KEEPING TABS ON CALIFORNIA BUSINESS AND POLITICS

Not the time to gut Proposition 13 and raise taxes

By Jon Coupal
President of the Howard Jarvis Taxpayers Association
Wednesday, June 17th, 2020

Under California law, proposed initiatives must be presented to the California Legislature in an "informational hearing" open to the public. Legislators do not vote on the proposals because these are initiatives that have already qualified for the ballot. The hearings are mostly for the benefit of policy leaders and the public.

Because the infamous "split roll" initiative has now qualified, the Legislature held a hearing in the California Legislature on Thursday. I was pleased to be one of the individuals invited to testify and explain our opposition to the measure, which would remove Proposition 13's protection from most commercial and industrial properties, sharply raising taxes.

Howard Jarvis Taxpayers Association is California's largest taxpayer advocacy organization with over 200,000 members. We are strongly opposed to this initiative. First, taxpayers are also consumers, and we know that taxes on businesses have an insidious way of trickling down to consumers in the form of higher prices for goods and services. California's cost of living is already way above the national average, and we don't need to add to that burden for residents who are already struggling to pay the bills.

Even if we resolve the health issues related to the COVID-19 pandemic, higher taxes are the last thing California needs. The state already has the highest income tax rate, highest state sales tax, and highest fuel tax. And when cost of living is taken into account, California has the highest poverty rate in the nation. More importantly, California is not even a low property tax state even with Proposition 13. According to the Tax Foundation, California ranks 17th out of 50 states in per capita property tax collections.

Taxpayers are also worried because the proponents of this initiative have openly admitted that raising property taxes on businesses is just the first step in the complete dismantling of Prop. 13. Homeowners are well justified in fearing that the loss of Proposition 13 for the business community will be followed quickly by proposals to remove protections for income-producing residential property — apartments — and then owner occupied single-family homes.

Let me spend a moment to address how this proposal would worsen one of California's biggest fiscal challenges, volatility of revenue. We are so overly reliant on a handful of wealthy individuals that in boom times, revenues come pouring in, but in recessionary times, the drop is severe.

Gov. Arnold Schwarzenegger created the California Commission for the 21st Century Economy to work on the problem of revenue volatility. They never came up with a solution, but during the Commission's hearing process, the Legislative Analyst produced a chart that showed high volatility in income taxes, some volatility in sales taxes and extraordinary stability in the property tax stream.

Indeed, in 2008 and 2009 we had declines in income taxes, sales taxes and declines in market value of property, but property tax collections actually increased. Why? Because long-held properties, if not sold, continued to see their assessed value rise 2 percent per year, and if sold, they were reassessed to a much higher market value. This initiative will make California's problem with revenue volatility much, much worse, as properties will be repeatedly reassessed to market value, which sometimes crashes.

I'd like to spend a few moments dispelling just two of the many myths about Prop. 13.

First, an often-heard but false argument is that Proposition 13 caused a reduction of per-pupil spending on education. In fact, per-pupil spending in elementary and secondary public schools in California has risen nearly every year and is far higher today than it was in the 1970s. Measured in constant dollars, per-pupil spending is approximately 30% higher now than it was in the mid-70s, a time when there was broad agreement that schools in California were some of the very best.

A second myth is that Proposition 13 created some sort of loophole for business properties. But California has always — at least since 1850 – taxed all property at the same rate. Proposition 13 didn't change that.

Also, we often hear the assertion that during the campaign in 1978, voters were not informed that Proposition 13 protections would be extended to business properties. Not true. The opponents hammered that argument throughout the campaign and, specifically, in the official ballot pamphlet itself. The fact is that in 1978 voters intended to provide businesses with the same stability and predictability in their property taxes that homeowners desired.

Finally, we think it's pretty clear that Californians already believe themselves to be overtaxed. In March, voters rejected a statewide school bond for the first time since the 1990s, and 142 of 237 local taxes and bond proposals, 60 percent, failed in the last election cycle.

Further confirmation comes from the just-released PPIC poll, which shows that Californians oppose tax hikes by a 2-1 margin. It's clear that the residents and businesses of this state are taxed enough already.

Originally published in the Los Angeles Daily News **https://www.dailynews.com/2020/06/07/not-the-time-to-gut-proposition-13-and-raise-taxes/**

Comment on this article