
Colorado Shouldn't Repeat California's Property Tax Mistake



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In March 2022, several ballot measure titles were filed that would, in various ways, limit or cap property tax revenues collected by local districts in Colorado. Over forty years ago, California attempted a similar experiment to ease the increasing property taxes of a state growing exponentially. Its own ballot measure, Proposition 13, which capped property values for tax purposes and property tax rates, was not targeted and the proponents had no plan to pay for it. As a result, the measure cut the local share of school funding in half, and sales tax revenue as a share of local revenue almost doubled. While older, longer-term homeowners benefitted massively, new homeowners and young families saw little change in their property tax bills. And without adequate funding, a shifting and smaller tax base led to skyrocketing student-to-teacher ratios and dramatic cuts in per-pupil funding.

In 1978, rapidly increasing local property tax bills, state revenue surpluses to the tune of \$3.8 billion, and legislative inaction gave rise to a “taxpayer revolt” in the form of Prop 13. The measure reduced local property tax revenues by capping property tax rates at 1% and rolling back taxable property values by several years. This reduced local revenues by about \$6.1 billion overnight.¹

What exactly did Proposition 13 do?

Proposition 13 made six changes to California’s constitution. It enacted a rate cap for property taxes at 1% of full cash value at the time of acquisition, rolled back property assessment values to their 1975-76 level, gave responsibility for allocating property tax revenues among local jurisdictions to the state, shifted from an annual system of property assessment to one that only assessed value when the property changes ownership (and increases in value are limited to an annual inflation factor of no greater than 2 percent), it added a two-thirds vote requirement in the legislature for increasing state revenues to the constitution, and it required voter approval of two-thirds for any taxes raised by local governments.²

Moved More Funding Share for Schools onto State: Effects on the State

While the state’s budget surplus initially eased the revenue crunch, state legislators passed several bills in the immediate aftermath of the passage of Prop 13 to provide local districts with predictable sources of revenue and lessen their reliance on property tax revenue. Most notable of these was Assembly Bill 8 (AB 8). Most of this money went to school finance: the state’s share of funding for K-12 schools and community colleges doubled from 36 percent in 1977-78 to 65 percent in 1979-80.³ Under the AB 8 system, between 1975 and 1983, aid from the state for school finance grew by 255 percent.⁴ The AB 8 system remained in place for almost a decade.

¹ Shires, Michael. 1997. Patterns in California Government Revenues Since Proposition 13, Public Policy Institute of California.

² Ibid, page 3.

³ Ibid, page 3.

⁴ An Overview of K-12 School Finance in California. February 1983. California Legislative Analyst’s Office.

Counties Relied More Heavily on State Budget While Cities Upped Their Sales Tax: Effects on Local Governments

The different allowances of revenue-raising between cities and counties came into relief sharply following the passage of Prop 13. According to California's constitution, counties can impose very specific and limited taxes. Cities, on the other hand, enjoy relatively broad taxing authority, and tend to contain more services that can be taxed than counties. By 1993, counties received 80 percent of their revenues via transfers from state and federal governments.

Overall, cities, counties, and school districts lost control of their revenue and became subject to the budget fluctuations of other levels of government responsible for funding their services, especially the state government.

Drops in School Funding and Increases in Student-Teacher Ratios: Effects on Education

From 1975-1983, school attendance dropped by almost 500,000 students. This drop is explained in part by the reduction in summer school funding from the state following the passage of Proposition 13.⁵ Per-pupil funding dropped 7.5 percent and funding for child nutrition dropped by \$11.7 million.^{6 7} In the decade after, per-pupil funding dropped even more significantly. Prior to Prop 13, California's per-pupil spending ranked 18th in the nation. By 1997, it had dropped to 42nd.⁸

After passage of Prop 13, school districts were forced to cut their expenses. However, they decided not to cut teachers' salaries. Instead, they hired fewer teachers. This significantly increased the student-teacher ratio in the state, and by 2014, California's student-teacher ratio was the highest in the country.⁹

Residential Zoning is Less Useful, Retail Zoning Shoots Up: Effects on Neighborhood Property Usage

Housing development – particularly for people who earn low and moderate incomes – came to be seen as a drain on limited local revenues. Housing creates demands for public services like schools, public safety, water, sewage, parks, and libraries. At a time when property tax collections from residential properties to local governments were reduced dramatically, affordable housing, which brings in the lowest tax revenues, didn't find much appeal from local leaders. When it came time for localities to decide how to use land, the reduction in the ability of local governments to raise revenue through property taxes, along with the drain on the coffers of low-priced housing, many decided providing public services would cost more than what residential property taxes could bring in. Fees were imposed on new development, and retail trade, which generated sales tax revenue, became increasingly popular. Officials prioritized auto malls, strip malls, and other commercial land uses.¹⁰

⁵ An Overview of K-12 School Finance in California. February 1983. California Legislative Analyst's Office.

⁶ Ibid, page 7.

⁷ Ibid, page 12.

⁸ Shires, Michael. 1997. Patterns in California Government Revenues Since Proposition 13, Public Policy Institute of California.

⁹ Keaton, Patrick. 2014. Selected Statistics From the Public Elementary and Secondary Education Universe: School Year 2012–13, National Center for Education Statistics.

¹⁰ Shires, Michael. 1999. Patterns in California Government Revenues Since Proposition 13, Public Policy Institute of California, page 10.

Hurt New Home Buyers to the Massive Benefit of Long-Term Owners: Property Taxpayer Winners and Losers

Because Prop 13 mandated that homes be assessed only when they changed hands, longer-term homeowners, who had purchased homes well before 1978 and stayed in those homes, gained the most from this measure. In this respect, many older homeowners and homeowners who earned low incomes benefited most. Older households were more likely to own homes with an earlier base year than younger homeowners, and homeowners with low incomes were less likely to be mobile and change houses than higher-income homeowners. Young families who were just purchasing first homes or selling a starter home for a larger house did not enjoy the benefits of Prop 13 in the same way.¹¹

The proponents of Prop 13 also argued the measure would reduce the proportion of property taxes owed by businesses based on the assumption that residential property changes ownership more frequently than commercial property. This assumption ended up being false, with commercial property changing hands at a slightly higher rate than residential property. The measure did not reduce the share of property taxes owed by businesses.

Ironically, because property taxes can be claimed as tax deductions by individual taxpayers and business owners, the reduction in property taxes resulting from Prop 13 also reduced the amount and number of deductions claimed, increasing Californians' state and federal income tax bills. A little over a third of the amount Californians saved through lowered property taxes was paid to state and federal governments via higher income tax bills.¹²

Jump in Sales Taxes to Compensate: Effects on California's Tax Base

To compensate for the lost property tax revenue, local governments turned to increasing sales taxes. The sales tax as a share of city general funds increased from 15.54% prior to the passage of Prop 13 to 26.85% after.¹³

Another effect of Proposition 13 on all Californians was the increasing overreliance on fees – a trend

seen in many states that restrict local and state ability to raise general taxes. Many services in California that were once paid for through general taxes are now in part or completely funded by user fees. This led to a shift in the responsibility for paying for services used by all to a few, with an increasing burden on those few.¹⁴

¹¹ Ibid, page 4.

¹² Ibid, page 6.

¹³ Schwartz, Jonathan. 1997. "Prisoners of Proposition 13: Sales Taxes, Property Taxes, and Fiscalization of Municipal Land Use Decisions." California Law Review 183:199.

¹⁴ Shires, Michael. 1999. Patterns in California Government Revenues Since Proposition 13, Public Policy Institute of California, page 11.

A Choice for Colorado: Follow California's Path of Inequity, or Forge Fairer Policy

If Colorado passes these property tax limitations, it will reduce local government revenues by almost \$2.5 billion annually and cost the state over \$650 million a year in backfill dollars. With our schools already ranked 47th in K-12 spending per \$1,000 of income, 35th in general K-12 spending per pupil, and dead last in teacher salary to average salary ratio. 65% of our school districts have four-day weeks for some or all their school because of budget cuts. We simply cannot afford to underfund our schools even more than we do.

Like California in the late 1970s and early 1980s, Colorado's skyrocketing growth and our inability to provide opportunities for all people – not just the wealthy – to buy affordable homes are creating major challenges. The state must find ways to provide targeted property tax relief to those people who need it most without creating the cascading fiscal consequences California experienced after passing Prop 13. As California's experience showed, we will all pay for it one way or another.

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