Report of the

SENATE COMMISSION ON PROPERTY TAX EQUITY AND REVENUE

to the

California State Senate

(Pursuant to Senate Resolutions 42 and 8)

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ADDENDUM

This report references the status of the Macy's case.

On June 7, 1991, Macy's withdrew its case which the U.S. Supreme Court had decided to hear. The Nordlinger case is still on appeal and it is expected that the Court will decide to hear it.

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PREFACE

In this period of disillusion with government's ability to anticipate important policy problems, the creation of the Commission demonstrates that the legislative process can foresee policy issues of widespread importance and impact to the people of California, address those issues in a timely and deliberative manner and involve a diverse group of Californians in the governmental process.

A full thirteen years after its passage, the Commission recognizes the intense public sentiment which continues to surround Proposition 13. One of the most frequently heard refrains from Commission observers was an amazement that the Senate, a body of elected officials, would even put a study of Proposition 13 on the public agenda. The Senate's willingness to reexamine the property tax system established by Proposition 13 is a measure of its public policy commitment.

INTRODUCTION

The Commission on Property Tax Equity and Revenue was established by Senate Resolution 42 (authored by State Senator Gary K. Hart), enacted by the Senate on March 15, 1990. Appointment of the Commission membership was completed by the Senate Rules Committee on June 13, 1990. On January 18, 1991, the Senate enacted Senate Resolution 8 (Hart), extending the Commission's tenure until June 30, 1991.

Appendix A contains copies of Senate Resolutions 42 and 8. Appendix B contains a roster of Commissioners and their respective affiliations at the time of Senate Rules Committee appointment.

The Commission adopted a monthly meeting schedule. Commission meeting were structured as roundtable briefings at which tax experts, state officials, legislative staff, academic scholars, local government representatives and citizen organizations were invited to make presentations to the Commission and spend the day in active dialogue with Commissioners and other presenters. Prior to each meeting, Commissioners were supplied with extensive background readings.

Appendix C contains a schedule of Commission meetings and topics. Appendix D contains a roster of individuals who made presentations to the Commission.

ACKNOWLEDGEMENTS

The work of the Commission could not have been accomplished without the ready and competent help of numerous individuals. Of particular assistance were Ann DuBay, Consultant for the Senate Office of Research; Peter Detwiler, Chief Consultant to the Senate Local Government Committee; Martin Helmke, Chief Consultant to the Senate Revenue and Taxation Committee; Peter Schaafsma, Director of Taxation and Economics for the Legislative Analyst's Office; Bill Whiteneck, Chief Consultant to the Senate Education Committee, and Ellen Worcester, Consultant to the Assembly Select Committee on Property Tax and Local Government Finance.

Special appreciation is extended to Commission Chair Robyn S. Phillips who unstintingly gave of her time and intelligence in conceptualizing the Commission's work, chairing its meetings and editing this report.

CHAPTER I :

COMMISSION RECOMMENDATIONS

The Commission finds that the way property is assessed under Article XIIIA of the California Constitution has generated substantial inequities for property taxpayers.

Under Article XIIIA, property in California is reassessed to fair market value only upon sale (or in the event of new construction). During the intervening years between sales, the property can be reassessed upwards by a maximum of two percent each year. Assessing property on the basis of acquisition value rather than market value produces side-by-side inequities such that taxpayers with identical properties may pay different property taxes due solely to the date the property was purchased.

The Commission further notes that over time the property tax assessment system does not self-correct or equalize the tax burden among taxpayers in any orderly, systematic way. In fact, disparities have widened over time and will continue to widen so long as property values rise faster than the two percent annual reappraisal cap.

The Commission does recognize that the two percent reassessment cap has two beneficial, and noteworthy, outcomes. One, owners of property are afforded a measure of certainty in anticipating future property tax bills. Every property owner knows that his or her property tax bill cannot rise more than two percent per year for as long as he or she owns the property.

The second important benefit is that the property tax system does not tax unrealized capital gains (beyond the limitation of the two percent cap). In effect, the property tax system has been disengaged, for the most part, from the volatility of California's real estate market. Property owners enjoy a stable tax levy over the course of property ownership.

The policy issue is whether these two taxpayer benefits justify the inequities resulting from the present property tax system. Reasonable people disagree on this question.

The Commission concludes that, on balance, a market valuation system is more reasonable than an acquisition system provided sufficient safeguards are in place to assure that homeownership is protected.

The Commission recognizes that market valuation is not a perfect ability-to-pay system of taxation. However, market valuation is a closer approximation of the taxpayer's current economic capacity to pay taxes relative to his or her neighbors than the acquisition method of assessment which artificially taxes on the basis of a formula.

Property tax equity, like beauty, is in the eyes of the beholder, that is, the beholder of his or her tax bill. Generally speaking, property taxpayers in California think Article XIIIA of the California Constitution (Proposition 13) with its constitutionally guaranteed low tax rate and capped annual reassessment is lovely indeed, albeit unfair.

The Commission appreciates the political inertia which the current provisions of Article XIIIA intrinsically create in the body politic. The new property owner may wince at learning that her neighbor in an identical house pays significantly less property taxes but the tax rate is one percent of assessed value, much less than pre-Proposition 13 levels, and, thanks to the reassessment cap, she soon will be paying relatively less taxes as time passes. For this reason many taxpayers are lulled into accepting an inequitable tax structure.

But public content, even happiness, with a law does not make that law necessarily fair, equitable, effective or reasonable. The Commission finds three compelling reasons to reexamine the state's property tax structure and to recommend changes to it.

First, legal challenges to the assessment section of Article XIIIA are being appealed to the U.S. Supreme Court. The Commission finds no legal consensus exists on the probability of the Court ruling the reassessment section of Article XIIIA of the California Constitution unconstitutional. The U.S. Supreme Court has agreed to hear one challenge and may decide on hearing another later this year. A decision on constitutionality will be rendered by June, 1992. Given the possibility the Court will strike down California's current property tax assessment methodology, it is prudent for the Legislature to formulate and develop a contingency plan.

Second, the size of state budget deficit (estimated at $14 billion for 1991/92) and the financial difficulty confronting local government invite a review of the property tax system. Article XIIIA constitutionally caps property tax rates at one percent of market value, but under current assessment practices, most property in the state pays less than the one percent statutory rate. This erosion of the property tax base contributes to the fiscal strain experienced by local government and its citizens. The Commission's major recommendations are revenue neutral, but could easily be converted to revenue additions for local government. Other Commission recommendations, while advanced for reasons of equity and fairness, are revenue positive.

Third, equity in taxation is a goal in itself. The very existence of a $17 billion tax system in California that operates unfairly is reason enough to offer improvements to it.

Public opinion poll data show an overwhelming 70percent of Californians disapprove of current assessment practices once they are explained in detail. [1] Informed by its own experience and perception, the Commission concludes that the provisions of Article XIIIA, including the reassessment section, are popular with the general public both symbolically and as a matter of economic self-interest. The Commission concludes that people do not necessarily want an unfair system, but they dislike the property tax enough to oppose paying more of it to equalize the tax burden among property taxpayers.

The Commission recognizes that virtually every improvement in the tax system, every firmly defended tax tradition, began as an innovation. Proposition 13 itself was such an innovation. The Commission believes these recommendations can lead to a better tax structure for California taxpayers.

The Commission considered a wide range of proposals for restoring equity to the property tax system and for strengthening the fiscal solvency of local government while protecting homeowners from unpredictable tax increases. One class of options achieve property tax equity by further reducing governmental reliance on the property tax by extending the favored tax status of pre-1978 property owners to all property owners (or at least homeowners) and replacing the lost governmental revenue with other taxes. The Commission rejected this approach because it concluded that the local property tax is an appropriate revenue source for financing local services and maintaining a measure of local control.

TRANSITION RECOMMENDATIONS TO PROTECT HOMEOWNERS

The Commission recognizes the inequitable nature of California's assessment cap for property taxpayers and recommends that the Senate consider alternative property tax systems if the U.S. Supreme Court invalidates the assessment portion of Article XIIIA of the California Constitution. The Commission's assignment does not entail theorizing on constitutional law or prophesying U.S. Supreme Court decisions, but rather advising the Senate on a fair property tax structure. Thus, the Commission offers its primary three recommendations based on the assumption the Court does rule the reassessment provision of Article XIIIA to be unconstitutional.

If the Supreme Court does strike down the reassessment portion of Article XIIIA, and the Legislature and the electorate do not adopt an alternative, then at some point the state's assessment methodology will revert to market valuation (with a one percent tax rate cap), causing over an $11 billion property tax increase, $5.3 billion of which would be borne by homeowners. In this instance, the Commission offers three alternative property tax structures, all of which will significantly ease the transition to a market valuation system.

Recommendation One - Phase In to Market Value

The Commission recommends, in the event the U.S. Supreme Court invalidates the assessment provision of Article XIIIA of the California Constitution, the Senate consider legislation to phase in a market valuation system, and to:

a) Return to market value assessments immediately for all new and current property taxpayers, excepting current homeowners who may elect to phase-in to market value;

b) Increase for homeowners who elect to phase-in to market value the annual reassessment cap by two percent a year until the property is assessed at full market value (e.g., four percent cap in year one, six percent in year two, eight percent in year three, and so on);

c) Maintain revenue neutrality by lowering (in the first and each subsequent year) the countywide tax rate (exclusive of local bond service) on a county-by-county basis to a level which will generate an amount of revenue equal to the prior year's revenue, adjusted annually for growth in population and an appropriate inflation index;

d) Provide that no homeowner who elects to phase-in to market value will pay less property taxes than would

have occurred under the acquisition method of assessment as a consequence of the interaction of (b) and (c);

e) Provide that local voters may change local tax rate caps by a majority vote.

To protect current homeowners from sudden and large property tax increases, the Commission recommends that the assessment cap be gradually increased by two percent per year. In the first year following enactment of this plan, existing homeowners' assessments could not be increased by more than four percent; second year six percent; third year eight percent and so on or until the homeowner's property is assessed at full market value.

The Commission does not believe that a return to market valuation must necessarily result in an overall increase in the property tax burden and, accordingly, recommends that local government tax rates be lowered by an amount approximately equal to the increased revenue derived from returning to market value assessments. A reasonable index to account for population changes and inflation should be employed. An illustration of how this rate adjustment would be made for a hypothetical county is shown below:

Year 0 - Base Year	**Assessed Value Owner Occupied Homes**	**Assessed Value Other**	**Assessed Value Total**
Assessed Value	$4,000,000	$6,000,000	$10,000,000
Tax Rate			1.00%
Tax Levy			$100,000
Year 1 - New System			
Base Assessed Value	$4,000,000	$6,000,000	$10,000,000
Ownership Changes	200,000		
AV Adjustment - 4%	152,000		152,000
AV Adjustment to Market		4,000,000	4,000,000
New Construction	400,000	600,000	1,000,000
Total Assessed Value	**$4,752,000**	**$10,600,000**	**$15,352,000**

Tax Levy = Base Year Levy adjusted for population + inflation, (assumed to be 2% + 5%):$100,000 x 1.07 = $107,000

Tax Rate = Total Tax Levy Divided by Total Assessed Value = 0.7%

Note: The total levy could be adjusted in the following year by the additional amounts levied on homeowners whose taxes would otherwise be lowered by this system.

Since a tax rate reduction could cause some homeowners' property tax bills to decrease, shifting some portion of the property tax burden to their neighbors, the Commission recommends that during the phase-in period all taxpayers be required to pay at least the same amount of property taxes they would have paid under the acquisition method of assessment and one percent tax rate cap.

This phase-in approach eases the transition to market value assessment for homeowners while the tax revenue cap ensures that tax rates will be lowered if housing price increases exceed the rate of inflation. These safeguards afford homeowners greater protection than existed prior to 1978.

The Commission believes that local voters should have the right to adjust local property tax rates and, therefore, adds to this recommendation a provision allowing changes in local tax rates by a majority vote of the electorate. See recommendation number five.

Recommendation Two - Preservation of Homeownership

The Commission recommends, in the event the U.S. Supreme Court invalidates the assessment section of Article XIIIA of the California Constitution, the Senate consider legislation to exempt basic shelter from all property taxes, and to:

a) Return to market value assessments immediately for all new and current property taxpayers;

b) Increase the homeowners' property tax exemption to $50,000 per home, index the exemption for inflation and convert the exemption to a locally administered program;

c) Maintain revenue neutrality by lowering (in the first and each subsequent year) the countywide tax rate (exclusive of local bond service) on a county-by-county basis to a level which will generate an amount of revenue equal to the prior year's revenue, adjusted annually for growth in population and an appropriate inflation index;

d) Provide that local voters may change local tax rate caps by a majority vote.

To protect basic shelter from property taxation, the Commission recommends that the current homeowners' property tax exemption be increased to $50,000 and, thereafter, be adjusted annually based on an appropriate housing inflation index. Homeowners would not be taxed on the first $50,000 (or the basic shelter portion) of their homes; homes valued under $50,000 would be property tax-free. The policy objective of this recommendation is to establish a property tax haven for all homeowners for a necessity of life without regard to household income.

Because local government will no longer experience a loss of revenue as a result of the homeowners' property tax exemption, the need to continue this program as a state-administered and state-reimbursed program is ended. Since the entire cost of the homeowners' exemption will be paid for by the increased local revenues derived from returning to market value assessments, the state will be relieved of reimbursing local governments by $360 million in 1990-91.

The Commission does not believe that a return to market valuation must necessarily result in an overall increase in the property tax burden. Therefore, it recommends that local government tax rates be lowered by an amount approximately equal to the increased revenue derived from returning to market value assessments. A reasonable index to account for population changes and inflation should be employed.

The Commission believes that local voters should have the right to adjust local property tax rates and, therefore, adds to this recommendation a provision allowing changes in local tax rates by a majority vote of the electorate. See recommendation number five.

Recommendation Three - Split Tax Rates

The Commission recommends, in the event the U.S. Supreme Court invalidates the assessment section of Article XIIIA of the California Constitution, the Senate consider legislation to set tax rates on homes lower than income-producing property, and to:

a) Return to market value assessments immediately for all new and current property taxpayers;

b) Lower the property tax rate for homeowners by an amount sufficient to make the homeowner portion of the tax roll revenue neutral for local government, and thereafter automatically lower the tax rate each year by an amount equal to the revenue generated by the increased valuation

from owner-occupied residences allowing for new home construction and an appropriate inflation index;

c) Maintain for the business portion of the tax roll (apartments, agriculture, commercial and industrial properties) the current one percent tax rate cap;

d) Limit prospective voter-approved tax rate overrides to the homeowner portion of the tax roll.

The Commission recognizes and differentiates between two categories of property taxpayers: homeowners and the owners of income-producing properties. And, the Commission notes the importance homeownership plays in California society.

The Commission devoted extensive discussion to a variety of split roll or split rate proposals. Proponents and opponents of the split roll concept are found across the ideological spectrum. The Commission, like the testimony it heard, is more divided on this issue than any other.

Under this recommendation, commercial and rental residential property taxpayers will experience a $5.9 billion property tax increase over current property tax obligations. These monies will primarily benefit local government. The Commission judged this amount reasonable in light of the current $14 billion fiscal shortfall; considering that the original intent of Proposition 13 was aimed mainly at reducing homeowner property tax burdens; recognizing that any Supreme Court action will cause this magnitude of property tax increase for business unless the Legislature elects to simply return all new tax proceeds; and, noting that business will still enjoy the one percent tax rate cap guaranteed in the California Constitution.

A primary argument against a split tax rate system is the potential for future abuse. Critics worry that once a uniform tax roll is breached, divisions in the tax roll will proliferate. Other states, particularly Minnesota with numerous divisions ranging from five percent to fifty-five percent of market value, are cited. The Commission recognizes this danger, but, on balance, thinks the need for additional local government revenues, the desirability of maintaining low homeowner property taxes and the simplicity of this particular split roll proposal outweigh this concern.

A major concern of the business community, which opposes any split roll proposal, is the prospect that it will find itself politically isolated in each community. The specific fear is that voters will approve tax overrides more readily, knowing that a preponderance of the tax increase will be paid by business. The Commission addresses this concern by restricting future voter-approved overrides to the homeowner portion of the roll only. However, this solution, while protecting income-producing property, leaves owner-occupied residential property vulnerable to tax increases enacted by homeowner-voters and non-homeowner-voters alike.

The Commission also notes that business taxpayers will be able to deduct any increased property tax payments from federal income tax payments. Thus, business property taxpayers will not be hit with the full impact of this tax increase and California will recapture some of the federal tax windfall which occurred in the wake of Proposition 13.

GENERAL RECOMMENDATIONS

The following recommendations are offered as specific reforms which the Commission believes worthy of consideration regardless of Court action. Recommendations four through eight address specific problems which are a direct result of Article XIIIA of the California Constitution and which would be automatically resolved by a Court decision and a return to market valuation of property, but that should be addressed by the Senate notwithstanding a Court decision. Finally, recommendation number nine concerns the requirement for comprehensive tax data and information in the legislative process.

Recommendation Four - Generational Equity

The Commission recommends that the constitutional provision exempting real property inherited by a child from reappraisal to market value be abolished.

Article XIIIA (Section Two) of the California Constitution exempts from reappraisal a property owner's home and up to $1 million of other real property when that property is transferred to a child. This exemption can be used repeatedly and indefinitely, forestalling a market reassessment forever.

The inequity is clear. One young family buys a new home and is assessed at full market value. Another young family inherits its home, but pays taxes based on their parents' date of acquisition even though both homes are of identical value. Not only does this constitutional provision offend a policy of equal tax treatment for taxpayers in similar situations, it appears to favor the housing needs of children with homeowner-parents over children with non-

homeowner-parents. With the repeal of the state's gift and inheritance tax in 1982, the rationale for this exemption is negligible.

The Commission notes that this remarkable disparity of treatment perverts even the strongest arguments in behalf of the acquisition method of assessment and, understandably, was not advanced in 1978 by the proponents of Proposition 13. A U.S. Supreme Court decision invalidating the assessment section of Article XIIIA, and a return to market valuation, would automatically correct this inequity.

Absent a Court decision, the Commission recommends that the Constitution be amended to provide that all real property transferred to children be reappraised at the time of transfer.

Recommendation Five - Local Finance & Local Control

The Commission recommends that the California Constitution be amended to grant local voters in each jurisdiction the right to modify local property tax rates by a majority vote.

The Commission heard local government officials present the case for both more local dollars and greater local control over those dollars. The Commission also heard testimony urging local expenditure reductions, that is to say, elimination or reduction of unnecessary or lower priority governmental expenses.

The Commission, representing a cross section of community perspectives and experiences, is persuaded that local government is fiscally strained and that, as a result, governmental services in California have suffered. More important than the Commission's views is what a majority of local citizens think about the level of service and spending by their local government. A democracy vests in the people the right to upsize or downsize the government, to evaluate governmental efficiency and priorities, and to elect governmental policymakers. The people traditionally have exercised these rights by a majority vote.

The Commission is cognizant of the argument that vote thresholds higher than the standard majority vote protect the people from excessive taxation. This may be so, but it is not the way business is conducted in a free society. Majority rule is the established vote requirement for electing leaders and governing the country. Two-thirds vote requirements permit the minority to obstruct the will of the majority.

The level of taxation in California is roughly comparable to other states. Expressed in terms of state and local taxes paid per $1,000 of personal income, California is slightly below the national average ($112 per $1000 of personal income in California versus $116 per $1000 nationally).[2] Under these circumstances, the Commission believes that it is reasonable and wise to give local voters the opportunity to set local levels of taxation if for no other reason than different communities in a state the size of California will most certainly have different, and changing, requirements for governmental service.

Constraints on the free exercise of the people's will frustrates the democratic process. The current constitutional requirement prohibiting local voters from increasing local property tax rates for local purposes undercuts the ability of local citizens to monitor and manage their local government.

The Commission notes that under the current acquisition property tax assessment system voter overrides will widen side-by-side disparities. Recent property buyers will undergo larger dollar tax increases than longer term owners of similar property if voters approve tax rate increases.

Recommendation Six - Valuation of Corporate Property

The Commission recommends that property owned by corporations and partnerships be treated the same as all other property for purposes of property tax reassessment. To implement this recommendation, the "change of ownership" statute requires review and modernization.

Article XIIIA of the California Constitution gives the Legislature responsibility for defining "change of ownership" for property tax assessment purposes, that is, determining the point at which a property must be reassessed to full market value. The current statutory definition of "change of ownership" treats homes and corporate properties differently, and invites tax avoidance.

Under the current definition of "change of ownership", residences are reassessed to market value upon sale. For properties owned by tenants-in-common, each share of the property is reassessed to market value when that share is sold.

By contrast, property owned by publicly traded corporations and property owned by partnerships are not reappraised to market value unless over fifty percent of the corporate shares or partnership is sold to one buyer. For instance, to use an extreme example, if 100percent of a corporation's stock is sold, but no one person

purchases more than fifty percent of the company, California law pretends that the property owned by the corporation has not been sold.

The inequity created among property owners is manifest. Homeowners, as a class, are treated differently from corporate owners; sole proprietors who buy a business property are taxed differently from partnerships; and so on.

Moreover, current law encourages taxpayers to structure property ownership and property sales to escape reassessment to full market value. As the difference between a property's true value and its assessed value widens, the incentive to avoid reassessment to market value increases.

A partnership formed to acquire real property can sell its property in stages to escape reassessment. For example, a real estate partnership owned by three individuals can arrange to sell one-third of its ownership at different points in time, eventually selling the entire property, without triggering a reassessment. This artifice can be repeated indefinitely.

A U.S. Supreme Court decision invalidating the assessment section of Article XIIIA, and a return to market valuation, would automatically correct this problem. Absent a Court decision, the Commission recommends that the statutory definition of "change of ownership" for property tax purposes be amended to provide that all property be reassessed to full market value upon a substantive sale. The current statutory definition is inconsistent with the orderly operation of Article XIIIA's acquisition method of assessment.

The Commission notes that the increase in future revenues accruing to local government from redefining "change of ownership" can be used for either reducing property tax rates, augmenting local government revenues or a combination of both. The Commission recommends that the funds be used to increase governmental resources since in the Commission's opinion the current statutory definition causes the under taxation of some properties beyond the constitutional expectation of Article XIIIA.

Recommendation Seven - State/Local Fiscal Accountability

The Commission recommends that health and welfare programs for which a need for state intervention exists be funded and administered as state programs. The Commission recommends the state begin by assuming responsibility for three specified welfare programs.

A sensible and cost-effective system for the provision of governmental services should divide responsibilities clearly among different agencies and various levels of government to promote efficient management and accountable public policy. Citizen-taxpayers have a right to know that a particular governmental agency or official can be held accountable for the delivery of services.

A persistent complaint from local government officials is the proliferation of unfunded state mandates imposed on local government. The too-often heard "my hands are tied, go to Sacramento" from local officials is symptomatic of this problem. This refrain is troubling because it illustrates the murky disquiet in which citizens find themselves when sorting out precisely which services, what kind of decisions and whose tax dollars are locally controlled.

Among the programs considered prime for state assumption are judicial expenses, corrections, county health service, mental health programs, AFDC, In-home Supportive Services, food stamps, and General Assistance. Because these social services programs should be the responsibility of the state's taxpayers and are expenditures driven by factors beyond the control of local decision makers, funding should not depend on local property tax wealth.

The Commission recommends that the state begin a process of disengaging health and welfare programs from the property tax. The Commission identified three income distribution programs which should be transferred immediately to the state, both fiscally and administratively. The three programs are: Aid to Families and Dependent Children (AFDC), food stamps and general assistance.

The increased state cost for these three programs would have been $698 million in fiscal year 1990-91. This cost can be funded from state savings resulting from shifting the homeowners' exemption to local government, which will be $360 million plus repealing, in whole or in part, selected state tax expenditures.

The Commission reviewed numerous state tax expenditures relating to property and housing. The Commission recommends that the expenditures for these tax programs be evaluated against other, possibly more pressing state program needs, including the Commission's recommendation to "buy out" local health and welfare programs. While state tax policy falls outside the Commission's purview, a partial listing of property and housing tax expenditures are identified as possible candidates:

a) Capital Gains Exclusion for Inherited Property. Exempts permanently from capital gains taxation the appreciated value of inherited property. State cost: $240 million in 1991-92.

b) Capital Gains Exclusion on the Sale of a Residence for Taxpayers over Age 55. Excludes $125,000 of home value from capital gains taxation for taxpayers over 55 years of age. State cost: $150 million in 1991-92.

c) Deferral of Capital Gains on Sale of Principal Residence. Taxpayers may defer all capital gains taxes upon sale of a home if they purchase a home of equal or greater value within 2 years. State cost: $460 million in 1991-92.

d) Deduction for Mortgage Interest for Vacation and Second Homes. Taxpayers are permitted to deduct from state income taxes the mortgage interest for multiple residences, including vacation homes. State cost: $65 million in 1991-92.

e) Deduction for Property Taxes Paid for Vacation and Second Homes. Taxpayers are permitted to deduct from state income taxes the paid property taxes for multiple residences, including vacation homes. State cost: Unknown, but substantial.[3]

Recommendation Eight - Local Government Revenue Apportionment

The Commission recommends that the current statutory allocation of property tax revenues among local government jurisdictions (the so-called AB 8 formula) be reviewed and amended to accommodate changing local conditions. The Commission further recommends the Special District Augmentation Fund be redesigned to afford special districts a measure of independence from county government.

Thirteen years ago, the Legislature enacted on an emergency and temporary basis a formula for the distribution of property tax revenues to local governmental jurisdictions, a formula which was subsequently permanently fixed into law by Assembly Bill 8. Since that time, AB 8 has remained essentially unchanged.

The AB 8 formula is based on the relative share of property tax revenue each local governmental jurisdiction received in the three years prior to Proposition 13. Whatever the wisdom of using this

approach back in 1978, the formula and the data upon which it was based are now obsolete.

The AB 8 formula inadequately accommodates changing local needs, priorities and circumstances. While accounting for new construction within jurisdictions, it fails to account for population shifts among localities, service and caseload increases and decreases (e.g., the number of school age children; the number of individuals living at or below the poverty level, etc.) or other conditions.

Under the AB 8 formula, some citizens are penalized in perpetuity because they reside in jurisdictions that maintained low levels of property taxation in the pre-Proposition 13 period. The arbitrary use of a three year period to determine future property tax allocations locks in for all time the combination of property tax rates and assessed valuations extant in the years 1975-76 to 1977-78.

Some local government officials argue that basic local services are so important to life and property that they deserve the same kind of funding equalization governing local school districts. They note that fundamental government services, such as police and fire protection and emergency health care, are especially impaired since the AB 8 formula ignores any per capita component so that local government resources are frozen, unable to adjust to changing demographics.

The Commission observes that in the event the Supreme Court does not invalidate the assessment section of Article XIIIA, then local government finance is a zero-sum situation, i.e., to alter the existing AB 8 formula requires shifting funds from one jurisdiction to another, a Herculean political task when all local governments are operating under tight budgets. In the event the Supreme Court does strike down the assessment cap, the possibility of increased local revenues exists and, consequently, the opportunity to create a fairer distribution of local property tax revenues without harming the citizens of one area to help another.

In both instances, the Commission found no justification for continuing the current AB 8 formula. It serves neither local government nor its citizens well. A new formula is required which provides a measure of flexibility and adaptability.

Recommendation Nine - Accurate Policy Information

The Commission recommends that a property tax data base, and accompanying analytic and modeling capability, be developed for the Legislature and other governmental agencies.

In the course of its deliberations, the Commission discovered significant gaps in the information available to the Legislature and other policymakers concerning the property tax system. For instance, it is very difficult, and in some instances impossible, to determine with accuracy and reliability the impact of proposed tax changes with respect to:

a) The outcome on property tax revenues statewide;
b) The outcome on property tax revenues by county;
c) The outcome on property tax revenues over time;
d) The outcome on property tax burdens by property type;
e) The outcome on property tax burdens by length of ownership;
f) The outcome on disparities in property tax burdens;
g) The outcome on property tax burdens over time.

Without this type of modeling capability it is nearly impossible to predict the impact of property tax reforms presented to policymakers. Without reliable information, policymakers may advance options which are ill-considered.

The Commission believes that, even without the U.S. Supreme Court proceeding on Article XIIIA, the property tax system will come under increasing scrutiny in the years ahead. The fiscal problems of local government will force this evaluation. To accomplish this task thoughtfully requires better information than is currently available.

CHAPTER II :

CALIFORNIA'S PROPERTY TAX SYSTEM

Taxes on property have a long history as sources of governmental revenue. Property taxes were utilized in ancient Rome as well as medieval England. Property taxes were widely levied in the United States during the colonial period and throughout the late 18th and 19th centuries.[4] As recently as 1902, property taxes accounted for more than half of total government revenues in the United States.

With the growth of federal revenues in the first half of the twentieth century, the property tax declined as a major source of total national government revenues. By the end of World War II, property taxes had dropped to approximately 15 percent of total governmental revenues in the United States, although still accounting for half of local receipts. As income and sales taxes became increasingly popular with state governments, the property tax emerged as the primary source of local government revenue, becoming primarily a local tax.[5]

At various times throughout history, taxes have been imposed on both tangible property, i.e., land, buildings and merchandise, and intangible property, i.e., securities and other financial assets. In more recent times, however, the trend has been toward limiting taxation to tangible property in general and real property in particular. Taxes on personal property are still utilized in some states although most, like California, exempt household goods from taxation.[6]

The property tax was first imposed in California in 1850 as a state and local tax by the newly convened California Legislature. Property taxes served as the major revenue source for state government until the turn of the century. In 1905 the electorate approved the recommendations of a state Commission on Revenue and Taxation to give local governments the exclusive right to levy property taxes.[7] Despite periodic difficulties with assessment practices over the years, reliance on property tax revenues continued and in 1977, the year before Proposition 13, the property tax accounted for 40 percent of local revenues in the state.

Why a Tax on Property?

The use of property wealth as a basis for taxation stems from the general perception that it represents the best available measure of a taxpayer's ability to pay. This assumption was clearly valid in times when incomes were commonly paid in the form of lodging, food or other commodities, and the value of total income could not be measured with reasonable accuracy. Over time this rationale has been considerably weakened because only tangible property, or more narrowly still, only real property is taxed. Nevertheless, "ability to pay" continues as a prime argument in support of the property tax when market value assessments are used to establish property taxpayers' relative ability to pay.

Another supporting argument for property taxation rests on the notion that the greater an individual's property holdings, the greater his or her "stake" in the community. Therefore, financial support for governing the community should be paid in proportion to the value of one's property.

Perhaps the almost universal appeal of the property tax as a revenue source lies in the comparative immobility of property and, therefore, of the tax base. From an administrative standpoint, real property is particularly easy to locate and stays put despite differences in tax rates between jurisdictions.

Another desirable attribute of the property tax is its relative stability as a revenue source. This characteristic is attributable to two factors. One, real property values are less subject to valuation changes than the level of general economic activity. Two, in times of economic fluctuations, especially downturns, periodic reassessments smooth out variations in the flow of revenues to government treasuries.[8]

Is the Property Tax Fair?

The traditional criteria applied to evaluate whether a tax is fair are the extent to which it conforms to either the "benefits principle" or the "ability to pay principle." Under the benefits principle, a tax is said to be fair if it is levied in proportion to the benefits received from the government services financed from the tax. The ability to pay principle holds that one's "fair share" of taxes should be in proportion to ability to pay as measured by income and/or wealth.[9]

The benefit rationale as applied to property taxation is that public services increase the value of real property and, therefore, should be paid for by the owners of property. A rigorous application of the rule would seem to limit the tax to the amount necessary to pay for "property-related" services such as fire and police protec-

tion, and construction and maintenance of streets, sidewalks and other infrastructure. Moreover, it does not necessarily follow that the value of the services is in proportion to the value of the property.

Many important property-funded services, such as police and fire protection (to name the most obvious) serve both property and people. A broader, and more reasonable, interpretation holds that all municipal services affect directly and indirectly the value of property within a community. Simply put, the property tax is not and cannot be treated as solely a property owners' user fee, paying for services that seemingly benefit property directly.

Admittedly, the value of property is at best an imperfect indicator of the property owner's ability to pay. First, the tax is normally levied on the gross value of real and personal property without regard to the owner's debt position and, hence, true net worth. Second, intangible property is generally excluded from the tax base so that at best only a partial measure of wealth is obtained.

While the market valuation assessment methodology is not a perfect system for determining taxpayer net worth, it is the best technique known for levying a property tax that bears a relationship or connection to the taxpayer's ability to pay.

Pre-1978 Property Tax Authority of Local Government

During the first three-quarters of this century the property tax in California was the fiscal mainstay of local government. It provided fiscal independence and local control over public services at the local level. Other revenue sources, such as sales or income taxes, either were limited by state statute or were not available to local governments.

By 1975 approximately 6,300 counties, cities, special districts and school districts in California had authority to impose a tax on property within their jurisdictions. Overlapping boundaries meant that a parcel could be taxed by the county and school district in which it was located as well as the city and several special purpose districts.

Tax levies and collections were administered by county governments for all jurisdictions within the county. Composite tax rates were developed for each fiscal year by summing all applicable rates. The distribution of tax collections was determined by the amount levied on behalf of each jurisdiction.

Growth in Property Tax Exemptions

Initially, the tax base included all privately owned real and personal property. Over time substantial portions of the tax rolls were exempted. In 1978/79 the following classes of property enjoyed full exemptions in California:[10]

- Most government owned property.
- Property owned by educational, religious, charitable, and hospital organizations.
- Household furnishings and personal effects.
- Business inventories, including livestock.
- Orchards and vineyards for the first three or four years after they are planted.

Other classes of property enjoyed partial exemptions, such as the first $7,000 of the full value of a principal residence, and a substantial amount of property owned by disabled veterans. The growing number of exemptions shrank the tax base, requiring correspondingly higher rates on the property that remained subject to taxation.

Pre-1978 Assessment Practices

Property is taxed on its assessed value as determined by elected county assessors, under the general supervision of the State Board of Equalization. Problems with the local administration of assessment practices over the years have resulted in legislation giving the Board considerable authority to regulate assessment procedures and to make independent evaluations of assessed values.

For the most part, prior to 1978 property was assessed at the market value of the property as determined by sales transactions of comparable property. In the absence of reliable market data, estimated replacement cost or, in the case of business property, a value based on anticipated future income could be substituted. The California Constitution required annual reassessment, but in practice county assessors were not adequately staffed to conduct a physical appraisal of every property each year.

Infrequent reassessments lagged behind the rapid increase in property values during the seventies. As a result, increases in tax bills following reassessments were sometimes substantial, precipitating complaints by property owners. These complaints focused on the dollar increase in the tax levy over the prior year, ignoring the fact that the owners has enjoyed several years of no increases while the property rose in value.

Pre-1978 Property Tax Revenues & Expenditures

In fiscal 1977-78, prior to passage of Proposition 13, property taxes in California yielded $11.5 billion for schools and local government. The statewide average composite rate was just over $10 per $100 of assessed value or about 2.5 percent of market value. The distribution of these revenues, together with a summary of other local revenues, is shown in Table 1.

Table 1
Projected Distribution of Property Tax Revenues
1978-79(a)
Dollars in millions

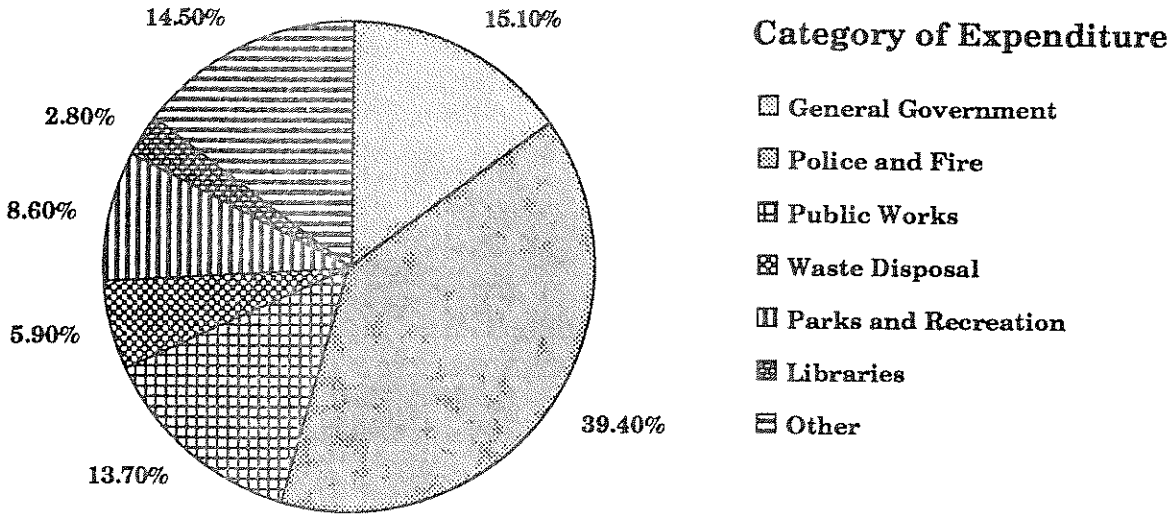
	Average Tax Rate (b)	Number of Jurisdiction	Property Tax Revenues	Total Revenues	Property Tax as Percent of Total Revenue
Cities(c)	0.34%	414	$1,645	$6,093	27%
Counties	0.73%	58	3,504	8,850	40%
Schools	1.40%	1,114	6,468	12,125	53%
Special Districts(d)	0.17%	4,710	831	4,405	19%
Totals	**2.58%**	**6,296**	**$12,448**	**$31,473**	**40%**

(a) As estimated by Legislative Analyst based on 1977-78 data and assuming pre-Proposition 13 law.
(b) Expressed as percent of full market value
(c) Includes City and County of San Francisco
(d) Includes both Enterprise and Non-Enterprise districts.

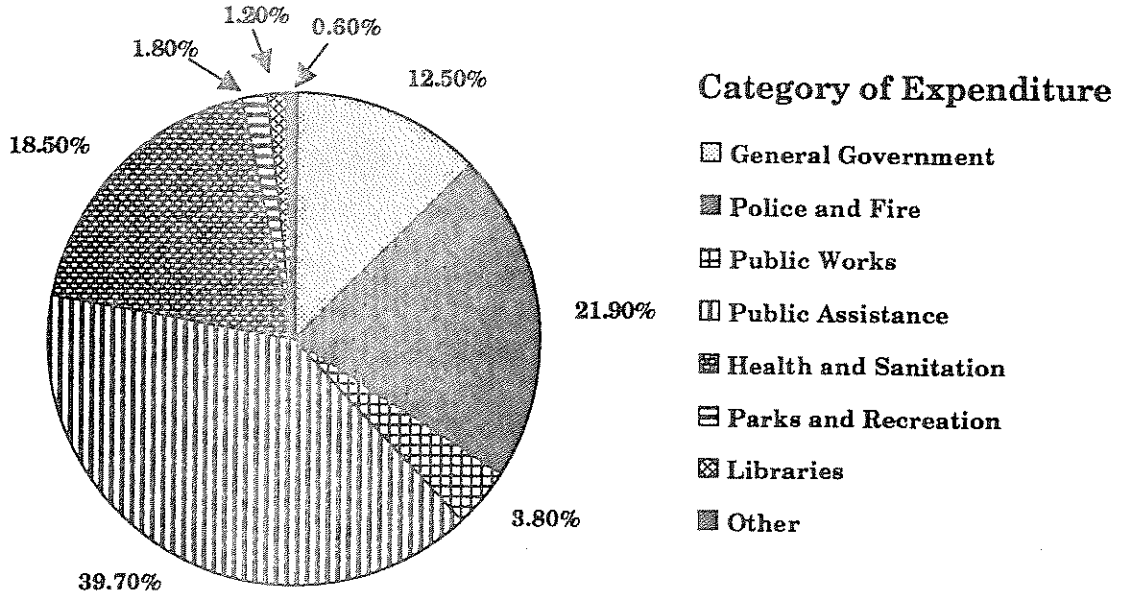
Property taxes represent general purpose revenues, as opposed to dedicated, or special purpose revenues, with the exception of specific rates levied for purposes such as general obligation debt retirement. City governments provide a wide array of municipal services, while county governments serve as administrative agencies for state required programs, as well as being responsible for basic municipal services to unincorporated areas. City and county government expenditures by function for 1977-78 are shown in Table 2.

Table 2
Distribution of City and County Expenditures as Percent of Total 1977-78

Cities



Counties



Source: City and County Finances in the Post-Proposition 13 Era. Assembly Office of Research, June 1981.

Emergence of the Property Tax Relief Issue

In the decade preceding Proposition 13, property tax levies grew at a rapid rate. From fiscal 1967-68 to 1971-72, property tax revenue growth averaged 11.5 percent per year; about half of which was attributable to growth in assessed values and the remainder to increasing tax rates.[11] In 1972 the Legislature imposed a cap on tax rates.

Tax levies continued to grow unabated, however, because of the rapid rise in housing prices during the early seventies. The median price of an existing home in California doubled in a four-year period, rising from $31,530 in 1973 to $62,430 in 1977.[12] From 1973-74 to 1977-78, while tax rates stayed flat, assessed values grew at a rate of 12.5 percent per year, jumping 14.4 percent in just the last year of this period.

Relief from the perceived excessive burden of property taxation emerged as a major issue. The first of a long series of tax relief measures was enacted in 1968 when homeowners were granted an exemption for the first $3,000 of the market value of an owner-occupied home. This exemption was later increased to $7,000 of market value, raising the value of the exemption from approximately $80 to $190. This exemption was granted to all homeowners regardless of income. Other major programs followed:

Senior Citizens Property Tax Assistance. Provides refunds of up to ninety-six percent of property taxes to low income homeowners over age 62.

Business Inventory Exemption. Exempted in 1986 fifty percent of the assessed value of business inventories. The exemption increased to one hundred percent in 1979.

Maximum Tax Rates. Placed caps on tax rates levied by local government jurisdictions beginning in fiscal year 1972-73.

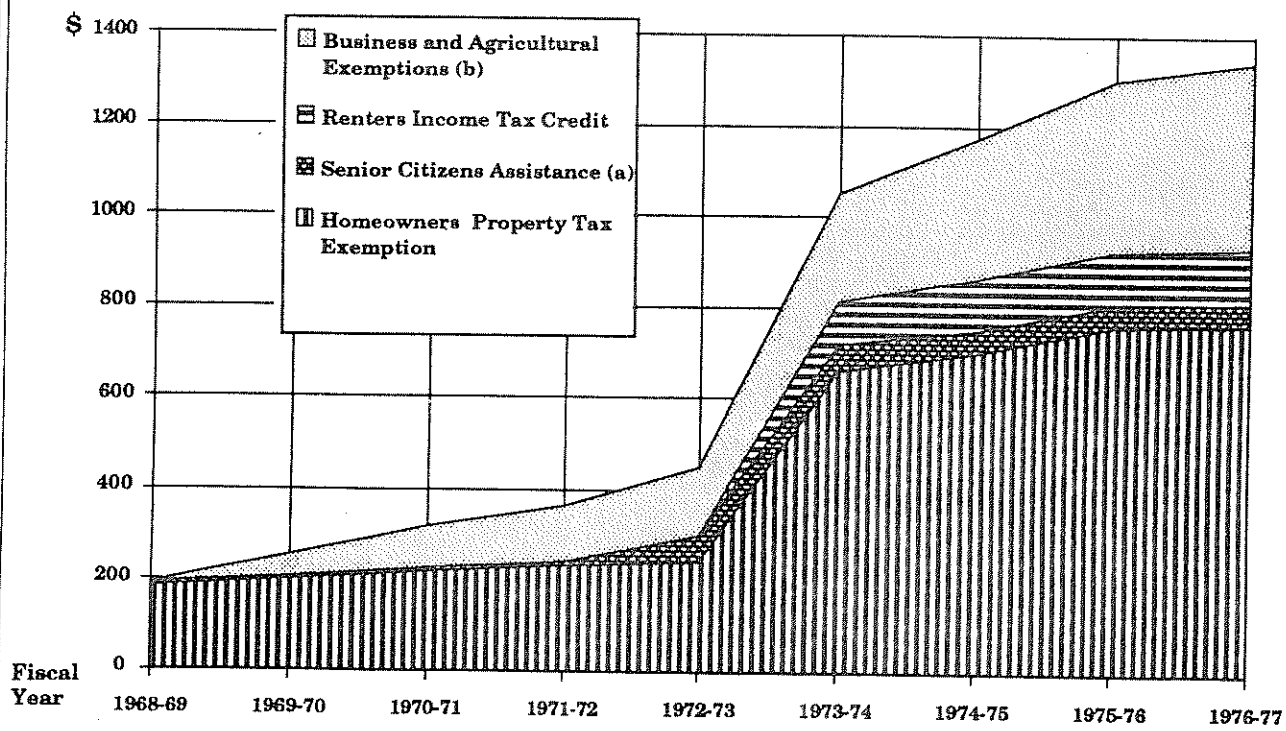
Renters Tax Credit. Provides tax relief to renters in the form of a refundable income tax credit, now worth $60.

Senior Citizens Property Tax Postponement. Allows senior citizens with incomes under $20,000 to postpone all or part of the taxes on their homes until an ownership change occurs.

Williamson Land Act. Provides property tax reductions for landowners who agree to restrict their land to agricultural use for a period of at least ten years.

Table 3 illustrates state payments for property tax relief programs for the period 1968-69 through 1976-77, including both direct payments to taxpayers and subventions to local governments to compensate for lost revenues.

Table 3
State Property Tax Relief Payments
1968-69 Through 1977-78
(Dollars in millions)



Source: Legislative Analyst
(a) Includes Senior Citizens Homeowners Assistance and Postponement Programs
(b) Includes Busienss Inventory Reimbursements and Open Space Subventions

In the mid-seventies it became apparent that the problem of increasingly burdensome tax levies had not been solved to the satisfaction of California's taxpayers. Legislative hearings during 1975 and 1976 were deluged by protests from irate homeowners who received tax bills double or even triple the previous year's.

Projections of a record-breaking state General Fund surplus for fiscal 1977-78 added pressure for the state to act. Several tax relief bills were introduced in the 1977 session to reduce homeowner property taxes. All of these bills failed passage.

After the "Jarvis-Gann" initiative (today known as Proposition 13) qualified for the June, 1978 ballot, the legislature approved a constitutional amendment which would have: a) created a "split roll" between owner-occupied homes and all other property, b) reduced taxes on owner-occupied homes by approximately one third, c) assumed a substantial share of county health and welfare costs, and d) placed revenue limits on state and local governments. This measure appeared on the June ballot and was defeated by a wide margin. In the same election the Jarvis-Gann initiative received an overwhelming majority of votes.

Proposition 13 - What Does It Do?

The Jarvis-Gann initiative placed Article XIIIA into the California Constitution in 1978. Its component parts:

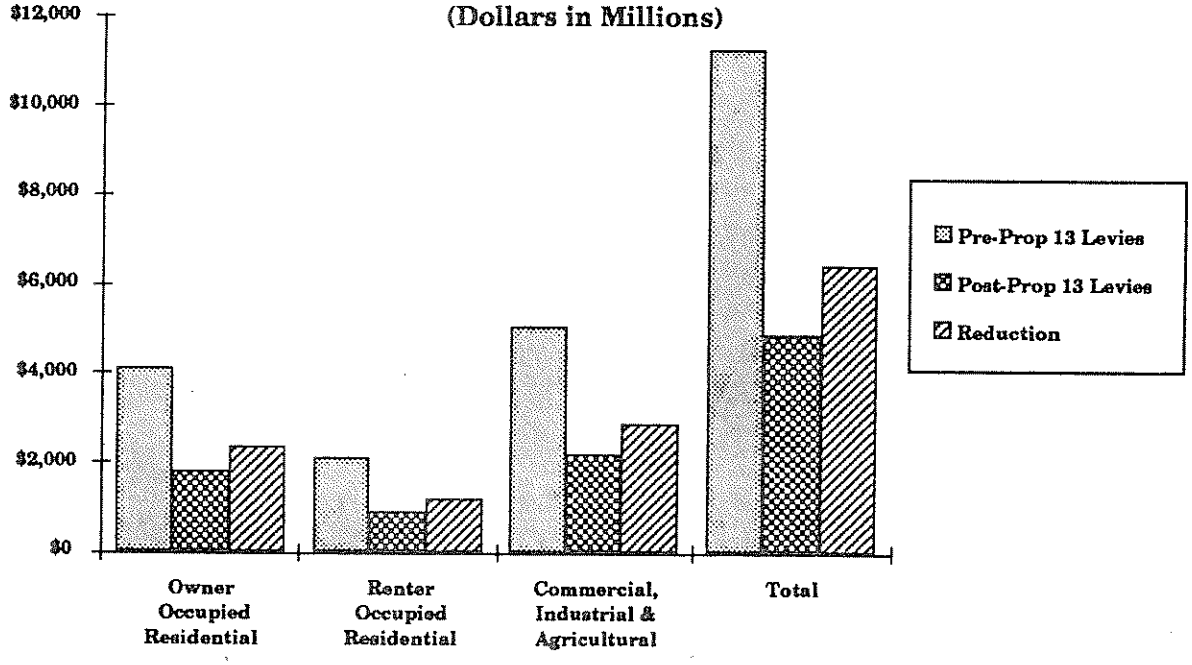
- Limit ad valorem taxes on all property to one percent of full market value;
- Require the revenues from imposition of the one percent tax rate to be collected by the counties and be apportioned "according to law" to the jurisdictions within the counties;
- Roll back assessed values of real property to their 1975-76 tax year levels;
- Limit increases in assessed values of real property to two percent a year until property changes ownership;
- Require a two-thirds vote of both houses of the Legislature to increase state taxes;
- Permit local governments to impose certain "special" taxes if approved by two-thirds of the voters in a local election.

Immediate Impact of Proposition 13 on Taxpayers

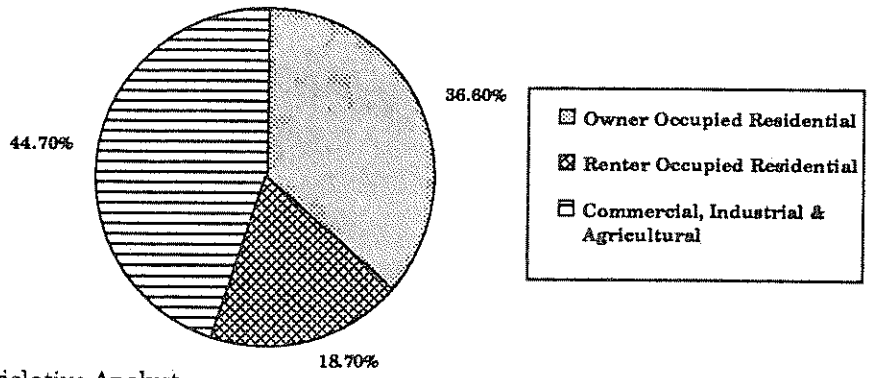
The immediate effect on California taxpayers was a substantial reduction in property tax bills. Reductions ranged from 70 percent in Alameda County to 37 percent in Colusa County. For an "average" California homeowner with a $50,000 home, the tax reduction amounted to approximately $750 per year.

The distribution of the tax reduction by class of property was estimated by the Legislative Analyst, as displayed in Table 4. The table shows 45 percent of the tax savings accrued to non-residential property and only 37 percent of the tax savings accrued to homeowners.

Table 4
Estimated Tax Reductions by Type of Property
1978-79
(Dollars in Millions)



Percentage of Total Property Tax Reduction by Type of Property



Source: Legislative Analyst

The tax incidence effect of Proposition 13, i.e., the ultimate distribution of the tax reduction after tax shifting, is unknown. The generally accepted theory of property tax incidence suggests that property owners ultimately reaped most of the benefit of the tax rollback. No data are available regarding the effect on rents or consumer prices.

One unintended side effect was a windfall tax revenue gain to the federal and state government resulting from reduced income tax deductions for property taxes. For business property owners and homeowners who itemized their deductions, part of the tax savings from lower property taxes were offset by higher state and federal income taxes, particularly for taxpayers in higher tax brackets.In the year following the passage of Proposition 13, this "reverse revenue-sharing" enriched the federal government by $1.6 billion; or twenty-two percent of the Proposition 13 property tax cut was transferred to Washington.

The Homeowners' Exemption served to increase the tax savings to homes of lower value relative to higher valued homes. Net benefits for homeowners at selected income levels, as estimated by the Legislative Analyst, are shown in Table 5.

Table 5
Proposition 13 Tax Reduction for Homeowners
Selected Income Levels
1978-79

Family Income	Market Value of Home (a)	Pre-Prop. 13 Tax	Post Prop. 13 Tax	Income Tax Effect (b)	Net Tax Change	Percent of Pre- 13 Tax
$ 5,000	$30,000	$ 425	$122	-0-	(303)	-71.3%
10,000	34,000	505	150	-0-	(355)	-70.3%
15,000	37,500	575	174	92	(309)	-53.7%
20,000	42,500	675	209	126	(340)	-50.4%
30,000	54,000	905	289	222	(394)	-43.5%
50,000	72,000	1,265	415	450	(400)	-31.6%
75,000	80,000	1,425	471	610	(344)	-24.1%

Source: Legislative Analyst
(a) Average market value for families at each income level. Assessors appraised value assumed to be approximately 80% of market.
(b) Based on estimated tax liabilities for married homeowner with two dependents.

Immediate Impact of Proposition 13 on Local Government

Proposition 13 became effective on July 1, 1978, just three weeks after its approval by voters. For the 1978-79 fiscal year, local governments faced revenue losses of approximately $7 billion, an amount equal to 57 percent of property tax revenues and 22 percent of local revenue from all sources.

Proposition 13, however, did not specify how the revenues remaining after the tax rate and assessment roll-backs should be allocated, only that the apportionment would be "in accordance with law." No law existed to specify the apportionment of property tax revenues from a fixed tax rate among local jurisdictions.

The revenue loss threatened local jurisdictions unevenly because of differing degrees of reliance on the property tax. School districts, for example, had received more than 50 percent of their total revenues from the property tax in 1976-77, while counties relied on the property tax for about 35 percent of total revenues. Cities were less dependent, with the property tax accounting for about 15 percent of city revenues, and special districts varied from zero to 90 percent.

In the short time before the effective date, the Legislature adopted a massive emergency fiscal assistance plan for local governments. This "bail-out" legislation, as it was called, was possible because the General Fund had accumulated a surplus during the previous year that was projected to grow during 1978-79 and beyond. Senate Bill 154 was enacted which:

- Provided for the allocation among local governments of the property tax revenues collected under the one percent cap for fiscal 1978-79 on the basis of formulas tied to the actual distribution of revenues in the preceding three years;

- Shifted all or a part of various county health and welfare programs to the state;

- Provided block grants to the cities, counties, school districts and special districts to partially replace the property tax revenue loss.

The following year Assembly Bill 8, referred to as the "long range solution," adopted much of what had been enacted in SB 154 with several modifications:

A substantial portion of the property tax that had been allocated to schools by SB 154 was shifted to cities, counties, and special districts, and was replaced by increased state financing of schools. Block grants for cities, counties, and special districts were eliminated;

- State "buy-out" of county Medi-Cal and SSI/SSP programs was made permanent. Adjustments were made in other county administered health and welfare programs, including reinstatement of a county share of AFDC grants and AFDC administrative costs;

- A basis was provided for allocating property tax revenues for years subsequent to 1978-79. The new formula continued the pro-rata SB 154 allocation of base year revenues, but specified that the increase in revenues attributable to growth in assessed values would be allocated only to the jurisdictions in which the growth occurred;

- Imposed a "deflator" clause which would automatically reduce, or deflate, revenues to schools and local governments if state revenues fell below specified levels.

Shifting property tax revenues from schools to other jurisdictions was intended to provide local governments with a larger and more permanent source of local revenue. While AB 8 improved the school's fiscal situation by approximately $1 billion, its overall effect on the fiscal condition of other local governments was minimal.

Table 6 compares fiscal years 1977-78, 1978-79, and 1979-80, which depict pre-Proposition 13 revenues, the effects of Proposition 13 and SB 154, and the effect of AB 8, respectively.

Table 6
Summary of Property Tax Revenues and State Aid Before and After Proposition 13
(Dollars in Millions)

	1977-78	1978-79 (1)	1979-80 (2)	Percent Change (3)
Schools - K-12				
Property Tax	$4,375	$2,107	$1,699	
State Apportionments	2,323	2,618	2,538	
State Assumption of Program Costs	----	2,191	3,256	
Categorical Aid	707	756	1,081	
Total	$7,405	$7,672	$8,574	15.8%
Community Colleges				
Property Tax	$743	$325	$266	
State Apportionments	473	539	568	
State Assumption of Program Costs	----	290	408	
Total	$1,216	$1,154	$1,242	2.1%
Counties				
Property Tax	$3,154	$1,349	$1,858	
State Assumption of Program Costs	----	1,078	1,296	
Block Grant	----	424		
Total	$3,154	$2,851	$3,154	0.0%
Cities				
Property Tax	$,1073	$448	$725	
Block Grants		221		
Total	$1,073	$669	$725	-32.4%
Special Districts				
Property Tax	905	362	618	
Block Grants	----	190	----	
Total	$ 905	$ 552	$ 618	-31.7%

Source: Governor's Budget Summary 1980-81

(1) Includes effect of Proposition 13 and SB 154
(2) Includes effect of AB 8
(3) Percent change from 1977-78 to 1979-80

CHAPTER III:

PROPERTY TAX EQUITY

Under Article XIIIA of the California Constitution, all property owners enjoy lower property taxes as a result of the one percent property tax rate ceiling. In 1978-79 the statewide average rate was approximately 1.2 percent including overrides allowed for debt service, a drop from an effective tax rate of 2.5 percent in 1977-80. By 1988-89 the average rate had declined to 1.07 percent as voter approved debt was gradually retired. Thus, the benefit from the property tax rate cap has grown since 1978.[13]

In addition to the savings from the one percent tax rate ceiling, property owners benefit from the two percent annual reappraisal cap on assessed value. This acquisition based assessment cap continues so long as ownership of the property does not change. This feature of Article XIIIA gives rise to a serious equity problem regarding the distribution of the property tax burden.

Since Proposition 13, property values have risen substantially faster than the two percent annual cap. Thus, a home purchased for $50,000 (tax at 1% tax rate: $500) in 1975 and currently held by the same owner is subject to a tax levy on $62,300 of assessed value (tax at 1% tax rate: $623). If the market value of the home is well over $200,000 today (based on the statewide average increase in home prices), the homeowner is paying an effective tax of, not one percent of market value, but less than one-third of one percent of market value. Business properties that have not changed ownership enjoy comparable tax savings.

Table 7 illustrates how the tax benefits from owning the same home grow over time for a typical homeowner using the median price for existing homes. In 1988 it was estimated that approximately 44 percent of owner-occupied homes, or about two million dwellings, had a base year value of 1975.[14]

The annual reassessment cap has slowed the growth of taxable property value in the state. Estimates of the overall assessment ratio in the state (the ratio of assessed value to the actual market value of taxable property) range from one-half to two-thirds, with a consensus estimate of approximately 60 percent. This means that 40 percent of current property value, over $1 trillion, is not taxed under acquisition based assessment.

Table 7
Property Taxes for a Median Priced Home by Year of Purchase
1989

Year Acquired	Value in Year of Purchase	1989 Assessed Value	Property Tax	Annual Savings
Pre 1976	$ 41,690	$ 55,009	$ 514	$1,514
1976	48,740	63,050	600	1,428
1977	62,430	79,176	772	1,256
1978	71,040	88,329	870	1,158
1979	84,330	102,798	1,025	1,003
1980	99,760	119,222	1,201	827
1981	107,940	126,469	1,278	750
1982	112,040	128,699	1,302	726
1983	114,620	129,081	1,306	722
1984	114,510	126,428	1,278	750
1985	120,120	130,022	1,316	712
1986	133,930	142,128	1,446	582
1987	142,370	148,122	1,510	518
1988	168,560	171,931	1,765	263
1989	196,521	196,521	2,028	-0-

Source: Adapted from Phillips, Robyn, Restoring Property Tax Equity

Uneven Distribution of Benefits

The most controversial aspect of Article XIIIA is the manner in which the benefits from the two percent annual reassessment cap are distributed. As noted earlier, these benefits continue to accrue only so long as ownership does not change, thereby permitting property owners to avoid reappraisal to market value.

Aptly, the reassessment portion of Article XIIIA has been called the "welcome stranger" provision. The newcomer to an established community is welcome because she will be contributing a larger percentage of support to local government than her well-settled neighbors who own comparable homes.

Because increases in market values have exceeded the two percent annual cap, owners of property purchased in 1975 today pay far less taxes than a recent home buyer for comparable property. Moreover, parcels with vastly different market values can be found which pay the same property taxes. The amount of tax a property owner pays has more to do with when the property was purchased than with current market value of that property.

The aggregate effect of "side-by-side" disparities on the tax rolls is an unequal distribution of the overall property tax burden. A sampling of owner-occupied homes on the 1988 assessment rolls by the State Board of Equalization indicated that about 2 million homes (about 44 percent of all owner-occupied residences) had a 1975 acquisition base year. Owners of these homes paid only about $1.05 billion in taxes in 1988-89, or 25 percent of the total. The remaining 2.5 million homeowners (56 percent) paid $3.15 billion, or 75 percent of the total taxes paid by homeowners.

Acquisition based assessment has had an unequal impact on different classes of property owners, in particular elderly homeowners as compared to young families. Because long term property owners tend to be older than recent home buyers, the system unfairly penalizes young families, as shown in Table 8.[15]

Table 8
Property Tax and Effective Tax Rates for California Homeowners by Age
1983

Age	Annual Tax	Market Value of Home	Effective Tax Rate
Under 35	$980	$116,546	0.84%
35-64	806	140,473	0.57%
65-74	680	137,148	0.50%
75 and Over	492	127,589	0.39%

Source: Phillips, Robyn, Restoring Equity to the Property Tax

Illustrative Cases

Anecdotal examples of homeowner side-by-side inequities abound. The following were reported by the San Francisco Examiner in a February, 1990 feature story on property tax disparities:

> *In San Francisco Pun Chang and her husband William Hogland reside in the 1600 block of Eighth Avenue. Having purchased their 2,300 square foot home in December, 1988, for $444,500, they pay nearly $5,000 per year in property taxes. Barton and Martha Brown reside next door. They purchased their 2,164 square foot home (slightly smaller) in 1970 for $37,500. On a current assessed value of $52,500, they pay about $550 per year in property taxes.*

In Corte Madera, a 1,584 square foot tract home sold in August 1989 for $369,000, which established its new assessment valuation for the 1990-91 tax year. A nearly identical home next door is assessed at $120,000 and throughout the surrounding neighborhood comparable homes are assessed at $60,000 to $70,000.

In San Mateo, a 1971 home near the Hillsdale Shopping Center sold in July 1988 for $401,000; the owners are currently paying about $4,100 in property taxes. Next door, a slightly bigger house built in 1969 is assessed at $84,934, giving its owners a tax bill of $875.

Acquisition Valuation: Pro & Con

Advocates of the acquisition assessment system justifiably argue that all taxpayers are treated equally when they purchase property, and point to the predictability and certainty of future property tax payments from the assessment ceiling. They further note that the acquisition valuation system avoids taxing unrealized paper gains.

Critics of the acquisition assessment system contend that certainty and predictability alone are not overriding criteria for evaluating a tax system. A reassessment law that automatically increased property taxes by 50 percent per year would be certain and predictable, but also confiscatory and unreasonable.

Critics further note the negative consequence of creating permanent classes of taxpayers. A new class is created for all property owners purchasing property on a given day, and that class will forever enjoy lower property taxes relative to all classes of taxpayers established thereafter so long as property values exceed the two percent annual reassessment cap.

The reassessment provision of Article XIIIA offers a Mephistophelian solution: the taxpayer is granted his wish for a predictable, moderate property tax for himself, but tax equity for his neighbors is forsaken. The ideal, of course, is for a property tax system to be both fair and predictable.

Amendments to Article XIIIA

Because the benefits of the annual reappraisal cap are substantial, a change of ownership, triggering a reassessment to current market value, can produce a sizeable increase in property taxes. A number of exemptions have been enacted through ballot propositions to prevent reassessment in specific instances. In 1986 the following ballot propositions were approved by the voters:

- Proposition 50 allowed property bought or constructed to replace property damaged by a governor-declared natural disaster to be assessed at the same value as the original damaged property.

- Proposition 58 prohibited reappraisal of property for tax purposes when ownership of the property is transferred between spouses, is part of a divorce settlement, or is transferred from parent to children.

- Proposition 60 permitted the Legislature to enact laws that allowed a person aged 55 or older to sell a residence and transfer the assessed value of the old residence to the new residence, if the move was within the same county.

Court Challenges to the Acquisition System

Immediately following the June, 1978 election, a lawsuit was filed in the Superior Court of Amador County on the grounds that Proposition 13 violated the equal protection clause of the United States Constitution. The lower court ruled against the plaintiff, the Amador Valley Joint Union High School, and the case was appealed. By a vote of five to one the California Supreme Court dismissed the suit. The case was not appealed further.

In 1989 the United States Supreme Court ruled in a West Virginia case that assessment practices similar to those prescribed by Article XIIIA violate federal equal protection provisions. In this case, Allegheny Pittsburg Coal Co. v. County Commission of Webster County, the local assessor in Webster County followed a practice of reassessing property when it was sold, but did little to bring other properties into line with increasing market values. This practice, not sanctioned by any state law or policy, resulted in wide property tax disparities.

Following this Supreme Court ruling, three cases were filed in the California courts challenging the assessment system contained in Article XIIIA of the California Constitution. These cases, two of which are currently being appealed to the U.S. Supreme Court, allege that the "welcome stranger" practice of assessing a newly purchased property at its acquisition price, while a comparable property next door is assessed at a lower value, denies taxpayers equal protection as required by the U. S. Constitution. [17]

Two of these cases, Stephanie Nordlinger v. John J. Lynch and the County of Los Angeles and Northwest Financial v. State Board of Equalization and San Diego County, argue that recently pur-

chased single family homes are assessed at higher values than nearby comparable properties. In Nordlinger, for example, the plaintiff argues that her residence, purchased in March, 1989 is taxed at $1,700 while her next door neighbor, with a larger house on a larger lot, has a tax bill of $368. The third case, R. H. Macy & Co. v Contra Costa County, makes a similar argument regarding business property.

Both the Nordlinger and Macy cases cite evidence of widespread assessment disparities. Studies submitted by the plaintiff in Nordlinger compared assessments of properties purchased in 1989 to assessments of properties purchased before 1975 in 46 neighborhoods in Los Angeles County. The data indicate that ratios of assessments of 1989 purchased properties to 1975 purchased properties ranged from 9 to 1 in Lincoln Park and 17 to 1 in Santa Monica's Ocean Park.

In the Macy case, the plaintiff and the county jointly conducted a study of residential and business properties that had changed ownership in 1987. Those properties that had not previously changed ownership since 1975 were identified and the 1987 assessed value under the two percent cap was compared to the 1987 market value. This study revealed that the average market value of properties assessed on the basis of 1975 values was 3.2 times the assessed value.

Impact on Business Property Taxpayers

While most business leaders opposed the Jarvis-Gann initiative, the impact of Proposition 13 has been quite favorable for business property taxpayers. Forty-five percent of the immediate property tax cut resulting from Proposition 13, or $2.9 billion, accrued to owners of agricultural, business, commercial and industrial property. If income-producing residential property (apartments and other renter-occupied properties) is considered business property, then sixty-three percent, or $4 billion in tax savings accrued to business property taxpayers. See Table 4.

Contrary to some predictions, the property tax burden has not shifted from commercial and industrial property to residential property since 1978. It was widely thought that residential properties changed ownership more frequently than business property and, therefore, would experience a higher assessment ratio over time, and a correspondingly greater share of the tax burden. Current data do not support this hypothesis.

Inasmuch as Article XIIIA does not distinguish between classes of property, taxpayers owning all types of property are treated alike for both tax rate and tax assessment purposes. Consequently, the same side-by-side equity and tax burden distributional issues affecting homeowners also touch business property owners.

CHAPTER IV :

LOCAL GOVERNMENTS AND PROPERTY TAX REVENUE

Following passage of Proposition 13, local government struggled to provide basic public services with significantly fewer resources. During the 1981-1982 recession state revenues fell below the levels specified by the "deflator" provision of AB 8. In two successive fiscal years the Legislature suspended implementation of the deflator clause but enacted selective reductions in state aid which exacerbated the fiscal problems of local governments. Efforts were made to alleviate the revenue shortages by enhancing local government's ability to levy various fees and user charges.

In 1984 the Senate Office of Research published a study which detailed the Legislature's actions in the area of local finance during the five years following Proposition 13, and also reported the fiscal condition of cities, counties and local governments at that time.[17] The findings concluded that:

- County general purpose revenue, after adjusting for inflation, declined 16 percent between 1977-78 and 1983-84.
- County expenditures (inflation adjusted) on all local services except public protection and debt service declined during this period.
- City general purpose revenues (inflation adjusted) fell by 9 percent during the same five years.
- Revenues to non-enterprise special districts dropped by 6 percent.

Later that year, the Legislature adopted the "Long-Term Local Financing Act of 1984" intended to meet local government needs on a permanent basis. The measure increased local government's permanent share of the Vehicle License Fee but eliminated the inventory tax subventions. The net effect was only a marginal improvement in the local fiscal situation. Since 1984 the revenue pinch on local government has tightened, despite continued state efforts to alleviate the problem.

In addition to the revenue loss, Proposition 13 profoundly altered the relationship between state and local government, shifting to the state most decision-making authority concerning the amount and distribution of local revenues. Even prior to Proposition 13, the state had preempted the income tax and controlled the rate of local sales taxes. With a maximum property tax rate imbedded in the state constitution and the distribution of the revenues governed by state law, local governments and school districts lost their last major source of fiscal independence. Power shifted to the state.

Local Government Finance

To speak of government finance in California today is to become embroiled in a discussion about the appropriate size, scope and nature of government's mission. Everyone, it seems, wants to "cut the fat in government" and then keep it on a strict diet. But one taxpayer's useless program may well prove another's essential service.

Moreover, the Commission is aware of the invisible nature of many vital governmental services. Water quality control or mosquito abatement, for example, are preventive actions, noticed by the general public only in their absence. Assigning specific value or priority ranking to each governmental program in these instances is difficult which is why governmental budgeting is a process of compromise.

Finally, the Commission notes that oftentimes the decision to provide a particular governmental service is less a choice about if and more a determination about when. Some services are a question of paying now, or paying later. In this category, mental health care for homeless persons is a good example. Care can be provided early on by mental health workers or later by police officers who, responding to citizen complaints, take a disturbed homeless person into custody. The outcome, of course, is the poor utilization of limited police manpower, crowded jails, clogged courts and, ultimately, the involvement of the mental health system anyway.

The Commission did not undertake an independent, analytical survey about the fiscal health of local government. However, it did hear testimony on this issue. This testimony, coupled with the informed judgment of individual Commissioners, gave the Commission reason to conclude that California local government is attempting to meet an ambitious governmental service agenda with inadequate means.

The Counties

The revenue crunch has been felt most keenly by county governments because of the burden of administering state mandated health, welfare, and criminal justice programs. In the "1990-91 Budget: Perspectives and Issues," the Legislative Analyst[18] presented an evaluation of the fiscal capacity of counties as measured by the level and change in "local purpose revenues" from 1984-85 through 1987-88. These revenues are defined as the excess of general purpose revenues, i.e. property tax, sales tax and non-dedicated state subventions, over expenditures on state required programs. The study found that, after adjusting for population growth and inflation, local purpose revenues declined 6.5 percent during the four-year period. In 1984-85 counties used approximately 50 percent of general purpose revenues to support state required programs. By 1987-88 this share had risen to 55 percent. During that period, the costs of state required programs increased 40 percent, while general purpose revenues grew 25 percent.

Table 9 sets forth the amounts of general purpose revenues and state required programs for these two years.

Table 9
County General Purpose Revenues and Local Expenditures for State Required Programs
(Dollars in Millions)

	1984-85	1987-88	Percent Change
General Purpose Revenues	**$5,250**	**$6,582**	**25.4%**
State Required Program Expenditures			
Judicial	1,097	1,495	36.3%
Corrections	790	1,140	44.3%
County Health Services	186	284	52.3%
Mental Health	59	91	53.7%
AFDC	265	321	21.0%
IHSS	6	18	178.0%
Food Stamps	93	111	19.9%
General Assistance	124	200	60.8%
Total Expenditures	**$2,620**	**$3,660**	**39.6%**
Residual General Purpose Revenues	$2,630	$2,922	11.2%

Source: Legislative Analyst, as reported in Counties on the Fiscal Fault Line

The Legislative Analyst's study also pointed out considerable variation in fiscal capacity among counties. In 1987-88 the average county had per capita local purpose revenues of $108. Individual counties, however, received from $57 per capita in Solano County to $599 in Sierra County. An extreme case was Alpine County with a small population and a relatively large share of the property tax. Several counties experienced sharp declines in local purpose revenues during the period, with fourteen counties losing more than ten percent. Ten counties had both below average and declining per capita local purpose revenues. The result of diminishing revenues for non-state required programs is reductions in local programs such as public safety, parks and recreation, and public works.

A recent study by the California Counties Foundation[19] discusses some of the problems attendant to state required programs. As seen in Table 7, the two largest expenditure areas in this category are judicial and corrections. The study notes that more than 1000 changes were made by the Legislature in misdemeanor and felony statutes between 1984 and 1989. These changes established new crimes, extended sentences for existing crimes, and made incarceration mandatory for an increased number of crimes. These changes clogged court calendars, increased prosecution and defense costs, and dramatically increased the need for county jail and prison cells.

A second program area which has contributed to counties' fiscal distress is health care. The Foundation study characterizes the public health care system in California as an example of a dysfunctional state/county relationship. The study notes that in 1982 the state transferred responsibility for the medically indigent adult population to the counties with an allocation of funds equal to only 70 percent of what the state had expected to spend for this program under Medi-Cal. Further cuts in state support for the program were made in the 1990-91 state budget.

A number of counties have recently been reported on the verge of bankruptcy; in 1990 Butte County threatened bankruptcy proceedings. This action was forestalled by last minute action by the Legislature which, according to county officials, averted the immediate crisis but did not solve the long-term problem. The Foundation report concludes that a general county fiscal collapse is inevitable unless fundamental structural changes are made in the programs and responsibilities performed by counties and the revenues available to finance them.

The Cities

Although cities have generally suffered less severe fiscal distress, they are not without problems. In general, the revenue raising authority of both charter and general law cities is considerably broader than either counties or special districts. This authority, together with the ability to increase charges for services delivered by municipal enterprise activities, has been extensively utilized by cities to maintain fiscal stability.

A 1988 study[20] compared total per capita city revenues, adjusted for inflation and including enterprise activities, for 1977-78 and 1984-85. This comparison showed that revenues had increased by 9.7 percent during the period. Without enterprise activity revenues, a decline of 16.1 percent was reported. This comparison also showed that both federal and state aid had dropped significantly during the period.

A more recent report, commissioned by the League of California Cities[21], showed similar results with respect to general or non-enterprise revenues. According to this report, inflation adjusted per-capita general revenues in 1987-88 were down by 17.5 percent from 1977-78, indicating a slight further deterioration since 1984-85.

A major contributor to the revenue decline has been a steady drop in federal aid. In the sixties and early seventies federal programs for cities were a major revenue source. Many of these programs were curtailed or discontinued after 1970. Total revenue from this source, adjusted for inflation, declined from $2.1 billion in 1977-78 to $600 million in 1987-88.

In addition to substantial increases in enterprise activity charges, cities have increased fees for non-enterprise activities, utility users taxes, and the transient occupancy tax. Growth in these taxes has been somewhat slowed by Proposition 62, approved in 1986, which requires general law cities to obtain voter approval for increases in these levies.

The League report concludes that the revenue base of California cities has not kept pace with population growth and inflation and cities currently have significantly less ability to support services to their population than they did eleven years ago.

The Schools

The financing of elementary and secondary education in California has a long, complex and controversial history. Two decades ago, local revenue sources, primarily the property tax, provided over sixty percent of the funding for K-12 operations. School dis-

trict budgets were set by locally elected boards and after considering the amount of state aid available, property tax rates were set at a level required to produce the revenue necessary to fund the budget. The amount spent per pupil varied widely with the assessed property value in the district and the commitment of local residents.

In 1971 the California Supreme Court held in Serrano v. Priest that because local property wealth, i.e., the property tax base, was a major determinant in the level of spending, the local school financing system was unconstitutional since a child's educational opportunity was predicated on the happenstance of whether his or her school district was property rich or property poor.

The Serrano decision touched off a debate in the education community and the State Legislature on how best to equalize spending to assure that equal general purpose dollars were available to each school district for each California school child. In 1976 a second ruling by the Supreme Court reaffirmed the 1971 decision, but it was not until passage of Assembly Bill 65 in 1977 that a definitive plan was put in place to implement the Court's mandate. Prior to AB 65, Senate Bill 90 of 1972 was the first major legislative attempt to address the Serrano decision. This measure provided a guaranteed level of state funding per pupil, included additional funds for school equalization to be phased in over five years, and imposed for the first time revenue limits on each local school district. These revenue limits, which became effective for fiscal year 1973-74, effectively limited school budgets so that high wealth school districts, i.e., districts with high property values, did not have unrestricted dollar resources and, conversely, low wealth school districts, i.e., ones with low property values, received a state subsidy. In effect, school district general purpose budgets were equalized.

Proposition 13 in 1978 negated AB 65 and created another upheaval in the structure of education funding. As noted earlier, schools, along with local governments, were given a formula-determined share of the property tax revenue raised by the one percent tax rate. The allocation to local school districts was reduced in 1979 to allow for shifting additional tax revenues to the cities, counties, and special districts. The loss of school property tax revenue was made up by increased state aid, and the overall level of funding for individual school districts was reduced five to fifteen percent for the fiscal year 1978-79, depending upon whether the district was below or above the average spending level per pupil.

In 1988 California voters approved Proposition 98, designed to guarantee a minimum level of funding for schools and community colleges. This measure specified that total state General Fund support for schools could not be less than the larger of a) an amount equal to the percentage of General Fund revenue allocated to Kindergarten-14 education in 1986-87, or b) the same amount received in the prior year, adjusted for inflation and enrollment.

Proposition 98 also required a portion of any state excess revenues, i.e., revenues in excess of the Article XIIIB constitutional spending limit, be distributed to schools and community colleges rather than returned to taxpayers. The excess revenues are limited to four percent of the minimum school funding level. The minimum funding level requirement may be suspended for one year by a two-thirds vote of the legislature. The excess formula was modified by Proposition 111 in 1990 which further complicated the state's school finance system.

The net political and fiscal outcome of the legislation implementing the Serrano decision and Proposition 13 has been to substantially transfer decision-making authority for the financing of schools from local boards to the state. Although property taxes still account for about thirty percent of total local funding for schools, school districts have no control over the amount of tax revenue schools receive. Spending levels per pupil are established by state law with the state providing the aid necessary to make up the difference between these levels and property tax receipts.

One argument on behalf of maintaining a local school property tax advances the notion that the local property tax enhances local control. However, local policy and decision-making is no longer linked to the local property tax because, as noted above, the Serrano decision and the state constitution establishes local school budgets.

As local property wealth, i.e., assessed valuation, in a school district increases, state aid is reduced (i.e., if assessed valuation increases faster than the revenue guarantee created by Proposition 98), transforming school districts into de facto property tax collection agencies for the state. In effect, property tax revenues are funneled to the state.

The estimated composition of K-12 funding in 1990-91 is shown in Table 10. As shown in this table, state support now accounts for more than 60 percent of the total.

Table 10
Total Revenue for K-12 Education
1990-91
(Dollars in Millions)

Source of Funds	Amount	Percent of Total
State General Fund Apportionments	$10,696	42.3%
State General Fund Categorical Aids	4,331	17.1%
State Lottery Fund	614	2.4%
Other State Aid	519	2.1%
Federal Funds	1,789	7.1%
Local Property Taxes	5,014	19.8%
Local Debt Service Taxes	305	1.2%
Other Local Revenues	2,025	8.0%
Total	**$25,293**	**100.0%**

Source: Governor's Budget, 1991-92

Of the $15.5 billion in state General Fund aid, $4.3 billion or 28 percent, represents categorical aid. These funds are earmarked for specific education programs and may not be used for other purposes. Categorical aid includes funding for a wide variety of programs such as special education for handicapped children and educationally disadvantaged youth.

Local revenues other than the property tax come from a variety of sources, most of which are limited to specific purposes. Some of the ways which schools have generated additional special purpose revenues are: [22]

Developer Fees. Fees on new construction are collected from real estate developers to help pay for school construction. These fees are exacted by cities or counties on behalf of school districts, and may range from a few hundred to several thousand dollars per house. This revenue source is not available in already settled areas which, nevertheless, require school building maintenance, reconstruction or expansion.

Special Taxes. A few districts with affluent citizens have succeeded in getting "special taxes" approved by the necessary two-thirds majority of voters in the district. Because any increase in the one percent tax rate is prohibited under Article XIIIA, these levies take the form of flat annual amounts per parcel, rather than levies calculated on the basis of the assessed value of the property.

Local Fund Raising. Some school districts, again with more affluent citizens, have been successful in private fund raising efforts for the general support of schools or for special school projects and programs. As an ongoing source of revenue for most districts, however, charitable contributions have not proven reliable.

Overall expenditures per pupil, adjusted for inflation, amounted to $3,547 in 1977-78 for K-12 schools in California. This figure dropped to $3,409 the year following Proposition 13 and hit a low of $3,258 in 1982-83. Since that year it has risen fairly steadily, reaching a peak of $4,263 in 1988-89. In the current year (1990-91) it is estimated to drop to $4,168. For 1991-92 the Governor is proposing to suspend Proposition 98 funding guarantees and is budgeting for a spending level of $4,076 per student for the coming school year.[23]

California schools face major, and widely recognized, problems. Among its dubious honors, California attempts to educate its children in the nation's largest class sizes. As the doorway to Southeast Asia and much of South America, California schools bear the responsibility for educating the children of this era's migration to the United States. Enrichment programs are curtailed or non-existent in many school districts and physical plant maintenance is deferred beyond reasonably prudent standards.

The Infrastructure Problem

A problem permeating all levels of government in California is the deterioration and inadequacy of the infrastructure. Although this condition is not easily quantified, there is evidence that the state is falling behind in maintaining existing transportation, sewage treatment and waste disposal facilities, and in constructing new facilities to meet the demands of a growing population. Traffic studies show congestion in urban areas is increasing at rates exceeding the population growth as a result of inadequate streets, highways and mass transit systems. The Environmental Protection Agency has identified California as one of the states in greatest need of sewage treatment facilities. The California Waste Management Board has projected that several counties, including Los Angeles County, will exhaust all existing and planned landfill capacity within the next decade. The enormity of California's infrastructure needs is virtually unchallenged by informed commentators.[24]

Between 1978 and 1986 local governments were prohibited from raising property taxes to service General Obligation bonds issued to finance facilities. This prohibition brought local government

bond financing for infrastructure to a standstill. Seriously compounding the problem during these years was a withdrawal of funding programs by both state and federal government. Passage of Proposition 46 in 1986 now allows cities and counties to issue bonds for these purposes with approval of the voters. However, a two-thirds vote is required, a difficult political hurdle to overcome.

Fiscalization of Land Use

A corollary predicament for local government is the development of prudent, balanced land use, growth management and fiscal policies in light of the limited financial resources associated with the property tax. Since passage of Proposition 13, the widespread increase in developer fees (estimated now at $3 billion annually) has been used by local government both as a source of local revenue and as a fiscal gatekeeper to block some development projects.

Studies of the fiscalization of land use by the Senate Office Research [25] and academics studying local government and tax policy in California, suggest that local officials are more likely to approve developments which are high revenue generators, such as auto malls which are rich in sales tax revenues, over ones which are low revenue generators, such as housing.

A new home appraised at $193,000, the median home value in California, pays $1,990 in property taxes. The average cost of providing police and fire protection (including courts and jails) to a single residence in 1986-87 was $750.00 per year,[26] or thirty-eight percent for just this one component of local services. Over time, local government's fiscal situation vis-a-vis this particular homeowner worsens as inflation, and citizen demand for expanded services, exceed the two percent annual reappraisal cap.

Local governments are in the difficult position of approving housing building permits (to stay with our example) contingent upon either (a) high development fees, (b) a willingness to provide subsidized services below cost or (c), disastrously for land use policy, linking new housing to other kinds of "profitable" development.

The fiscal constraints of Article XIIIA have become an effective political tool for no-growth and slow-growth advocates. Communities understandably are reluctant to allow development which adds to the infrastructure and ecological burdens of an area (increased traffic, for example, creating more potholes and more air pollution) if the short-term and long-term carrying costs associated with the development are not paid for.

One unfortunate result is leapfrog development. Where high developer fees, high land costs and community opposition combine to thwart new housing, developers seek outlying jurisdictions. Since people will live where housing is available, the environmental impact is urban sprawl, longer commutes, more air pollution, abandonment of the city center and poor land use.

Inequities of the Allocation System

As noted earlier, Article XIIIA required the Legislature to create a system for allocating the revenues generated by the one percent tax rate to the various jurisdictions within each county. AB 8 required that property tax revenues generated in 1978-79 be allocated to jurisdictions within a county on the basis of historical pro rata shares during the preceding three years. These shares were adjusted for the shift of property tax revenues from schools to local governments which was also contained in AB 8. Revenues generated by increases in assessed values subsequent to 1978-79 were assigned only to those jurisdictions in which assessed value growth took place, again on the basis of historical shares.

Although some modifications have been made to the formulas in the intervening years, the basic system remains in place. The formula locked in, for all jurisdictions and for all time, the property tax revenue distribution pattern in existence during the three years prior to Proposition 13. No flexibility exists in the formula to recognize the changing responsibilities of local governments or the needs of residents.

Jurisdictions which believed they had been fiscally prudent in not levying property taxes or by maintaining low tax rates in the pre-1978 period protest that they are being penalized. One anomaly to appear was 30 cities that had never levied a property tax and were thus forever foreclosed from receiving any property tax revenues. This situation persisted until 1988 when counties were required to transfer a share of their property tax revenues to cities with no or very low revenues. Taxpayers soon realized that all property owners pay the same basic property tax rate regardless of where in the state they live and what local government services they receive.

Under current law, county supervisors enjoy virtually unlimited discretion over the allocation of Special District Augmentation Funds to special districts within the county. Counties have the authority to shift funds among special districts, effectively setting policy priorities among special districts and, in tight fiscal circumstances, favoring county dependent districts to alleviate county fiscal problems.

Funding New Governmental Jurisdictions

In the years following 1979 an elaborate procedure was put in place to resolve the problem of new or expanding jurisdictions. Under the pre-1978 system, a new city would simply add its tax rate to the rates being levied by the existing jurisdictions. Because Proposition 13 limited the total rate to one percent, some provision was required to share the one percent revenues with the new city. Under the system devised for this purpose, an area proposing incorporation must apply to the Local Agency Formation Commission (LAFCO) in the county to obtain an allocation of tax revenue as well as approval for incorporation. The procedures require LAFCO to determine the services to be shifted to the new city from the county or special district, and the cost of those services. The revenue to be allocated to the new city is based on this determination. In the case of annexations by existing cities, negotiations must be successfully completed between the city and county regarding any adjustment in the revenue sharing formula as it applies to the area to be annexed.[27] These procedures and negotiations invite controversy.

In addition to the problems involving newly created jurisdictions and changing boundaries, other problems and inequities have developed as a result of varying rates of new development. Areas which are relatively stable, and in which growth in assessed value has been slow, suffer fiscal distress to a greater degree than more rapidly growing areas. The slow growth areas may be characterized both by the absence of new construction and by a relatively low turnover rate of ownership of existing properties. The assessed value growth in these communities, therefore, is derived primarily from the annual two percent assessed value increases.

A further complicating factor in the allocation system is the growing use of redevelopment agencies. These agencies, which can be formed by a city, are created for the purpose of promoting development in "blighted" areas by purchasing and making land available to private developers for commercial, industrial, or residential construction. The agency is entitled to receive all the revenue generated by the increase in assessed value within its boundaries. This arrangement siphons off revenues which otherwise would accrue to the city, county or special districts whose boundaries overlap those of the redevelopment agency. Proponents argue that without redevelopment agency fiscal support the new development, and thus the increase in assessed valuation, would not occur.

Court Challenges to the Allocation System

Two challenges to the AB 8 allocation system are currently pending in the courts. These cases[28] are as follows:

> County of San Diego v. Controller of the State of California. In this action, San Diego County alleges that AB 8 requires an unfairly large proportion of property tax collections in San Diego County be allocated to schools. According to the county, this allows the state to provide a relatively smaller subsidy to San Diego County Schools than it provides in other counties while denying the county government revenues to which it is entitled.
>
> City of Rancho Mirage v. County of Riverside. The city of Rancho Mirage is a no-property-tax city. In this lawsuit, the city argues that because the AB 8 allocation formula is based on the amount of property taxes levied by a local agency prior to Proposition 13, no-property-tax cities like Rancho Mirage are unfairly penalized by being denied any allocation of the tax, even though their citizens pay the same tax rate as citizens living elsewhere in the county.

A third case, City of Rancho Cucamonga, et al. v Counties of San Bernardino and Los Angeles, was the subject of a recent State Supreme Court ruling. This suit was filed by a group of cities against the Counties of San Bernardino and Los Angeles and the cities of Redlands and Los Angeles. The plaintiff cities, which are either no-property-tax or low-property-tax cities, argue that the AB 8 system unfairly shifts property taxes away from historically "frugal" cities and benefits historically "spendthrift" cities within any given county. This is detrimental to taxpayers because their tax dollars are exported to finance services to citizens of other communities. The Court ruled against the plaintiffs.

The central theme of the arguments in these cases is the inequity created because all residents of the state pay the same basic one percent tax rate but receive different levels of services as a result of the unequal allocation of revenues. The intractable aspect of this dilemma is the "zero-sum" requirement imposed by the one percent tax rate limitation, to wit, any increase in the allocation to one jurisdiction must be offset by a reduction to another.

CHAPTER V:

STATEMENTS BY COMMISSIONERS

The breadth and diversity of experience of the Commission's eighteen members inevitably generated a range of perspectives about the issues at hand and the specific recommendations advocated by the Commission. To facilitate the fullest airing of these viewpoints, this chapter contains individual statements by Commissioners.

Some statements disagree with one or more Commission recommendations. Some statements agree with particular recommendations, but for reasons different than the report states. All the statements bear careful reading for, considered together, they are a portrait of the Commission's discussion about property tax equity and revenue.

Statement by:

Michael Kahn
Irene Angelo
Gerald Cochran
Melvin Gagerman
Robyn Phillips
Jack Theimer
Iola Williams

Proposition 13 was a revolt by the taxpayers against the frightening uncertainty of perpetually rising property taxes. Proposition 13's legacy of predictable and manageable taxation can and should be preserved. But Proposition 13's two other legacies — unconscionable tax disparity between people in identical situations; and, starvation of the educational, health and welfare services of our state threaten our democratic form of government and the humanitarian ideals of our society. There is simply no legitimate excuse for discriminating against the young, the mobile and the poor through a property tax system that allows many affluent property owners in our state to perpetuate their incredibly low taxes while the poorest and youngest bear the greatest proportion of the tax burden. The testimony before the Commission and the shared experiences of the Commissioners echoed the cries of frustration and consternation dominating our newspapers, television and radio and news reports over the shocking conditions of California's schools and critical social services caused by underfunding.

Because of these dual legacies as discussed in the reasoning of the Report, we endorse enthusiastically the Commission's Report. But, we do not agree that Californians or their elected representatives are paralyzed from dealing with the undemocratic and harmful legacies of Proposition 13 until the courts inevitably rule that Proposition 13 violates our fundamental laws. We believe

California has a unique confluence of two circumstances: an unfair property tax system which dramatically undertaxes our most prosperous citizens and a fiscal crisis of historic magnitude. Accordingly, we believe the recommendations of the Commission should be enacted by the Legislature and the people as soon as possible. Such enactments should be designed to equalize the tax burden on all property owners in a fashion that produces sufficient revenue to properly sustain the schools and public services which Californians deserve.

Statement by:

Kirk West
David Anderson
Sen. Marian Bergeson
Marla Marshall
Robyn Phillips

We disagree with a fundamental recommendation of the Commission: enactment of a "split roll" for property taxes in California.

Under the proposed plan, all business property would be brought up to current market value and then reassessed annually. These taxpayers would experience an immediate $5.9 billion tax increase and would face increases annually.

Under current law, thousands of corporations and proprietorships have been reassessed due to sales, mergers, changes of ownership and new construction. In fact, businesses currently pay 67 percent of the property taxes in California, up from 63 percent when Prop. 13 was passed in 1978. If this proposal were adopted, business would pay about 80percent of the property tax.

We believe this program would be very damaging to California's economy which must create 250,000 jobs each year to keep unemployment from rising. In recent months, there has been extensive negative publicity about California's business climate and the potential erosion of our employment base.

A recent survey by the California Business Roundtable of 836 California firms revealed that 41percent of the companies have plans to expand outside of California and 14percent of all companies (24 percent of manufacturers) have plans to relocate outside California.

The Grant Thorton Company ranking of California's manufacturing climate in 1989 was a dismal 22nd out of the 29 states with high manufacturing intensity. Results from these and other surveys confirm the negative impact of very high costs for taxes, litigation, worker compensation, housing, health care and environmental regulations. The split roll will turn one of the few positive features of California's business tax climate to another major negative.

There is greatly increased activity by recruiters from other states

attempting to move California's companies and jobs to their areas. The split roll property tax is a corporate recruiter's dream for states such as Texas, Nevada, Oklahoma, Utah, North Carolina and others who have lower business taxes and other expenses than California—and they are quick to advertise this fact.

Faced with major tax increases, most California companies will have one of only two options: for those companies that can do so, raise prices (for food, rent, clothing, goods and services). In effect, they will collect taxes through the price structure—which is regressive and which hides the cost of government. The option to raise prices is usually not available for companies that market their products in a highly competitive worldwide market. Their options are grim: to reduce employment, capital expenditures, or, in many cases, move to another state with a more hospitable business climate.

The split roll would, ironically, hit hardest those industries such as aerospace and electronics that are now the priority targets of out-of-state recruiters. It would raise taxes dramatically on the companies that our state needs to provide employment into the next century.

As noted in the report, the split roll concept, as implemented in several other states, has only led to more splits in the tax rolls and to more favorable treatment for certain classes of property. There will be demands for special treatment for small business, for rental property ("shelter deserves special treatment"), for agriculture, for other favored commercial activities. The result: proliferation of the property tax roll, as in Minnesota, which at one point had 31 classifications for special treatment. Minnesota's then tax commissioner told a 1970's tax group in California, "My advice for states contemplating adopting the split roll is simple: don't do it."

And that is the advice of the authors of this statement to people looking at the split roll as an "easy" way to raise billions: don't do it.

Statement by:

Iola Williams

The purpose of this statement is to confirm my overall support for the Commission's report, and to emphasize an important clarification for recommendations one, two and three.

First, I am pleased to endorse the Commission's report as a whole, and believe that it is constructive and reasonable in dealing with a very complex problem. While there are many improvements

offered by the Commission's recommendations, I am particularly in support of the recommendations which propose that local voters may change the local tax rate caps by a majority vote. This corrects what I believe to be a major error in Proposition 13 which currently denies a community the right to tax itself if it chooses to do so in order to preserve or improve public services.

Second, I feel it is important to clarify the recommendations in the report that propose to "Maintain revenue neutrality by lowering (in the first and each subsequent year) the countywide tax rate...to a level which will generate an amount of revenue equal to the prior year's revenue, adjusted for growth in population and an appropriate inflation index." More specifically, this concept is proposed as recommendations 1(c), 2(c), and 3(b).

There is a major problem with this concept as currently worded, in that revenue growth, particularly from new development, would effectively be averaged countywide rather than attributed to the individual areas/communities within the county that experience growth. Under this scenario, cities, school districts and special districts within a particular county that allow development would not receive a commensurate growth in revenue to provide services. At the same time, areas within a county that are not experiencing growth (by choice or circumstance) would receive the same level of revenue growth as developing areas.

In order to avoid penalizing local governments that are experiencing growth, any adjustments for "revenue neutrality" must not be revenue neutral from growth, only from inflation. Further, those cities, school districts,, and special districts within a county that are experiencing growth should receive commensurate growth in property tax revenue. In order to accomplish this, growth in property tax revenue from new development should not be subject to the "revenue-neutral" controls, or any adjustment factors should include an upward adjustment for development.

In order to effectively deal with growth, the system must attribute growth in property tax revenue from development to those jurisdictions that are accommodating the growth. A countywide system will not work; this is why the implementation of Proposition 13 was quickly changed from the countywide growth approach of SB 154 that lasted for only one year, to the current AB 8 approach that attributes growth in assessed value to the individual tax rate areas within a county.

APPENDIX A:

SENATE RESOLUTION 42 (HART)

BILL TEXT

AMENDED IN SENATE MARCH 6, 1990
AMENDED IN SENATE FEBRUARY 26, 1990

INTRODUCED BY Senators Hart, Bergeson, Leroy Greene, Maddy, and Roberti

FEBRUARY 13, 1990

Relative to the creation of the Senate Commission on Property Tax Equity and Revenue

WHEREAS, In 1978, Californians enacted Proposition 13 which rolled back the assessed value of property to values established in the 1975-76 fiscal year, limited growth in assessed value of property to 2 percent annually, required reassessment of property only upon change of ownership or new construction, and limited property tax paid to 1 percent of full cash value; and

WHEREAS, Since 1978, additional measures have been enacted which have further limited the circumstances in which reassessment may occur; and

WHEREAS, The State of California is no longer in a period with unspent General Fund surpluses; and

WHEREAS, The constitutionality of Proposition 13 is being challenged in three court cases, based on the recent United States Supreme Court decision, Allegheny Pitt. v. Webster Co., 488 U.S. __ (109 S. Ct. 633, 102 L. Ed. 2d 688) which could result in the elimination of the assessment provision of Proposition 13; and

WHEREAS, Immediately upon the passage of Proposition 13, disparities were recognized in the treatment of homeowners and commercial property owners in similar situations who had purchased homes at different time periods; and

WHEREAS, This disparity has increased over time, as established property owners continue paying property taxes based on the 1975-76 value of their property, while new property owners pay taxes based on the recent market value of their property; and

WHEREAS, California's system of tax assessments may result in property tax payments which fall heavily upon young families, many of whom already have difficulty in purchasing the median priced California home, which in the third quarter of 1989 sold for $200,933; and

WHEREAS, Home ownership is one of the economic foundations of this state; and

WHEREAS, Similar disparities have developed for commercial property whereby a change in ownership will dramatically change the competitive marketplace with no resulting benefit to the economy; and

WHEREAS, Increased property tax burdens resulting from changes in ownership in rental properties often result in increased rents which create additional burdens on renters; and

WHEREAS, California's local governments and public schools are directly affected by changes to the property taxation system; and

WHEREAS, Prior to Proposition 13 local agencies had their own independent methods of financing local services; and

WHEREAS, The authority to finance those services has shifted to the state, causing local governments to lose the ability to deal with local problems; and

WHEREAS, State programs and policies required to be implemented at the local level are consistently underfunded due to the lack of state and local resources; now, therefore, be it

Resolved by the Senate of the State of California, That the Senate Commission on Property Tax Equity and Revenue is hereby created to study and analyze the current system of property taxation, and develop proposals for alternative methods of property taxation that maintain the basic protections for homeowners promulgated in Proposition 13, adequately fund the provision of essential public services by local government agencies, and reduce or eliminate inequities currently experienced by property taxpayers in California; and be it further

Resolved, That the commission shall recommend new intergovernmental relationships which will more effectively allocate local and state financing power and authority. The commission shall also recommend a reallocation of public service responsibilities among local, state, and regional agencies; and be it further

Resolved, That the Senate Commission on Property Tax Equity and Revenue shall include, but not be limited to, 15 members, all of whom shall be appointed by the Senate Rules Committee. Members of the commission shall include all of the following:

(1) One representative of county government.
(2) One representative of city government.
(3) One representative of special district government.
(4) One representative of school or community college district government.
(5) One county assessor.
(6) One legal scholar in the field of property taxation.
(7) Three Members of the Senate.
(8) Six public members; and be it further

Resolved, That the Senate Committee on Rules shall appoint one of the appointed members as Chair of the Senate Commission on Property Tax Equity and Revenue; and be it further

Resolved, That the State Board of Equalization and the Franchise Tax Board shall provide technical assistance to the Senate Commission on Property Tax Equity and Revenue; and be it further

Resolved, That the Senate Committee on Rules shall make funds available to the Senate Commission on Property Tax Equity and Revenue from the Senate Operating Fund in an amount that the Senate Committee on Rules finds to be necessary for the expenses of the commission in carrying out its duties. Any proposed expenditures of these funds shall be approved by, and be in compliance with policies set forth by, the Senate Committee on Rules; and be it further

Resolved, That the Senate Commission on Property Tax Equity and Revenues shall report its findings and recommendations to the Senate Committee on Rules no later than one year from the date of the appointment of the members of the commission; and be it further

Resolved, That the Senate Commission on Property Tax Equity and Revenue shall cease to exist as of January 31, 1991; and be it further

Resolved, That the Secretary of the Senate shall transmit copies of this resolution to the Senate Committee on Rules, the League of California Cities, the County Supervisors Association of California, the California Special Districts Association, the California School Boards Association, the Franchise Tax Board, and the Chair of the State Board of Equalization.

SENATE RESOLUTION 8 (HART)

BILL TEXT

INTRODUCED BY Senators Hart, Ayala, and Bergeson

DECEMBER 4, 1990

Relative to the continuation of the Senate Commission on Property Tax Equity and Revenue

WHEREAS, In 1978, Californians enacted Proposition 13 which rolled back the assessed value of property to values established in the 1975-76 fiscal year, limited growth in assessed value of property to 2 percent annually, required reassessment of property only upon purchase, change of ownership, or new construction, and limited property tax paid to 1 percent of full cash value; and

WHEREAS, Since 1978, additional measures have been enacted which have further limited the circumstances in which reassessment may occur; and

WHEREAS, The State of California is no longer in a period with unspent General Fund surpluses; and

WHEREAS, The constitutionality of Proposition 13 is being challenged in three court cases, based on the United States Supreme Court decision, Allegheny Pitt. v. Webster Co., 488 U.S. 336 (109 S. Ct. 633, 102 L. Ed. 2d 688), which could result in the elimination of the assessment provision of Proposition 13; and

WHEREAS, Immediately upon the passage of Proposition 13, disparities were recognized in the treatment of homeowners and commercial property owners in similar situations who had purchased homes at different time periods; and

WHEREAS, This disparity has increased over time, as established property owners continue paying property taxes based on the 1975-76 value of their property, while new property owners pay taxes based on the recent market value of their property; and

WHEREAS, California's system of tax assessments may result in property tax payments which fall heavily upon young families, many of whom already have difficulty in purchasing the median priced California home, which in the third quarter of 1989 sold for $200,933; and

WHEREAS, Home ownership is one of the economic foundations of this state; and

WHEREAS, Similar disparities have developed for commercial property whereby a change in ownership will dramatically change the competitive marketplace with no resulting benefit to the economy; and

WHEREAS, Increased property tax burdens resulting from changes in ownership in rental properties often result in increased rents which create additional burdens on renters; and

WHEREAS, California's local governments and public schools are directly affected by changes to the property taxation system; and

WHEREAS, Prior to Proposition 13 local agencies had their own independent methods of financing local services; and

WHEREAS, The authority to finance those services has shifted to the state, causing local governments to lose the ability to deal with local problems; and

WHEREAS, State programs and policies required to be implemented at the local level are consistently underfunded due to the lack of state and local resources; and

WHEREAS, The Senate Commission on Property Tax Equity and Revenue was created to study and analyze the current system of property taxation, and develop proposals for alternative methods of property taxation that maintain the basic protections for property owners promulgated in Proposition 13, adequately fund the provision of essential public services by local government agencies, and reduce or eliminate inequities currently experienced by property taxpayers in California; and

WHEREAS, The commission has been empowered to recommend new intergovernmental relationships which will more effectively allocate local and state financing power and authority and to recommend a reallocation of public service responsibilities among local, state, and regional agencies; and

WHEREAS, The Senate Commission on Property Tax Equity and Revenue is required to report its findings and recommendations to the Senate Committee on Rules no later than one year from the date of the appointment of the members of the commission; and

WHEREAS, The Senate Commission on Property Tax Equity and Revenue shall cease to exist as of January 31, 1991, which does not allow sufficient time for completion of its important task; now, therefore, be it

Resolved by the Senate of the State of California, That the Senate Commission on Property Tax Equity and Revenue continue in existence until June 30, 1991, and as of that date shall cease to exist; and be it further

Resolved, That the Senate Committee on Rules shall make funds available to the Senate Commission on Property Tax Equity and Revenue from the Senate Operating Fund in an amount that the Senate Committee on Rules finds to be necessary for the expenses of the commission in carrying out its duties. Any proposed expenditure of these funds shall be approved by, and be in compliance with policies set forth by, the Senate Committee on Rules; and be it further

Resolved, That the Secretary of the Senate shall transmit copies of this resolution to the League of California Cities, the County Supervisors Association of California, the California Special Districts Association, the California School Boards Association, the Franchise Tax Board, and the Chair of the State Board of Equalization.

APPENDIX B:

ROSTER OF COMMISSIONERS

Chairperson
Robyn Phillips
Assistant Professor of Economics
University of California, San Diego

Vice Chair
Kirk West
President
California Chamber of Commerce

David E. Anderson
Former CEO
GTE California

Irene Angelo
President
Angelos Marketing Properties

Senator Ruben Ayala
State of California

Jack Baugh
Vice President
Operating Engineers
Local Union No. 3

Senator Marian Bergeson
State of California

Gerald Cochran
County Assessor
Del Norte County

Maureen G. DiMarco
President
California School Boards Association
(Now California Secretary of Child Development and Education)

Patsy Estrellas
Teacher
Nuffer School

Melvin Gagerman
CPA/Managing Partner
Good, Gagerman & Berns

Michael Glaze
General Manager
Lake Oroville Area
Public Utility District

Senator Gary K. Hart
State of California

Michael A. Kahn
Attorney
Folger & Levin

Marla B. Marshall
Special Projects Coordinator
Office of the President
CSU San Marcos

Tom Rogers
Supervisor
County of Santa Barbara

Jack Theimer
Principal
Jack Theimer & Associates

Iola Williams
President
League of California Cities

APPENDIX C:

SCHEDULE OF COMMISSION POLICY MEETINGS

The Commission conducted six public meetings to receive testimony and options from tax experts, scholars, state and local officials and citizen organizations.

June 25, 1990	**Overview of Property Tax System** Assessment Procedures Revenues Current Legal Issues Property Tax Equity Local Government Finance School Finance
July 30, 1990	**Property Tax Equity Issues** Equal Protection and Intergenerational Transfer Property Tax Incidence (Ability to Pay) Equitable Business Property Taxation Assessment Methods and Options
August 27, 1990	**Local Government and School Finance** Local Fiscal Capacity Equalization of Local Government Capacity Realignment of State/Local Program Responsibility AB 8 & Distributional Equity School Finance
September 24, 1990	**Property Tax Impact on Public Policy** Fiscalization of Land Use Housing Agriculture Growth Management Local Governance
November 14, 1990	**Property Tax Systems: New Approaches, Options** California Tax Reform Association Proposal Voter Revolt Proposal and Initiative
December 17, 1990	**Property Tax Systems: New Approaches, Options** Howard Jarvis Taxpayers Association Proposals (4 proposals developed by scholars at the request of the Jarvis Association)

APPENDIX D:

ROSTER OF PRESENTERS TO THE COMMISSION

Clifford Allenby
Former Secretary
Health and Welfare Agency

Ann E. Carlson
Attorney
Hall & Phillips

Jeffrey Chapman
Professor of Public Administration
University of Southern California

Jonathan Coupal
Attorney
Pacific Legal Foundation

Peter Detwiler
Principal Consultant
Senate Local Government Committee

Ann DuBay
Consultant
Senate Office of Research

Joel Fox
President
Howard Jarvis Taxpayers Association

Gary M. Galles
Associate Professor
Department of Economics
Pepperdine University

Lenny Goldberg
Executive Director
California Tax Reform Association

John Hagerty
Deputy Director
Property Taxes
Board of Equalization

Jim Harrington
Assistant Director
League of California Cities

Martin Helmke
Chief Consultant
Senate Revenue and Taxation Committee

David Janssen
Asst. Chief Administrator
County of San Diego

Todd Kaufman
Consultant
Assembly Office of Research

Arthur B. Laffer
Chairman
A.B. Laffer, V.A. Canto & Associates

Fred Main
Vice President
General Counsel
California Chamber of Commerce

Alvin Rabushka
Senior Fellow
Hoover Institute of Stanford University

Peter Schaafsma
Principal
Legislative Analyst

Angelo Siracusa
President
Bay Area Council

Rodney T. Smith
Professor
Department of Economics
Claremont McKenna College

Al Sokolow
Professor of Political Science
U.C. Agricultural Issues Center

Wm. Craig Stubblebine
Von Tobel Professor of Political Economy
Lowe Institute of Political Economy at
Claremont McKenna College

Rebecca Taylor
Vice President
California Taxpayers Association

Roy Ulrich
Attorney
California Tax Reform Association

Dan Wall
Legislative Representative
County Supervisor Association of California

Bill Whiteneck
Chief Consultant
Senate Education Committee

Ellen Worcester
Consultant
Assembly Select Committee

Bill Zimmmerman
President
Voter Revolt

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