

DEFENDING INITIATIVE CALIFORNIA'S PROPOSITION 13

The Opinion article in Sunday's News Journal of July 27, 2003, blasted the First Amendment right of citizens to "petition the government for redress of grievances."

Calling the recall election of Governor Davis a "huge mistake" and further opining, "As a concept, citizen initiatives have the ring of democracy. But they often lead to the tyranny of the minority and force untenable restraints on government bodies."

In an attempt to further enhance their distaste of citizen initiatives the authors mistakenly used Proposition 13 as evidence of the damage initiatives can cause. "California's Proposition 13 initiative in 1978 was a perfect example of the mischief a ballot can do. The proposition, put forth in that economic recession, required a 30 percent cut in property taxes and set mandatory limits on future tax increases. It got nationwide attention Californians still wanted the topnotch services many school districts, junior colleges and local governments had provided, they just didn't want to pay for them. Governments were powerless to get things done."

One and a half million Californians signed the petition that put Proposition 13 on the ballot and, much to the chagrin of most of the state's elected officials, over 65 percent of the electorate voted for it This is hardly the "tyranny of a minority." The outcome clearly showed that California politicians were remarkably out of touch with the voters who put them in office. The purpose of the power of initiatives is to correct such inattention to matters of importance to the electorate.

The impetus for Prop.13 was the inflation-induced housing price boom of the 1970s. Investors seeking to preserve their capital poured their savings into tangible assets like real estate. With double-digit inflation also pushing up prices, many homeowners suddenly found themselves living in houses worth many times what they paid for them. With property taxes based on assessed values, assessments were kept at a uniform percentage of constantly changing market values. Prior to 1978, property owners had faced uncertainty at the hands of assessors using a market value approach that put objectivity at risk. Proposition 13's acquisition-based valuation is far more objective, and free of assessor manipulation that had reached scandalous proportions in the 1960s. During the 1970s, when real estate values escalated rapidly, so did home assessments. Since incomes were not rising as fast as prices or taxes, some California homeowners found that they couldn't pay the taxes and were forced to sell their homes. The tax rate throughout California averaged a little less than 3% of market value, and there were no limits on increases either for the tax rate or

property value assessments. Some properties were reassessed 50% to 100% in just one year and their owners' tax bills jumped correspondingly.

Perhaps the situation can best be summed up with the following San Francisco anecdote prior to the passage of Proposition 13. The San Francisco assessor was taking bribes to keep business taxes down below the market value. He went to jail. To make sure the valuations were correct and equal in San Francisco, the new assessor used computers. When a property sold in a neighborhood, all the surrounding properties found new tax bills reflecting a new market value, resulting in great increases in taxes for everyone. Property taxes went up so quickly in San Francisco that bumper stickers soon appeared pleading: "Bring back the crooked assessor!"

Under the tax cut measure, property tax valuation was set at the 1976 assessed value. Property tax increases on any given property were limited to no more than 2 % a year as long as the property was not sold. Once sold, the property was reassessed at 1% of the new market value with the 2% yearly cap placed on this new assessment. Thus, the new buyer is aware of what the taxes will be and knows the maximum amount property taxes can increase each year for as long as he or she owns the property.

The lasting legacy for taxpayers is the protection against surprise increases in assessed valuation. Taxpayers know what to expect in property taxes when they buy property and what they will owe 10 years down the road.

Also, the existence of a growing surplus became a major issue in the Proposition 13 campaign. Voters were convinced government was too fat, and they were proved correct.

The relentless attack on Proposition 13 by backers of unlimited government and special interests warned of dire effects. Police, firefighters and teachers would all be laid off, voters were told. Unemployment would rise, and the state's economy would be decimated. Consider these quotes from an April 17, 1978, *Washington Post* story: Former California Gov. Edmund G. (Pat) Brown: "If I were a communist, I would vote for Proposition 13." Los Angeles Mayor Thomas Bradley: Proposition 13 will "hit the city like a neutron bomb, leaving some city facilities standing virtually empty and human services devastated." Howard Allen, president of the Los Angeles Chamber of Commerce:

Proposition 13 is "a fraud on the taxpayer that will cause fiscal chaos, massive unemployment and disruption of the economy." Some economists at the University of California at Los Angeles predicted that the state's unemployment rate would rise by 4.5 percentage points, from a projected 6.7 percent rate in 1980 if Prop. 13 was defeated to 11.2 percent if it was enacted.

Despite a massive advertising campaign against Proposition 13, financed by the state's business community, which almost universally opposed the measure, voters held firm in their support.

Almost immediately, it became clear that all the predictions of doom and gloom were so much hot air. Within months, the critics even admitted it. A New York Times report on Feb. 11, 1979, was headlined: "Little Impact Seen in Coast Tax Slash." On March 7, 1979, another Times report carried this headline: "Dire Predictions on Proposition 13 Have Not Materialized." The latter story had this to say:

"Fire and police protection have been virtually unaffected by the proposition. ... Schools are spending about as much money as they did last year. Some services, such as libraries and flood control, have been cut. But for the most part, the eliminated services appear to have gone unnoticed, according to interviews with many residents."

What about unemployment? According to the U.S. Bureau of Labor Statistics, California's unemployment rate was 7.1 percent in 1978 -- well above the national rate of 6 percent. By 1979, the gap had narrowed, with the state unemployment rate at 6.2 percent versus a national rate of 5.8 percent. Although the California unemployment rate rose in 1980, at 6.8 percent it was below the national rate of 7.1 percent for the first time in many years.

Did Proposition 13 really starve state and local services? Hardly. In real dollars, California's Budget climbed from \$55 billion in 1980 to \$97 billion in 1992 -- a 75 percent increase above inflation! Only in government would a 75 percent real spending hike be considered inadequate and neglectful. What about revenues? In the 1980s state tax revenues as a share of Californian's incomes actually rose -- from 11 to 12 percent. California is not an under taxed state today. According to the latest Tax Foundation data, the state-local tax burden today in California is 11.7 percent of personal income, compared with a national average of 11.5 percent. Proposition 13 merely moved California from one of the highest tax states in the nation to a slightly above-average tax state.

The major effect of Proposition 13 has been to save the average homeowner in California tens of thousands of dollars in property tax payments over the past 20 years. That is money that would have fueled an even more rapid buildup in California's state and local public bureaucracies if it had been sent to Sacramento and city hall.

Californians intuitively understand this. That is why a large majority of California residents say that they would vote for Proposition 13 again if it were on the ballot this year -- 20 years later.

The Opinion article stated: "It was arguably the most unwise citizen action of the last century. It put the State of California, its cities, towns and school systems in jeopardy of deterioration." Who knows best? Those who live with the result or those who write from a far without adequate research?

Initiative and Referendum is a tool to give power to citizens who are poorly governed.

Frank Sims

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> Gov. Gray Davis of California is an unpopular politician. His state

> has a

> budget crisis he helped create. He interfered in the Republican

> primary last year

> with negative ads to make sure the weakest candidate would run

> against him.

> Still, he only won with a narrow margin.

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> All this said, the recall election on Gov. Davis set for Oct. 7 is a

> huge

> mistake. It doesn't matter if the recall is a plot by right-wing

> Republicans, as

> the governor says, or if it really expresses unhappy constituents'

> frustration.

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> California permits initiative, referendum and recall. Thankfully,

> Delaware

> does not except in school district taxation.

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- > re uses referendums to increase school taxes. The results are mixed.
- > A
- > small corps of disgruntled voters can torpedo a much needed
- > referendum even if
- > the school district has good reasons and done a good job of
- > informing
- > residents of the need for money.
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- > Initiative, referendum and recall can lead to political instability
- > and
- > tarnish reputations. What business would want to operate in a state
- > that changes
- > its chief executive at will?
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- > When Californians elected Gray Davis to a second term as governor
- > last year,
- > they knew what they were getting. They should have to live with him
- > until his

> term is done

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