed value of property subject to Proposition 13 assessment limits has increased steadily. Foreclosures and other hardships have hit the economy hard, and, as a result, assessed values and tax levies have fallen. However, because of Proposition 13's stabilizing effect, when real estate values collapsed, assessed values for homeowner-occupied property and business and non-homeowner-occupied property declined only 1.67 percent in 2009-10 (see Figure 2). Without Proposition 13's acquisition-value assessments, local government would have collapsed with the decline in real estate values.

**3) Even with rate limits, the property tax is a growing source of revenue.**

The assessed value of all property subject to Proposition 13 assessment limits, collectively, has increased an average of 7.38 percent per year since 1978-79. This rate of growth has exceeded the growth in inflation and population combined. As of 2011-12 (the most recent year for which data is available from the State Board of Equalization), property under Proposition 13 assessment limits had an assessed value of \$4.13 trillion.

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## Summary Footnotes:

1. Except in cases in which a property that has a decline-in-value assessment (in accordance with Proposition 8 of 1978) subsequently regains value.

*“Reform of the property tax is of the utmost urgency if this tax is to survive as an important revenue source. This rehabilitation is necessary to restore public confidence in the tax, to protect taxpayers from gross abuse and discrimination, and to preserve the stability and independence of local government. Without such remedial action, the property tax may well become a historical curiosity.”*

- Assembly Revenue and Taxation Committee, 1965

## PART I: THE PURPOSE OF PROPOSITION 13

Proponents of Proposition 13 had three primary objectives: reduce and limit property taxes; require a higher consensus from the Legislature to increase taxes; and prevent local government from imposing taxes without voter consent.

### FACTORS LEADING UP TO THE TAX REVOLT







One of the first recorded meetings to promote property tax reductions was a 1962 gathering in Los Angeles where one of the 20 participants was Howard Jarvis, a retired businessman. In his autobiography, Mr. Jarvis later explained that all the attendees shared a common concern: “Elderly people on fixed incomes were being forced to give up the homes where they had lived for many years because they couldn’t make the property-tax payments.”<sup>2</sup> Such stories were not uncommon in the 1960s and 1970s, as many California homeowners and business owners were facing escalating – often unpredictable – property taxes due to the subjective nature of market-value assessments.

According to a report prepared by the Assembly Revenue and Taxation Committee, property tax subjectivity and unpredictability was prevalent in all 58 counties prior to Proposition 13.<sup>3</sup> For example, San Francisco County was surveyed in 1965, and the average assessment ratio was 18.6 percent.<sup>4</sup> Out of the 484 parcels sampled, 89.2 percent were at least 15 percentage points off the average county ratio, and 41.7 percent were outside 50 percentage points of the average county ratio.

Business owners were equally critical of the subjective and discriminatory nature of market-value assessments. As seen in Figure 3, large discrepancies existed between business property assessments. Assessment problems were reported by the San Diego-Imperial Grocers Association, Pacific Southwest Airlines, and the American Licorice Company, among many others. As a result of assessment problems, the California Chamber of Commerce held several conferences in Los Angeles in the 1960s to address property tax assessments.<sup>5</sup>

The Legislature became aware of the need for

***The Results of a Master Plan***

 PRIVATE CITIZEN 15001 Nordhoff Van Nuys <b>TAXES \$1,815.00</b>	 PHILIP E. WATSON 3461 Grandview Blvd. Los Angeles County Assessor <b>TAXES \$1,131.00</b>
 PRIVATE CITIZEN 21056 Gresham St. Canoga Park <b>TAXES \$1,079.90</b>	 HAROLD J. OSTLY 711 Luton Drive Glendale County Tax Collector <b>TAXES \$703.00</b>
 PRIVATE CITIZEN 9019 Cedros Van Nuys <b>TAXES \$1,204.00</b>	 LYNDON S. HOLLINGER 595 S. Santa Anita San Marino County Adm. Officer <b>TAXES \$911.00</b>

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O'Connor for Assessor Campaign Committee  
P.O. Box 126, Santa Monica, Calif.  
Phone: 394-9813 or 394-4465

Escalating property tax assessments often led to the formation of taxpayer groups, while other political campaigns and rallies promised to reduce property taxes. (Source: CalTax Archives)

property tax reform after the Assembly Revenue and Taxation Committee published “A Major Tax Study” in December 1964. The report was highly critical of the property tax, noting, “When judged against general principles of tax policy, the property tax fails badly.”<sup>6</sup>

The Assembly’s critique of the property tax was based on the fact that the tax was difficult to administer, and was “deleterious in its economic impact.”<sup>7</sup> The property tax created economic hardships for individuals seeking to preserve agricultural land near urban-rural fringes, and it created assessment problems for timber industries, the report found. The report also found that the property tax disproportionately impacted low-

# THE PURPOSE OF PROPOSITION 13

income households and seniors, as property taxes were based on properties' market value, which often increased faster than inflation and the taxpayers' income.

Shortly after the Legislature released its study, further problems were revealed (see description of the assessors scandal in Figure 4). In response to these problems, the Legislature passed legislation to improve assessment practices.<sup>8</sup>

Empirical data recorded by the State Board of Equalization substantiates property owners' experience that property taxes were skyrocketing throughout the 1960s and 1970s. The BOE's annual reports show that from fiscal year 1960-61 through 1977-78, cumulative taxes levied on real property subject to Proposition 13 increased

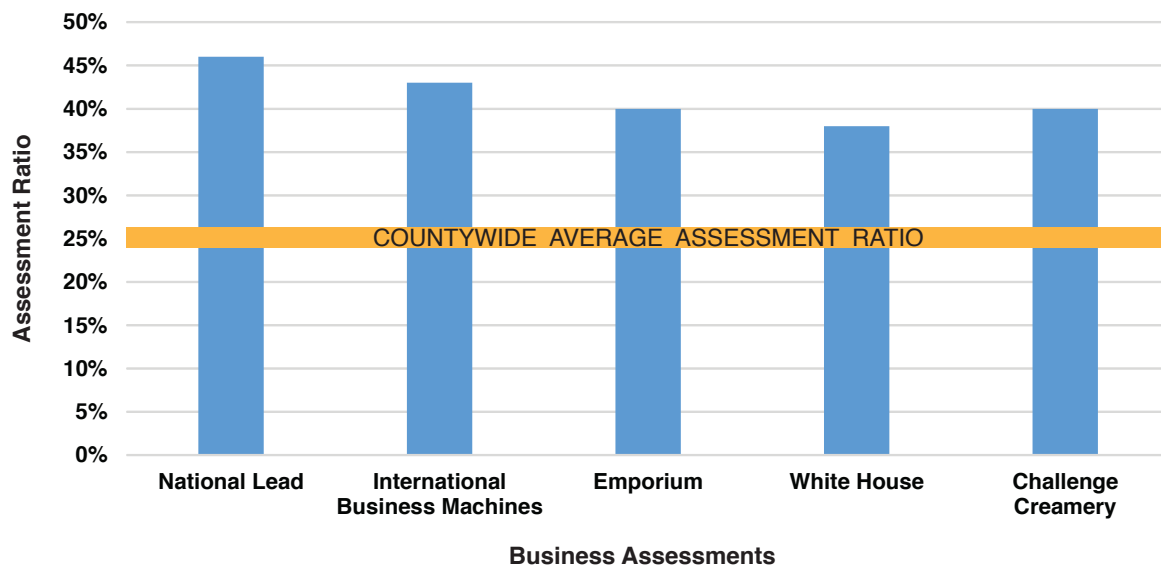
367.21 percent – despite legislative attempts to reduce property taxes.

While higher property taxes can be partially attributed to population growth and new development, much of the growth had to do with market-value-based property assessments. Operating on a multi-year rotation, assessors periodically would reassess property within their counties. Assessment practices in use at the time required assessors to determine the value of properties utilizing market assumptions, as described on page 11. This often led to jumps in property tax assessments that would catch taxpayers off guard (see Figure 5).

The Legislature attempted to address the unpredictability of rising property taxes. Assembly Speaker Jesse Unruh and Assemblyman Nicholas

**FIGURE 3:  
1965 LEGISLATIVE REVIEW OF PROPERTY ASSESSMENTS**

In 1965, California Attorney General Thomas Lynch testified before the Assembly Revenue Taxation Committee that a number of businesses were receiving unfair property tax assessments. In a review of one unidentified county, Mr. Lynch found that the average assessment ratio was 25 percent. However, as indicated below, his office reported that assessments varied greatly for some businesses, in violation of the principle that all property be assessed uniformly.



Source: Assembly Revenue and Taxation Committee Subcommittee Hearing on Assessment Practices, October 7-8, 1965.

### FIGURE 4: THE ASSESSORS SCANDAL

Over the July 4 weekend in 1965, Norman Phillips broke into his boss' office. Within hours, he and a friend carted away five filing cabinets and a desk – the contents of which contained elaborate details of how Mr. Phillips' boss, tax consultant James C. Tooke, devised a scheme to bribe public officials into cutting his clients' property taxes. By September 1, San Francisco Assessor Russell L. Wolden was indicted on nine counts of bribery and one count of conspiracy. As the scandal unfolded, it became clear that California's property tax structure was in need of reform. The scandal played a major role in shaping administrative practices concerning the state's system of property taxation.

Assessor Wolden eventually went to prison, and further investigations led to the conviction of other county assessors. Alameda County Assessor Donald E. Feragen was indicted and convicted, along with two other county employees. Investigations into San Diego County's assessment practices also showed that Assessor John McQuilken had fraudulently undervalued many properties, but he committed suicide before he could be indicted. Further investigations found questionable tax assessment practices occurring in the counties of Butte, Fresno, Kern, Marin, Orange, San Mateo, Santa Barbara, Santa Clara and Stanislaus.

Prior to 1966, state law required locally assessed property to be valued uniformly in proportion to the market value of the property. The scandals revealed that some consultants were bribing assessors to obtain lower assessments for their clients.



San Francisco Assessor Russell L. Wolden checking into prison after being booked on bribery and conspiracy charges. (Source: San Francisco Library)

A 1966 study of assessment practices by the Assembly Revenue and Taxation Committee concluded: "Yet as gamy and intriguing as this network of bribery and collusion might be, it is only part of the problem. Mr. Tooke reported he did not have to bribe officials in a number of other California counties where he knew he could file fraudulent returns and never be audited." While legislation would fix the problem of non-uniform assessment practices, problems associated with market value property assessments would not be addressed until Proposition 13 passed.



# THE PURPOSE OF PROPOSITION 13

**FIGURE 5:  
PRE-PROPOSITION 13  
ASSESSMENTS**

Year	Net Assessed Value* (in Millions)	Percentage Growth
1972-73	\$59,613	—
1973-74	\$59,619	0.0
1974-75	\$65,693	10.2
1975-76	\$73,243	11.5
1976-77	\$83,687	14.3
1977-78	\$96,264	15.0

Source: Data from the State Board of Equalization.

\*Note: Net of all exemptions. There is no growth in the 1973-74 figure because of the increase in the homeowners' exemption in SB 90 of 1972. Local government was reimbursed for the revenue loss.

Petris proposed a property tax reform package in 1965, but the legislation was killed in the Senate.<sup>9</sup> In 1972, Governor Ronald Reagan and the Legislature agreed to reforms and passed SB 90, which increased the homeowners' exemption to \$7,000, increased the renters' income tax credit, and established property tax rate limits.<sup>10</sup> However, SB 90 failed to provide adequate property tax relief. While tax rates were controlled by the legislation, assessment values were not.

While Proposition 13 proved to be very popular with the voters, it was opposed by many politically powerful groups, and by the editorial boards of many California newspapers. Considering the power and influence of the opposition, how did Proposition 13 come to be approved? Factors contributing to the success of Proposition 13:

- **Too Long a Wait.** Many property owners had been protesting property tax burdens since 1966. After 12 years of waiting, their patience had worn thin.
- **Value Increases Eroded Tax Relief.** The Legislature passed two property tax relief bills prior to 1978 – one in 1968, and the other in 1972. Both were based on a homeowners' exemption – an idea originally advanced by Senator

George Miller – and both were failures. Because assessed values were increasing, taxpayers found themselves paying higher property taxes soon after passage of each of the bills, and significantly higher state taxes, too. Consequently, voters rejected a third legislative package that appeared on the June 1978 ballot.<sup>11</sup>

From October of 1972 to October of 1977, home prices in the seven Southern California counties more than doubled.<sup>12</sup> As assessment reforms adopted in 1966 required assessors to keep assessed values current, this resulted in the doubling of the homeowners' property tax burden (as tax rates did not go down appreciably).

If an assessor had assessed a home lower than the correct 1972 value, the increase in taxes during this period could have been even higher. For example, assume that a \$40,000 home in 1972 was assessed at \$20,000. When reassessed at \$80,000 in 1977, the tax jump would have been 400 percent. In almost all instances, assessment increases were made periodically, usually in a three- or five-year cycle, creating a major tax jolt for taxpayers every few years.

- **Tax Rates Not Reduced.** The property tax rate limits in SB 90 of 1972 worked as advertised. In 1973, tax rates dropped 2.7 percent (close to the 3 percent projected), and then stabilized. However, city and county officials (in the aggregate) did not further reduce property tax rates voluntarily, in light of big jumps in assessed values. Instead, they spent most of the windfalls in revenue from above-average valuation increases.
- **Executive Inaction.** From 1973 to 1976, there was little executive leadership to relieve property taxes. Ronald Reagan, in his final two years as governor, relied on the tax rate limits in SB 90 to control property taxes.
- **Legislative Inaction.** In 1977, legislative leaders tried to use the property tax issue to redistribute income; however, many property owners would have received no relief under their plan. The Senate rejected it, leaving the field open for Proposition 13.

# PROPOSITION 13 REVISITED

- **Large State Surplus.** The state's fiscal policies and booming state tax revenue created a large state surplus in 1978 (called "obscene" by State Treasurer Jesse Unruh). The existence of the surplus undercut the primary argument against Proposition 13 – that passage of the initiative would require massive local budget cuts.
- **Anti-Government Message.** A rash of teachers' strikes in 1976 and 1977, due to the state's new collective-bargaining law, turned off a lot of voters. The strikes and other political movements persuaded some voters to "send government a message" by passing Proposition 13.

## WHAT PROPOSITION 13 DID



Howard Jarvis was one of the proponents of Prop. 13. (Source: CalTax Archives)

Howard Jarvis and Paul Gann, a Sacramento-area activist, collected more than 1.2 million signatures to qualify Proposition 13 for the ballot. The Jarvis-Gann initiative was approved June 6, 1978, with 4,280,689 Californians voting in favor of the measure (64.8 percent of the vote).<sup>13</sup> Proposition 13 contained four major provisions incorporated into Article XIII A of the California Constitution:

- **Tax Rate Limit.** The property tax rate cannot exceed 1 percent of a property's assessed value. An added rate can be levied for voter-approved debt, such as school facility bonds and infrastructure bonds. Currently, the average property tax rate statewide for locally assessed real property is 1.132 percent.
- **Acquisition-Value Assessments.** For locally assessed real property, property is assessed based on the acquisition value (typically the purchase price). Initially, the assessed value could not exceed the 1975-76 assessed value (assessors were allowed to bring under-assessed property in 1975 up to 1975 levels).

Assessed values can increase each year by the inflation rate, but not to exceed 2 percent.

When property changes ownership or control, it is reassessed at its current market value, and newly constructed property also is assessed at current market value. Both are subject to the same annual 2 percent limits on future assessment increases.

- **Legislative Vote Requirement.** In California's Legislature, state tax increases require a two-thirds vote of each house.
- **Local Taxes.** State and local governments are prohibited from imposing *ad valorem* taxes on real property, or transactions/sales taxes on real property (the courts undid this restriction for transactions taxes).<sup>14</sup> Further, local governments may impose "special taxes" by a two-thirds vote of the qualified electors. "Special tax" has been interpreted by the courts to have a specified purpose, with the revenue earmarked to a specific program, while a "general tax" has been defined as a tax that is not earmarked for a specific program.<sup>15</sup>

During a June 15, 1978, joint legislative hearing, Mr. Gann testified that a "special tax" was intended to be any tax other than a property tax. He said: "Basically, we were excluding one thing: the property tax. Now, they could go to a sales tax, they could go to some other tax, but not to a property tax. That was the point." In discussing the term "special tax," he framed his remarks around how Californians had been bearing a greater tax burden in recent years.<sup>16</sup>

The acquisition-value provisions of Proposition 13 apply to all properties in California, except those that are subject to state-assessed valuation, and business personal property. These two categories of property are subject to the 1 percent limit, but not the assessment limit. Since 1879, Article XIII, Section 19 of the California Constitution has required the State Board of Equalization to assess certain properties owned by private and investor-owned utilities, railroad companies, telecommunication companies and multi-county gas pipeline and aqueduct companies.

# THE PURPOSE OF PROPOSITION 13

## ORIGINAL SHORTCOMINGS OF PROPOSITION 13

There were a number of issues with Proposition 13 that the voters corrected in subsequent elections. Among the shortcomings, Proposition 13 had the effect of prohibiting local governments from imposing municipal bonds, and also prohibited counties from lowering a taxpayer's assessment if there was a decline in a property's value.

The lack of a decline-in-value provision raised the specter that under Proposition 13, many properties would be overvalued. To correct this problem, the Legislature placed Proposition 8 on the November 1978 ballot. The measure, which was approved by voters, allows property assessments to be based on the lower of Proposition 13 base-year value or market value. In recent years, a number of counties have issued decline-in-value assessments for "underwater" properties.

As noted above, Proposition 13 limited property assessments to 1 percent of the assessed value of the property, plus any payments needed to fund municipal general obligation bonds approved by voters prior to June 1978. As a result, the measure effectively prohibited local governments from issuing new bonds. In November 1980, voters rejected a measure to fix the problem, but they later approved a fix with Proposition 46 on the June 1986 ballot. The measure requires at least a two-thirds vote of the public to approve local bonds. In the supporting ballot arguments, CalTax President Richard

Simpson wrote: "Proposition 46 will continue the tradition of strengthening local voter control over local financial issues. No local agency will be able to spend any of your tax dollars on general obligation bonds without your approval."<sup>17</sup>

Since passage of Proposition 13, voters have approved three initiatives to strengthen the measure's vote requirements for imposing new taxes:

- **Proposition 62 of 1986.** Requires voter approval of all local taxes. For general taxes, a majority vote is required, while special taxes must be approved by at least two-thirds of the electorate.<sup>18</sup>
- **Proposition 218 of 1996.** Strengthens taxpayer protections by adding property-related fees, assessments and charges to the types of levies that require voter approval.<sup>19</sup>
- **Proposition 26 of 2010.** Modifies the definition of a tax to include certain tax-like charges. As a result, the measure requires such charges to be approved by at least a two-thirds vote of the Legislature, and locally imposed charges have to be approved by their specified vote requirements. This initiative also ended the Legislature's practice of raising taxes on one group of taxpayers while lowering taxes on others, and keying the change as a "revenue neutral" change that did not require a two-thirds vote.<sup>20</sup>

### Part I Footnotes:

2. Jarvis, *I'm Mad As Hell* (Times Books 1979) p.16
3. Assembly Revenue and Taxation Committee, *Problems of Property Tax Administration in California* (1966)
4. An assessment ratio is the ratio of assessed value to legally defined "full-cash value." For example, prior to Proposition 13, under an 18.6 percent assessment ratio, a property with a \$100,000 full-cash value should have been assessed at \$18,600, and the tax rate would have been applied to that amount.
5. California State Chamber of Commerce, *Proceedings of the Statewide Conference on Property Tax Reform* (1966)
6. Assembly Revenue and Taxation Committee, *Major Tax Study - Part V: Taxation of Property in California* (1964)
7. *Ibid.*
8. AB 80, (1965-1966 1st Ex. Sess.) Ch. 147
9. AB 2270, (1964-1965 Reg. Sess.)
10. SB 90, (1971-1972 Reg. Sess.) Ch. 1406
11. Proposition 8 of June 1978, which sought to make changes to the

property tax structure, failed passage with 47 percent "yes" votes. Note that this was not Proposition 8 of November 1978, which allows for decline-in-value assessments.

12. Real Estate Research Council of Southern California
13. California Secretary of State, *Statement of Vote and Supplement, Primary Election, June 6, 1978* p. 39
14. *Fisher v. County of Alameda* (1993) 20 Cal.App.4th 120
15. *City and County of San Francisco v. Farrell* (1982) 32 Cal.3d. 47
16. Joint Legislative Conference Committee on SB 154, *Testimony of Mr. Paul Gann* (June 15, 1978)
17. California Secretary of State, "California Ballot Pamphlet." June 3, 1986
18. California Government Code §53720
19. California Constitution Article XIII C and Article XIII D
20. California Constitution Article XIII A §3, Article XIII C §1

## PART II: PROPERTY TAX THEORIES AND PRACTICES

### ORIGINS OF THE PROPERTY TAX

California first imposed a tax on property in 1850. Under the Revenue Act of 1850, a statewide property tax of 50 cents per \$100 of assessed value was imposed.<sup>21</sup> From the beginning of California's statehood, taxes on property had to be equal and uniform throughout the state.<sup>22</sup> However, unlike property taxes in other states at the time, California's were locally collected, but imposed for both state and local purposes. This changed in 1910, when the state relinquished control of property taxes to local government under the "separation of sources" plan. The rules regarding "equal and uniform" assessments still stand today.

In the first half of the 20th century, the concept of a "single tax" on the value of land was put before California voters. In *Progress and Poverty*, political theorist Henry George stated that the value of land should be the primary source of revenue for government.<sup>23</sup> He theorized that investors' utilization of land increases property values at a higher rate than otherwise would occur. On each of the five occasions that a "single tax" measure has appeared before voters, it has been rejected.<sup>24</sup>

### DETERMINING THE VALUE OF A PROPERTY

How much a property owner pays in taxes is determined by the taxable, or assessed, value of his or her property. Currently, taxes on locally assessed real property in California are determined by the lower of either the property's market value or acquisition (purchase) value. If a property owner adds new construction (such as a bedroom or office), or if the property changes ownership, a locally elected assessor will reassess the property's value.

“*From the beginning of California's statehood, taxes on property had to be equal and uniform throughout the state.*”

Prop. 13 removed most of the subjectivity from the assessment process by basing assessments on acquisition value – a true reflection of the value of a property, since it is the price agreed upon by a seller and buyer in an arm's-length transaction in an open market.

The State Board of Equalization's Assessors' Handbook 501 provides an overview of basic appraisal methods utilized by assessors to determine the value of property. There are three major appraisal approaches:

- **Comparative Sales Approach.** Value is determined by reviewing sales prices of comparable properties that sold recently in the same market.
- **Cost Approach.** Value is determined by estimating the current cost to reproduce or replace existing structures. Depreciation is subtracted from the cost, and the estimated land value is added to that figure.
- **Income Approach.** Value is determined based on the property's "opportunity cost," determined by comparing the net income the property would earn if rented out over its remaining useful life with the income that could be earned if the amount of its purchase price was invested in ventures of comparable risk.

### HIGHEST AND BEST USE

To determine value using any of the basic appraisal approaches described above, an appraiser must make assumptions regarding the property's highest and best use. The concept of highest and best use states that a property should be valued at its highest potential value. When utilizing any of the three approaches, this concept plays a considerable role. For example, if using the comparative sales approach to determine the value of a property, an appraiser will select properties that would bring in the highest profitability considering market conditions for a given property.



# PROPERTY TAX THEORIES AND PRACTICES



Property owners' billboards in Los Angeles County were signs of growing frustration with California's property tax system prior to passage of Proposition 13. (Source: CalTax Archives)

If a property owner is not using a property for what the assessor determines to be the property's highest and best use, an increased valuation – leading to higher property taxes – likely will force the property owner to sell the property to someone who can renovate the existing structures or demolish the structures on the property so that the land may be utilized at the highest and best use.

The highest and best use assessment system can raise environmental concerns. Owners of undeveloped properties could be taxed as if their properties were being used for other purposes, and thus, may be pressured to develop the properties. California's current property tax structure does not exert this pressure on property owners to "pave paradise and put up a parking lot."<sup>25</sup>

The Assessors' Handbook states that when assessors value property at market value: "Land should be valued based on its most profitable potential use, subject to certain criteria that are discussed below. Any existing improvements can be torn down. In fact, in the case of an improved property, demolition is economically appropriate

when the market value of the land as if vacant exceeds the current market value of the improved property. At this point, the existing improvements no longer add value to the land, and the utilization of the site should succeed to a higher use."<sup>26</sup>

Market-value assessments assume that a property's use could change over time. For example, residential properties, vacant lots, or small commercial shops in a major urban region may not be fully utilized to their highest and best use, under this theory. As such, these properties should receive a higher assessment because state guidelines suggest that a developer or other property owner could demolish existing structures and improve the use of the land.

Because all locally assessed real property must be assessed under Proposition 13, market value assessments are not utilized, except when certain reassessments occur due to a change in ownership or control, new construction, or a decline in value. However, if California were to alter current applications of Proposition 13, the current appraisal theories and methods would be expanded, and taxpayers could expect "highest and best use" to apply to assessment practices.

## ACQUISITION-VALUE ASSESSMENTS

The idea of basing property tax on a value other than market value is not new. In the early 1960s, the Legislature received input from community organizations in opposition to market-value assessments, in particular those utilizing highest and best use appraisals.

During this period, property assessments in the San Fernando Valley were increasing dramatically as development inched out of what had been rural regions of Los Angeles County (see Figure 6). This area became known as "Watson's Wasteland," out of

dislike for the county's assessor, Philip Watson.

Even Mr. Watson was critical of state laws on assessment practices. During a speech to the International Association of Assessing Officers, he said: "The way of the taxpayer in questioning an assessment, like that of the transgressor, is hard.

“California's current property tax structure does not exert this pressure on property owners to “pave paradise and put up a parking lot.”



... He is virtually at the mercy of the assessor as to determining the county-wide average of assessed value to market value for the tax year in question.” Mr. Watson continued: “I submit to you – this is too much power for any one individual to have. It’s the power that, when misused, leads to the charges of ‘incompetence, favoritism, corruption, vice.’ It’s a power I should not have. It’s a power I don’t want to have.”<sup>27</sup>

In 1973, Assemblyman Dan Boatwright was the first to propose the idea of acquisition-

value assessments based on the purchase price of a home.<sup>28</sup> While Assemblyman Boatwright’s legislation died quickly, the concept of acquisition-value assessments began appearing in several initiatives that failed to qualify for the ballot.

Following Proposition 13’s adoption, some homeowners felt that the initiative’s acquisition-value assessment system put them at a disadvantage compared to neighbors who had lived in their homes for a longer period of time. One of the most prominent critics was Stephanie Nordlinger,

### FIGURE 6: LEGISLATIVE REVIEW OF TAX ASSESSMENTS

In 1966, the Assembly Revenue and Taxation Committee held an informational hearing in Los Angeles on property tax assessments. Below is one example of the committee’s findings where two properties received similar assessments. The Willis Avenue property received a higher-than-expected assessment because, under the highest and best use principle, the assessor determined that the property could be better utilized for a different purpose. The single-family home on Willis Avenue has since been demolished, and multi-unit residential properties now line the street.



**8926 Willis Avenue**  
Van Nuys, California  
Lot Size: Approximately 1 acre  
Estimated 1966 Property Tax: \$2,145



**641 Rossmore Avenue**  
Van Nuys, California  
Lot Size: Approximately 1 acre  
Estimated 1966 Property Tax: \$2,500

Source: CalTax Archives

# PROPERTY TAX THEORIES AND PRACTICES

who purchased a home in Baldwin Hills in 1988, and found that her property taxes were five times higher than those imposed on some identical tract homes in her subdivision. Ms. Nordlinger sued, and her case, *Nordlinger v. Hahn*, reached the U.S. Supreme Court.<sup>29</sup> The court determined that acquisition-value assessments do not violate the Equal Protection Clause of the U.S. Constitution.

According to the court: “The appropriate standard of review is whether the difference in treatment between newer and older owners rationally furthers a legitimate state interest. ... We have no difficulty in ascertaining at least two rational or reasonable considerations of difference or policy that justify denying petitioner the benefits of her neighbors’ lower assessments. First, the State has a legitimate interest in local neighborhood preservation, continuity, and stability. ... Second, the State legitimately can conclude that a new owner at the time of acquiring his property does not have the same reliance interest warranting protection against higher taxes as does an existing owner.”<sup>30</sup>

“While most people assume that a change in ownership will increase the assessed value of a property, a change in ownership can result in a decline in the property’s assessed value.”

## REASSESSING PROPERTY

Property subject to Proposition 13 is reassessed when new construction occurs, when there is a change in ownership, or when there is a decline in value.

New construction triggering a reassessment typically involves a substantial change in the property’s land or improvements. State law defines “new construction” as any addition to land or improvements, or any alteration to any property that is a “major rehabilitation” or converts a property to a different use. “Major rehabilitation” is defined as a renovation that converts a property (not just a portion thereof) to the substantial equivalent of new.<sup>31</sup> Data from the Construction Industry Research Board shows that from 2008 to 2010, building permits for non-residential properties added \$22.29 billion worth of alterations and additions to existing property.<sup>32</sup> Excluding investor-owned residential property, new construction on commercial and industrial properties was valued

at \$218.59 billion from 2000 through 2010.<sup>33</sup>

When the ownership of locally assessed real property changes, the property is reassessed. According to state law, a “change in ownership” occurs when a present interest in real property is transferred, when the beneficial use of a property is transferred, and when the property rights transferred are substantially equivalent in value to the fee interest.<sup>34</sup> Change in ownership also can be triggered when a person or business entity gains control of more than 50 percent of ownership interests.

After Proposition 13 passed, the Task Force on Property Tax Administration reviewed how to implement the initiative, including how to define “change in ownership.” The task force found that there are two general theories to determine when a property changes ownership.

One is to look at who maintains “ultimate control,” which addresses what entity or individual controls a business entity or the majority interest of a property. Another theory is the “separate entity” theory, which assumes that owners of legal entities do not have any possessory rights in the entities’ real property. Under the “separate entity” approach, a property owned by a business changes ownership only when it is sold by the business, and this change is not based on who owns the business.<sup>35</sup>

The task force found that administration under an “ultimate control” approach would be difficult, because assessors would not know when a business changes ownership. Such a definition of change in ownership would “threaten unknown disruptions of business organizations and practices,” the task force wrote.

The Legislature implemented a modified version of the “ultimate control” definition of ownership. When it adopted the definition of “change in ownership,” the Legislature developed exceptions and rules for when a legal change occurs. For example, a property does not change ownership in situations where it is being leased for less than 35 years or when it is transferred to a spouse. Several constitutional amendments have been adopted to exclude from changes in ownership specific transfers between parents and children. Other

### FIGURE 7: KEY COURT CASES ON REASSESSMENT

**W**hen an assessor believes that a taxpayer has failed to comply with California's property tax laws, a number of legal options exist to determine if the taxpayer is escaping reassessment. Over the years, litigation has helped define what constitutes a "change in ownership," and when a taxpayer's property should be reassessed. Some key cases:

- ***Title Ins. & Trust Co. v. County of Riverside* (1989) 48 Cal.3d 84.** The California Supreme Court ruled that when a corporation acquires control of another corporation, both the acquisition of the corporation and its subsidiaries are subject to a change-in-ownership reassessment.
- ***Kraft, Inc. v. County of Orange* (1990) 219 Cal.App.3d 1104.** The Court of Appeal ruled that a change in ownership occurred when Kraft, Inc., merged with Dart Industries, and resulted in former Kraft shareholders controlling 51.1 percent of the merged corporation's stock. Kraft claimed that no change in ownership occurred, because former Kraft shareholders became majority shareholders of the merged corporation, Dart & Kraft Inc., and continued to maintain some control of Kraft. The court said: "Kraft misses the point. The same shareholders did maintain control, but a new corporation obtained direct control."
- ***Sav-On Drugs, Inc. v. County of Orange* (1987) 190 Cal.App.3d 1611.** The Court of Appeal ruled that a change in ownership occurs when a company is acquired, and the shareholders of the acquired corporation become minority shareholders in a merged corporation.
- ***Shuwa Investment Corporation v. County of Los Angeles* (1991) 1 Cal.App.4th 1635.** The Court of Appeal ruled that a 100 percent change in ownership occurred when Shuwa Investment Corporation acquired an office in Los Angeles through a multi-step transaction. The court said: "The three steps were really component parts of a single transaction. The ultimate result intended from the outset was for Shuwa to acquire all of the ARCO Plaza from the present owner, a partnership. ... To allow this brand of tax planning would encourage partnerships, corporations and other legal entities to escape reassessment in perpetuity by the mere expedient of transferring partial interests in a series of transactions. ... This, we feel, would subvert the intent of the people in passing Proposition 13."
- ***Rick Auerbach v. Assessment Appeals Board No. 1 for the County of Los Angeles* (2006) 39 Cal.4th 153.** The Supreme Court of California ruled that an improvement built by a lessee was subject to change in ownership when the leased land upon which the structure was built changed ownership.

# PROPERTY TAX THEORIES AND PRACTICES

“ Under a “split roll,” not all properties on the assessment roll are treated equally.

provisions allow seniors to keep their base-year values of homes for intra-county and some inter-county moves. While most people assume that a change in ownership will increase the assessed value of a property, a change in ownership can result in a decline in the property’s assessed value. Further, for decline-in-value properties a new, lower base-year value is established, limiting future increases to a maximum of 2 percent.

When a business undergoes a change in ownership – due to a merger, acquisition or other change – the business legally is required to provide notice to the county assessor.<sup>36</sup> County assessors also conduct field inspections, review building permits, and survey media reports to ensure that all properties are being properly assessed. If a business or legal entity fails to report a change in ownership to the county assessor, the assessor and the State Board of Equalization may impose penalties.<sup>37</sup>

For a description of court cases relating to reassessment, see Figure 7.

## **SPLITTING THE PROPERTY TAX ROLL**

California always has required all real property to be taxed equally and in a uniform manner.<sup>38</sup> Equal and uniform assessments ensure that tax policy is equitable, and that discriminatory practices are avoided. However, some have sought to change this by creating a division within the property tax roll between business and non-business property.

Under a “split roll,” not all properties on the assessment roll are treated equally. For example, businesses may pay at a rate higher than the rate imposed on homeowners.

There is no split roll in California for locally assessed real property: property taxes are imposed without distinguishing among property used as a principal residence, or an apartment building rented to tenants, or property used for commercial or industrial purposes.

Throughout the 1978 campaign, opponents of Proposition 13 argued that the property tax burden would shift to homeowners because of the initiative’s assessment requirements. Since passage of Proposition 13, similar assertions have been used as rationale to promote a split roll. However, as explained in the next section, there has been no shift.

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### **Part II Footnotes:**

21. Doerr, California’s Tax Machine (2nd ed. 2008) p. 9
22. California Constitution Article XIII §11
23. George, Progress and Poverty (Appleton 1886)
24. The following initiatives were defeated: Proposition 5 of 1916: Land Taxation; Proposition 19 of 1918: Land Values Taxation; Proposition 20 of 1920: Land Values Taxation; Proposition 29 of 1922: Land Franchise Taxation; Proposition 20 of 1938: Taxation.
25. See the California Land Conservation Act of 1965 (the Williamson Act) and the Open Space Subvention Act of 1971, California Government Code §51200-51297.4 and §16140, respectively.
26. California State Board of Equalization, Assessors’ Handbook Section 501 (January 2002) pp. 52-53
27. Philip E. Watson, address at the 30th Annual Conference of the International Association of Assessing Officers (October, 1964) Gaining Public Acceptance for Improved Assessment Practices
28. ACA 89 (1972-73 Reg. Sess.); AB 2606 (1973-1974 Reg. Sess.)
29. *Nordlinger v. Hahn* (1992) 505 U.S. 1
30. *Ibid.*
31. California Revenue and Taxation Code §70
32. Construction Industry Research Board, Monthly Building Permit Series – State Summary: California (May 20, 2011)
33. Construction Industry Research Board, California Construction Review: Private Building Construction (May 24, 2011)
34. California Revenue and Taxation Code §60
35. California State Assembly, Report of the Task Force on Property Tax Administration (1979)
36. California Revenue and Taxation Code §480
37. California Revenue and Taxation Code §432
38. California Constitution Article XIII §1



## PART III: THE IMPACT OF PROPOSITION 13

### THEORIES ON THE PROPERTY TAX BURDEN

In 1978, opponents of Proposition 13 theorized that many commercial, industrial and investor-owned properties would be the largest beneficiaries of the measure. The theory was that the property tax burden would shift to homeowners, because homeowner-occupied property is sold more frequently than business property, and thus would be subject to more frequent reassessments.

However, empirical evidence shows that a shift of the property tax burden from businesses to homeowners did not occur.

Data from the State Board of Equalization consistently has shown that business property owners pay a greater share of the property tax under Proposition 13. A 1980 State Board of Equalization analysis of Proposition 13's impacts found: "The lack of any appreciable shift toward residential property under Proposition 13 has come as somewhat of a surprise. However, this differential in frequency of ownership change appears to have been offset thus far by the rollback to 1975 value levels called for by Proposition 13 and a dip in residential new construction coupled with a more robust commercial construction sector."<sup>39</sup>

One reason the property tax burden did not shift to homeowners may be due to change-in-ownership laws. Court decisions have clarified when reassessments should occur. Further, early estimates that commercial, industrial and investor-owned properties would change ownership less frequently likely were overstated. While such properties may not change ownership every few years, large mergers and acquisitions have resulted in valuation increases on the local property tax rolls that are equal to the turnover of thousands of homeowner-occupied properties. New construction also contributes to the rise of property tax assessments on businesses.

“*Empirical evidence shows that a shift of the property tax burden from businesses to homeowners did not occur.*”

### THE PROPERTY TAX BURDEN HAS NOT SHIFTED TO HOMEOWNERS

Data recorded by the State Board of Equalization continues to show that no shift of the property tax burden has occurred – in fact, the assessed value of homeowner-occupied property, as a share of the percentage of the overall property tax for properties subject to Proposition 13 assessment limits, has declined since passage of Proposition 13. In 1979-80, the assessed value of homeowner-occupied property accounted for 41.84 percent of the total share of property tax values, but by 2011-12, the assessed value of homeowner-occupied property had declined to 39.74 percent – a shift of 2.1 percent of the property tax burden to all business and non-homeowner-occupied property subject to Proposition 13 assessment limits.

These figures were calculated by comparing the assessed value of all business and non-homeowner-occupied property subject to Proposition 13 assessment limits with the assessed value of homeowner-occupied property. In 2011-12, all business and non-homeowner-occupied property subject to Proposition 13 assessment limits had an assessed value of \$2.49 trillion, while homeowner-occupied property had an assessed value of \$1.64 trillion. The assessed value of all business and non-homeowner-occupied property subject to Proposition 13 assessment limits was \$847.2 billion higher than the assessed value of homeowner-occupied property.<sup>40</sup>

Further review of the data also shows that the growth of the average assessed value of all business and non-homeowner-occupied property

“*Data from the State Board of Equalization consistently has shown that business property owners pay a greater share of the property tax under Proposition 13.*”

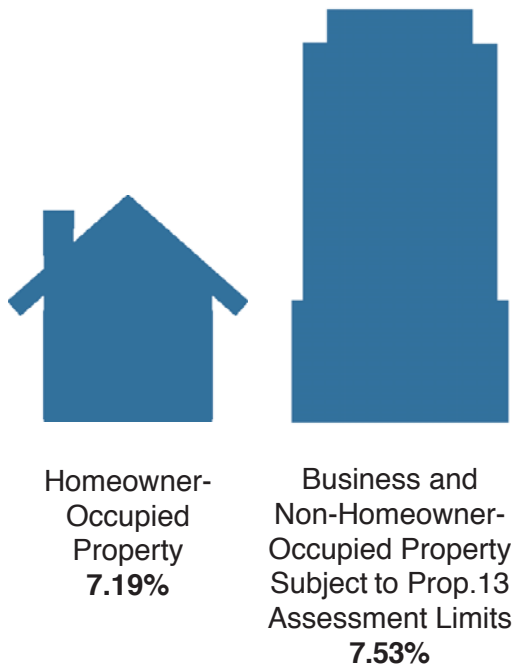


# THE IMPACT OF PROPOSITION 13

subject to Proposition 13 assessment limits (7.53 percent) outpaced the growth of homeowner-occupied property (7.19 percent) from 1979-80

**FIGURE 8:  
GROWTH OF PROP. 13  
ASSESSMENTS**

**F**rom 1979-80 to 2011-12, the average annual growth of assessed value for business and non-homeowner-occupied property subject to Prop. 13 assessment limits outpaced the growth in value of homeowner-occupied property.



Source: Data from State Board of Equalization.

through 2011-12 (see Figure 8).

When calculating whether a shift has occurred, it is important to properly define homeowner and business property. For the purposes of the figures above, the following definitions are consistently used:

- **Homeowner-Occupied Property.** Homeowner-occupied real property for which the owners claim the homeowners' exemption. The homeowners' exemption is a rational measure of home ownership, because it may be claimed only for an individual's principal place of residence – thus, investment properties, such as second homes, vacation homes or homes purchased as rentals, are excluded from homeowner property. Also, this is the only type of property for which data exists at the BOE since passage of Proposition 13. Data on other classifications is speculative.
- **Business Property.** Business property includes all non-homeowner-occupied real property subject to Proposition 13 assessment limits. Business property includes small, medium and large commercial and industrial businesses, investor-owned residences and property management businesses, other investment properties, and a small number of other properties.

## GROWTH OF PROPERTY TAX ASSESSMENTS

Even though Proposition 13 set limits on the growth of property tax assessments, the initiative has not kept property tax revenue from growing significantly over time.

Since 1978, the assessed value of all property subject to Proposition 13 assessment limits has grown from \$109 billion to \$4.13 trillion. The assessed value of homeowner-occupied property increased from \$45.6 billion in 1979-80 to \$1.6 trillion in 2011-12 – an average increase of 7.19 percent annually. The assessed value of all business and non-homeowner-occupied property subject to Proposition 13 assessment limits grew from \$63.4 billion in 1979-80 to \$2.49 trillion in 2011-12 – an average increase of 7.53 percent annually (see Figure 9).

# PROPOSITION 13 REVISITED

**FIGURE 9:  
PROPERTY TAX BURDEN ON BUSINESS AND HOMEOWNER  
PROPERTY SINCE PASSAGE OF PROPOSITION 13**

Assessment Period	Assessed Value of Homeowner-Occupied Property (in millions)	Percentage Increase by Year	Assessed Value of All Business and Non-Homeowner Property Subject to Prop. 13 Assessment Limits (in millions)	Percentage Increase by Year
1979-80*	\$45.60	-	\$63.40	-
1980-81*	\$53.70	17.75	\$75.11	18.48
1981-82	\$238.06	10.84	\$347.61	15.70
1982-83	\$259.64	9.07	\$394.61	13.52
1983-84	\$273.56	5.36	\$432.14	9.51
1984-85	\$295.22	7.92	\$481.30	11.38
1985-86	\$321.11	8.77	\$532.05	10.54
1986-87	\$349.95	8.98	\$580.60	9.13
1987-88	\$386.50	10.44	\$641.46	10.48
1988-89	\$424.28	9.78	\$703.62	9.69
1989-90	\$477.06	12.44	\$782.68	11.24
1990-91	\$528.12	10.70	\$880.92	12.55
1991-92	\$573.65	8.62	\$957.17	8.66
1992-93	\$625.27	9.00	\$992.18	3.66
1993-94	\$664.74	6.31	\$1,002.93	1.08
1994-95	\$699.78	5.27	\$993.91	-0.90
1995-96	\$722.94	3.31	\$979.99	-1.40
1996-97	\$739.85	2.34	\$982.23	0.23
1997-98	\$759.79	2.70	\$1,006.15	2.44
1998-99	\$800.42	5.35	\$1,048.78	4.24
1999-00	\$856.95	7.06	\$1,129.00	7.65
2000-01	\$921.35	7.52	\$1,232.47	9.17
2001-02	\$1,001.75	8.73	\$1,353.42	9.81
2002-03	\$1,080.23	7.84	\$1,458.50	7.76
2003-04	\$1,193.06	10.45	\$1,544.78	5.92
2004-05	\$1,281.74	7.43	\$1,699.96	10.05
2005-06	\$1,422.35	10.97	\$1,905.46	12.09
2006-07	\$1,559.37	9.63	\$2,186.41	14.75
2007-08	\$1,681.91	7.86	\$2,428.21	11.06
2008-09	\$1,736.03	3.22	\$2,564.67	5.62
2009-10	\$1,666.59	-4.00	\$2,522.83	-1.63
2010-11	\$1,642.91	-1.42	\$2,476.61	-1.83
2011-12	\$1,640.54	-0.15	\$2,487.74	0.45

**Average Annual  
Percentage  
Increase**

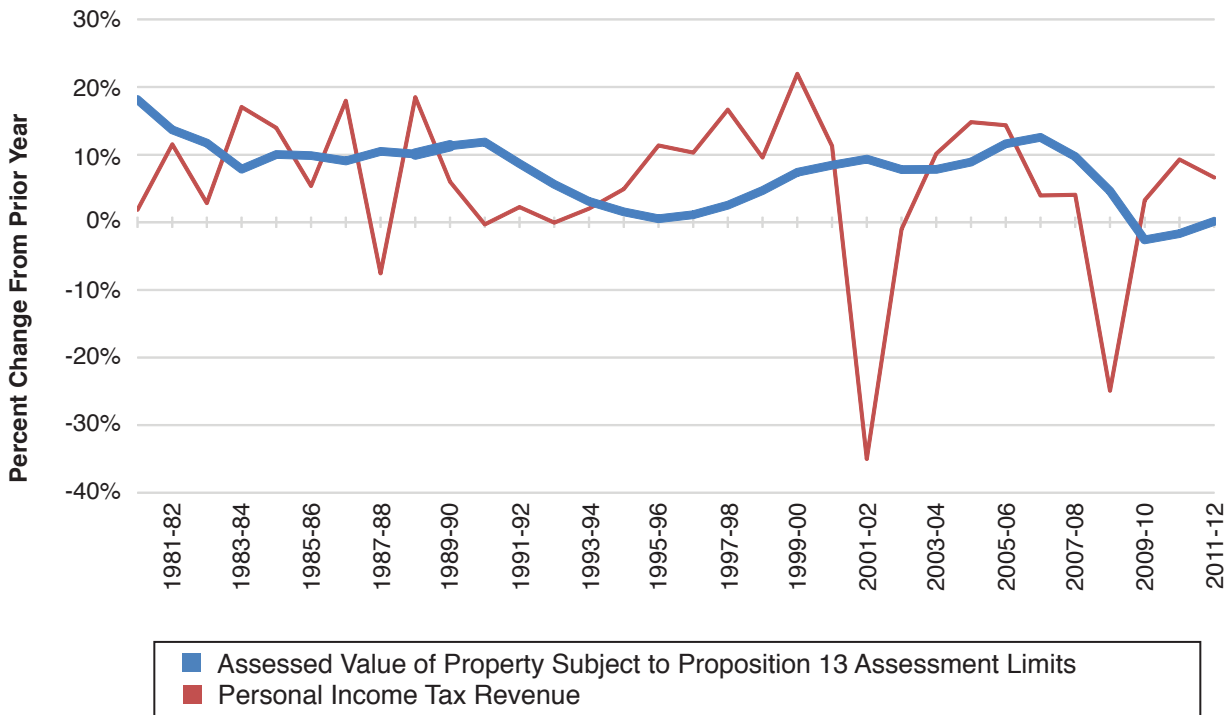
**From 1979-80 to 2011-12: 7.19%**

**From 1979-80 to 2011-12: 7.53%**

Source: Data from the State Board of Equalization. \*Prior to 1981, the assessment ratio was 25 percent of full value. No homeowner data is available prior to 1979-80.

# THE IMPACT OF PROPOSITION 13

**FIGURE 10:  
STABILITY OF PROPOSITION 13 ASSESSMENT LIMITS**



Source: Data from the State Board of Equalization and the Legislative Analyst's Office.

## **STABILITY OF ACQUISITION-VALUE ASSESSMENTS**

California's property tax is the most stable source of revenue in the state, due to Proposition 13's assessment limits. While the median home price fluctuates with market values, acquisition-value assessments ensure that local governments are shielded from booms and busts of the economy. As noted in the Report of the Commission on the 21st Century Economy, acquisition-value assessments have helped create "the most stable

“California's property tax is the most stable source of revenue in the state, due to Proposition 13's assessment limits.”

of major state and local sources” of revenue.

In the past 50 years, California's property assessments have fallen only once. In August 2009, the State Board of Equalization reported that statewide property assessments fell for the first time in the agency's recorded history.<sup>41</sup> According to economic data, market values declined significantly, with the real median home price falling as low as \$223,000 in 2009, from a peak of \$555,600 in 2007.<sup>42</sup> In contrast, the drop in assessed values subject to Proposition 13's assessment limits was much less. During the housing market collapse, assessed values on homeowner-occupied property fell 4 percent in 2009-10, while assessed values on business property fell 1.63 percent. However, the decline was short-lived. By 2011-12, assessment rolls began seeing positive growth (see Figure 10).

# PROPOSITION 13 REVISITED

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Under a market-value approach, without Proposition 13, local governments would have collapsed during this and any other recession.

Proposition 13 provides certainty for taxpayers and policymakers. Taxpayers generally know how much their property tax bill will be annually, and policymakers know how much tax revenue to expect. Proposition 13 mitigates the need for potential cuts in local programs in years when market values drop significantly.

Since the property tax was established in 1850 until passage of Proposition 13, there were a number of problems in equalizing county assessment ratios. However, Proposition 13 significantly improved both property tax assessment and tax rate equalization between counties. Assessment practices surveys published by the State Board of Equalization show that in recent years, county assessment ratios have

“*Under a market-value approach, without Proposition 13, local governments would have collapsed during this and any other recession.*”

(for all but Alpine County, for a brief period) remained above 95 percent, while most county ratios are above 99 percent.<sup>43</sup> Prior to 1981, property taxes were calculated by multiplying the tax rate times 25 percent of the assessed value of a property – unlike today, where the tax rate is multiplied by the total assessed value of a property. Average countywide tax rates varied greatly prior to passage of Proposition 13. Today, due to Proposition 13’s rate limits, property tax rates remain relatively equalized between counties at approximately 1.1 percent, with minor variances due to locally approved bond debt.

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## Part III Footnotes:

- 39. State Board of Equalization Statistical Research and Consulting Division, *The Split Roll Concept: What is it? What Might it Do?* (April 14, 1981) p. 2
- 40. Data is from Figure 9 on page 19.
- 41. State Board of Equalization, *Total Statewide Property Values Decline* (August 25, 2009)
- 42. California Lutheran University Center for Economic Research and Forecasting, *California Quarterly Forecast Charts* (March 14, 2013)
- 43. A 100 percent assessment ratio would equate to being assessed at 100 percent of market value.

*"Those of us who opposed Proposition 13 have a problem: Now that the measure has been in effect almost six months, how do we account for the fact that civilization as we know it has not come to a sudden halt? In contrast to earlier predictions of doom, the problems brought by its passage have turned out to be manageable and public services continue largely unaffected."*

– Marvin Braude, Los Angeles City Councilman, December 31, 1978



## CONCLUSION



This home at 15001 Nordhoff Street in Los Angeles County was valued at \$77,960 in 1965, based on the assessor's opinion that it would achieve that value if the property were converted to a different use. (Source: CalTax Archives)

**P**roposition 13 continues to protect taxpayers from higher taxes and the uncertainty of market-value property assessments. It ensures a stable, yet growing, revenue base for local governments. When the initiative passed 35 years ago, property owners benefited from an immediate reduction in their tax bills, and were given long-term stability. Proposition 13 also protects taxpayers by requiring at least a two-thirds legislative vote for tax increases. This has not prevented tax hikes when lawmakers believed there was a real need for additional revenue.

California's property tax system under Proposition 13 meets the principles of sound tax policy: generally, taxpayers know what their tax bills will be before they arrive; acquisition-value assessments achieve neutrality and do not discriminate among certain taxpayers; property tax revenue is considered to be California's most stable form of revenue, even when there are significant economic declines; all property owners are assessed equally, in a uniform manner; and before purchasing a property, taxpayers know how they will be assessed.

Any changes to Proposition 13 would eliminate many of these benefits. Adoption of a split roll, for example, would recreate the assessment and

valuation problems experienced prior to passage of Proposition 13. Further, a split roll would be a major change in state tax policy, where, for the first time, the property tax would be discriminatory.

Opponents of Proposition 13 continue to claim that business property is under-assessed, and that such property fails to pay its "fair share." The data tells a different story.

Historical data demonstrates that businesses bear the greatest burden of paying the property tax, both dollar-for-dollar and as a percentage of the total. Evidence also shows that property tax assessments have grown at a larger rate on business property than on homeowner-occupied property.

As promised, Proposition 13 has protected – and continues to protect – homeowners, businesses and investors from higher property taxes.

Proposition 13 brought stability to an out-of-control tax system, and continues to protect Californians from the kind of massive, unpredictable tax hikes that were common before voters approved the initiative. Statistics from the State Board of Equalization show that Proposition 13 treats homeowners and businesses fairly, and has not allowed businesses to shift the property tax burden to homeowners.





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## STATEWIDE — PEOPLE'S PETITION TO CONTROL TAXATION

Sponsored By: PEOPLE'S ADVOCATE, P.O. Box 8113, Van Nuys, CA 91409, [213] 988-8737, P.O. Box 596, Carmichael, CA 95608, [916] 487-5114, PAUL GANN—Chairman, ORRIN STRATTON—No. California Chairman, UNITED ORGANIZATION OF TAXPAYERS, 6431 W. 5th Street, Los Angeles, CA 90048, [323] 936-4982, [213] 936-3318, HOWARD JARVIS—State Chairman, J. EARLE CHRISTO—State Vice Chairman

AREA TELEPHONE NUMBERS: LOS ANGELES COUNTY 818-4982 / SO. BAY 925-1000 / 373-4234 / 925-2758 / S.F. VALLEY 989-1080 / 841-2614 / 766-7612 / 988-8737 / 784-2680 / ALHAMBRA 284-6848 / COVINA 337-4453 / S. MONICA 828-2339 / LANCASTER 942-0244 / R. HEIGHTS 965-3065 / WESTCHESTER 776-2870 / 670-7150 / VENTURA COUNTY 647-3100 / S. BERNARDINO COUNTY 916-4977 / 793-3139 / SAN DIEGO COUNTY 440-6027 / 583-6234 / VISTA 726-7469 / ORANGE COUNTY 542-7883 / 776-9663 / 846-5733 / SACRAMENTO COUNTY 487-5114 / BUTTE COUNTY 342-6039 / STANISLAUS COUNTY 522-5031.

Co-Sponsored by

Return completed petitions to local sponsors or to addresses listed above.

**DEADLINE:** This petition must be in the offices of one of the sponsoring agencies no later than November 25, 1977.

### INITIATIVE MEASURE TO BE SUBMITTED DIRECTLY TO THE ELECTORS

The Attorney General of California has prepared the following title and summary of the chief purpose and points of the proposed measure:

#### INITIATIVE CONSTITUTIONAL AMENDMENT—PROPERTY TAX LIMITATION

Limits ad valorem taxes on real property to 1 % of value except to pay indebtedness previously approved by voters. Establishes 1975-76 assessed valuation as base value of property for tax purposes. Limits annual increases in value. Provides for reassessment after sale, transfer, or construction. Requires 2/3 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 specified local entities to impose special taxes except ad valorem, sales and transaction taxes on real property. Financial Impact: Would result in the loss of local property tax revenues of \$7 billion to \$8 billion annually and a reduction in state costs of about \$700 million in 1978-79 and \$800 million annually thereafter.

To The Honorable Secretary of State of California

We, the undersigned, registered, qualified electors of the State of California, residents of \_\_\_\_\_ County [or City and County] present to the Secretary of State this petition proposing to add Article XIII A to the Constitution, and petition that the same be submitted to the electors of the State of California for the adoption or rejection at the next succeeding general election, or at any special statewide election held prior to that general election, or as otherwise provided by law. The following is a full and correct copy of the title and text of the proposed measure.

#### THE AMENDMENT.

That Article XIII A is added to the Constitution to read:

##### 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 occurred 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.

#### IMPORTANT — PLEASE READ

Any registered voter may circulate this petition.

1. Fill in the name of the county IN WHICH YOU ARE CIRCULATING THE PETITION in section (A) on the back of this petition and section (B) above then proceed to obtain signatures. Signers MUST sign as they are registered. USE PEN.

3. After all signatures have been obtained complete the Declaration of Circulator. If you circulate more than one petition make certain you complete the Declaration of Circulator on each completed petition.

4. Processing of petitions takes time. Please return petitions to any of the sponsoring groups AS SOON AS THEY ARE COMPLETED. THIS IS IMPORTANT!