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Should Californians fix Prop. 13 or the state's whole system of taxation?

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One of the most important decisions facing Californians this November is whether to make any changes to Proposition 13. While voters continue to give Proposition 13 an overwhelming nearly two-thirds approval rating, there are serious questions about whether the tax cap still accomplishes more good than harm.

Conservatives will undoubtedly portray Proposition 13 as a tax cut, a restraint on the growth of government, and an important protection for property rights. Liberals will blame it for a lack of state resources. Both sides will invoke the state's housing crisis. In reality, there is reason to be skeptical of all these claims.

Prop. 13 — not to be confused with a bond measure this year of the same name — passed in 1978, limiting yearly property tax increases to 2% as well as overall property taxes to 1% of purchase price. This sharply contrasts with a roughly 3% property tax rate and horror stories of sharp increases after tax reassessments before Prop. 13.

Californians likely pay less in property taxes than they would without Prop. 13, but local government revenues have continued to increase on a per-person basis. Local governments which previously relied on property tax revenue instead began to draw more heavily on sales taxes, hotel taxes, and fees.

Between 1977 and 2018, the most recent year for which there is data, local government revenue increased from $3,300 per person to $4,183.87 in 2019 inflation-adjusted dollars, according to data from the Census Bureau. Other revenues, particularly for school districts and transportation funding, began to come from the state. Accordingly, state government revenue increased from $3,745.45 per person in 1977 to $5,193 in 2017, in 2019 dollars.

Similarly, did Prop. 13 limit the size of government? Or as backers of the split roll initiative would ask, did it starve local governments of the revenue they need to effectively provide services? California's government is clearly larger today than it was in 1977. Local governments employed four times as many people on a per capita basis in 2018 as they did in 1977, while the state doubled its per-capita inflation-adjusted expenditures since Prop. 13 passed. Although Prop 13 may have slowed some of this growth, it clearly did not prevent it.

California's tax system has shifted over the past four decades to rely more heavily on income taxes, sales taxes, excise taxes, and fees. While each increment was hotly debated, both sides may have been too fixated on specific taxes rather than the taxation system itself. The

Californians who voted for Prop. 13 weren't simultaneously voting to increase their sales taxes, income taxes or even tobacco taxes.

If Prop. 13 didn't cut California's tax burden or starve the state of some revenue, what did it do?

Prop. 13 changed who bears the tax burden. Prop. 13 did cut taxes for California homeowners, and therefore, property being a form of wealth, Prop. 13 spread the local tax burden from wealthier Californians across society. Sales taxes, the center of local governments' reaction to Prop. 13, are relatively regressive: the poor pay a larger share of their income in sales tax than the wealthy do. California politicians are trying to lift Californians out of poverty and simultaneously taxing those same people more than ever before.

It may be prudent to trade some of Prop 13's protections for a decreased sales tax burden, or for a reduction of the housing impact fees that have contributed to California's housing crisis. It may also be prudent for the government to refocus spending on its top priorities and reduce the overall tax burden.

These are conversations that Californians should have. So far the conversation about split roll has focused on whether the measure is a necessary "fix" to Prop. 13 or an $11 billion tax increase. It's right to ask whether aspects of California's taxation system need fixing, but let's ask if the system as a whole is broken, rather than just Prop. 13.

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