Chapter 8

Rethinking the Fairness of Proposition 13

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Thirty years after its enactment, Proposition 13 still remains emblematic both in terms of its significance as a fiscal innovation, but also in its iconic unfairness. Defenders of Proposition 13, of course, recognize its potential unfairness in terms of horizontal equity—that property owners with identical houses in the very same jurisdiction may have radically differing tax burdens—but justify it by the longer term benefits they believe that Proposition 13 has delivered for all homeowners.

Property taxation, however, has evolved in the United States, in part driven by Proposition 13 and other measures throughout the country that it inspired. In particular, tax limitations are now ubiquitous, and Proposition 13 represents just one of the many flavors of property tax limitations. This suggests that it is time to rethink the fairness of Proposition 13 in the broader context of the U.S. property tax experience and not just highlight aspects of Proposition 13 in isolation.

This chapter undertakes such a re-examination. I first begin by reviewing the empirical evidence on horizontal inequities generated by Proposition 13's assessment system and offer some projections for the future. I then present an argument offered in defense of the fairness of Proposition 13 in terms of an eq-

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uitable intertemporal steady state, as well as review the United States Supreme Court's own thinking on the matter. Stepping back, I explore the public perception of the implicit alternative to Proposition 13 in most discussions—unfettered market value property taxation. Drawing on a variety of sources, I explain why the public has rejected this alternative as a normative model. I then return to Proposition 13 in this new light for some suggestions for reform.

Proposition 13 and Horizontal Inequities

To understand the horizontal inequities generated by Proposition 13, it is necessary to review its basic provisions and introduce some terminology. When Proposition 13 was passed in 1978, assessments of property were rolled back to the levels that prevailed in 1975. In each subsequent year, the assessed value of a property could increase by a maximum of 2% until the property was sold, at which time it was assessed at its market value. The year in which a property is sold is known as the *base year*. Properties that were last sold before 1975 are assigned 1975 base years. Finally, if properties are substantially modified but not sold, the new portion of the property is assessed at market value, while the pre-existing part retains its prior assessment.

Horizontal inequities are typically measured by the *disparity ratio*—the ratio of market to assessed value. The disparity ratio will vary by base year, with properties with older base years having the largest disparity ratios. Modified properties will have lower disparity ratios because they are effectively combinations of newly assessed property and property with older base years.

Work by O'Sullivan, Sexton, and Sheffrin (1995) and updated in Sheffrin and Sexton (1998) provides in-depth analysis of the horizontal inequities generated by Proposition 13. Table 1, drawn from this work, examines the disparity ratios for 1975 and percentage of properties in this class both for single-family homeowner properties and commercial and industrial properties in Los Angeles County. I focus on the disparity ratios for these years because they are the most extreme. In areas that grew rapidly in the 1980s and 1990s, such as the counties west of Los Angeles—Riverside and San Bernardino—and the Central Valley, the overall disparities are considerably less because a higher proportion of the properties have more recent base years.

To understand the table, consider the first row for nonmodified single-family homeowners in Los Angeles. In 1991, the 1975 disparity ratio was 5.19, which was the ratio of current market value to the assessed value for a home with a 1975 base year. In 1991, 43% of all the properties in this class had a 1975 base year. By 1996, a drop in housing prices had brought down the disparity ratio to 3.84 and properties with a 1975 base year accounted for only 33% of non-modified properties due to new construction and sales. The second row presents the data for modified properties. Note, as expected, that the disparity ratios are less. However, since modifying a property is an alternative to selling it, the

Table 1. Disparities in Los Angeles County

Class of Property	Modified	1991 Disparity Ratio 1975 median	1991 1975 Base Year %	1996 Disparity Ratio 1975 median	1996 1975 Base Year %
Single Family Owner	No	5.19	43	3.84	33
Single Family Owner	Yes	4.35	47	3.24	43
Commercial and Industrial	No	5.66	36	3.23	29
Commercial and Industrial	Yes	4.19	45	2.34	43

decrease in 1975 base year properties between 1991 and 1996 is considerably less than for nonmodified properties.

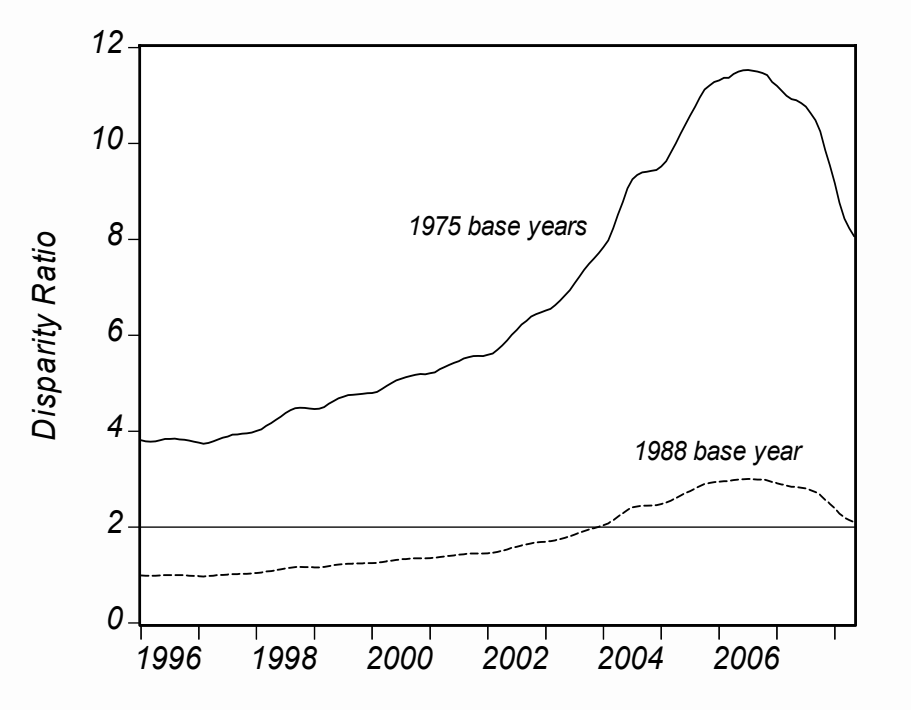
Disparities for later base years are much smaller. In fact, in 1996, nonmodified homeowner property in Los Angeles with base years of 1988 or later had disparity ratios of approximately 1.0. These properties accounted for 43% of all nonmodified homeowner property. For this large segment of properties, there were effectively no disparities whatsoever.

The table also presents data for commercial and industrial properties in Los Angeles. Again, note that the disparity ratios are lower for modified commercial properties but their turnover is also low. Modified commercial and industrial properties are much larger in assessed and market value than unmodified properties.

Using Case-Shiller housing price indices for Los Angeles, I can provide updated estimates of the 1975 disparity ratios for homeowners through 2008. Starting with the value of disparity ratio for unmodified properties of 3.84, I adjust this figure using housing price increases and allowing for a yearly maximum of 2% adjustment in assessed value. Figure 1 presents estimates of the disparities for the 1975 base year properties as well as estimates for 1988 base year properties (which had a disparity ratio of 1.0 in 1996).

As the figure depicts, the housing boom through 2005 drove up prices and disparity ratios, with 1975 base year properties' disparities peaking over 11 before dropping to approximately 8 in 2008. For 1988 base year properties, disparities rose from one to nearly three before dropping back to approximately two. Properties purchased after 1988 would have lower disparities.

Figure 1. Estimates of Disparity Ratios for Los Angeles Homeowners



Clearly, the inequities generated by Proposition 13 are much greater for the 1975 base year properties. Sheffrin and Sexton (1998) estimate that the 1975 base year properties would fall below 15% for homeowners by 2016, based on turnover projections. Substantial 1975 base year percentages would only remain for large, modified commercial and industrial properties.

The ups and downs of the real estate market also have affects on other aspects of taxpayer equity. Sheffrin and Sexton (1988) document that during the housing crash in the early 1990s more wealthy areas suffered the most. Table 2 presents estimates of disparity ratios for two locations in Los Angeles for 1991 and 1996, the up-scale Santa Monica area and the less affluent West Covina. The disparity ratio in Santa Monica fell from 7.0 to 4.3 over that period, while in West Covina the decline was more modest, from 4.9 to 3.8. Housing recessions promote equality.

Using data on homeowners matched to income tax records for 1991, O'Sullivan, Sheffrin, and Sexton (1995) explored the equity aspects of Proposition 13 in more detail. One way to evaluate the equity of Proposition 13's assessment system would be to consider a revenue neutral change to a market

Table 2. Housing Price Declines In Los Angeles County Reduced Inequalities

Year	1991	1996	
	1975 Disparity Ratio	1975 Disparity Ratio	Average Assessed Value 1996
Region			
West Covina	4.9	3.8	$45,778
Santa Monica	7.0	4.3	$124,734

value system, in which all assessments would be raised to market value but rates lowered within a county to keep total revenues constant. A revenue neutral switch to a market value system would disadvantage lower-income homeowners and seniors over the age of 65. Lower-income homeowners move less frequently than higher-income homeowners and thus would lose more of the benefits from Proposition 13. Seniors are disproportionately concentrated in 1975 base years properties and would be big losers as well. In fact, over 82% of seniors in Los Angeles would have been worse off under a switch to a revenue neutral market value property tax.

Although these thought experiments are useful, evaluating the equity of Proposition 13 is difficult for two reasons. First, within each income or age class, there is still considerable horizontal inequity—some higher income homeowners move frequently while others do not. Second, Proposition 13 also lowered total property tax collections and other taxes or charges were substituted for property taxes. Those taxes, in turn, create their own burdens which may vary by income class or age.

II. Could Proposition 13 Be Fair?

Under certain conditions, a property tax system based on acquisition values like Proposition 13 could replicate a market value system over the life time of property owners. Consider the following scenario: all homeowners live in identical homes for a fixed number of years (e.g., seven) before moving to a new residence, the nominal rate of property appreciation is constant, and the property tax rate is constant. Initially, assume for these homeowners that the times since their last sale are evenly dispersed over the seven-year holding period. The government raises a constant amount of real revenue each period.

An outside observer, who took a snapshot of the situation but was not privy to the underlying dynamics, would view this situation as highly unequal. At any point in time, market and assessed value would differ and those individuals who were in the properties the longest would have the largest gaps. New homeowners would appear to be disproportionately funding the government. However,

over the lifetime of homeowners, they would all enjoy the same benefits and privileges of the acquisition value system. Every seven years they would move and the value of their assessments brought back to market value. Since the homeowners are situated equally over their lifetimes, their lifetime shares of financing the government are constant—although their payments in any one year will differ depending on where they are in the residential mobility cycle.

This argument is revealing a number of different ways. It does shows Proposition 13 does need to be evaluated from an intertemporal perspective. But it also demonstrates the strict conditions necessary to generate intertemporal fairness. As a practical matter, households differ sharply in their mobility patterns and choice of home size, and housing prices rise (and fall) at different rates over time. These deviations from the proposed scenario generate intertemporal inequalities. In addition, contrary to the hypothetical scenario, in reality it has taken a long time for the initial benefits granted by Proposition 13—the 1975 base years—to work their way through the system and they have yet to fully disappear.

Perhaps more important, though, is that the intuition behind the intertemporal argument suggests a source of psychological support for Proposition 13. Purchasers of new homes are well aware that they pay more in property taxes than some of their neighbors. Yet, they also know that over time they will become "those neighbors" and enjoy the longer term benefits of Proposition 13. New purchasers are not searching for mathematical equivalence, but a sense that they will receive predictable benefits in the long run.

The United States Supreme Court upheld Proposition 13 from legal challenge on equal protection grounds. Did they believe it was fair or equitable? For matters in the sphere of economics or public finance, the Court used the relatively weak "rational basis" test under Equal Protection Clause to justify legal distinctions. The Court asks simply if there can be, in principle, any rational basis for the distinction being made, even if this was not explicit legislative intent. In *Nordlinger v. Hahn* (505 U.S. 1 [1992]), the majority opinion believed that a rational argument could be made for Proposition 13 and highlighted its potential to preserve neighborhoods by reducing homeowner mobility. However, the Court needed to distinguish its ruling in this case from a prior ruling in *Allegheny Pittsburgh Coal Co. v. County Commission* (448 U.S. 336 [1989]) in which the Court found that a property tax system in West Virginia, in which an assessor made major revaluations of properties only upon sale, was unconstitutional. How did this differ from Proposition 13? According to Wood (2006), the Supreme Court distinguishes between substantive and systemic horizontal equity. Substantive horizontal equity bases comparisons of taxpayers relative to their income or wealth and mirrors the use by economists of the concept. Systemic horizontal equity, on the other hand, focuses on the consistency, regularity, and certainty of application. The courts have been most concerned with fair procedure, not fair outcomes as measured by an objective standard.

In California, the assessment provisions had been adopted by the voters and enshrined in the state constitution, whereas in West Virginia, state law called for

uniform assessment at market value but the practice of the local assessor was to base assessment primarily on acquisition value. Similar taxpayers in West Virginia were, therefore, potentially subject to arbitrary and capricious treatment—this was a violation of "systemic" horizontal equity. The Court was sensitive to these violations in West Virginia, but was willing to allow the substantive horizontal inequities in assessments in California to continue. Using this approach, Proposition 13 was fair enough to meet constitutional standards.

Another reason why the U.S. Supreme Court was reluctant to address substantive inequities in property taxes is because inequities are common in property tax systems across the states even those that officially embrace market value taxation. Many states have infrequent assessment cycles, with the result that market and assessed values can differ widely, for example, across classes of property or by the time since the last recorded sale. At times of rapidly changing properties prices, these divergences between market and assessed values can become quite large. The Court did not want to play the role of assessor-in-chief for the entire United States.

III. Public Perceptions of Market Value Property Taxation

Economists and tax policy theorists have great respect and admiration for a system of local market value property taxes, both on grounds of efficiency and fairness. Oates (1999) provides a clear statement of these views. A system of local property taxes allows homeowners to "vote with their feet" and move to neighborhoods to provide the packages of services and taxes they desire. Competition between jurisdictions can promote governmental efficiency. This is the "benefit" view of property taxation. Moreover, since land—a major component of the property tax base—is not mobile, there are limited economic distortions from imposing the tax. Fairness can be seen in two different lights. From the mobility perspective, homeowners are choosing what they want—just like they choose consumer goods. Moreover, since land and property ownership increases with income, the property tax can be seen as a relatively progressive tax. This is the "wealth" view of property taxation. Not all analysts share this sanguine perspective and Zodrow (2006) highlights many of its difficulties. Nonetheless systems of market value property taxation are generally held in favorable light by theoretically oriented scholars and policymakers.

These views, however, are not shared by the public at large. Public opinion is notoriously harsh on the property tax. For example, the Tax Foundation's *2006 Annual Survey of U.S. Attitudes on Tax and Wealth* found that 39% of respondents characterized the property tax as "the worst tax—that is, least fair" of state and local taxes, compared to 20% for state income taxes, 18% for sales taxation, and 7% for the state corporate income tax. Only in 2007 as gasoline prices began to rise did the public find a tax—the gasoline tax—that they liked less than the property tax.

Taxpayers put this dislike of the property tax into action by enacting a variety of ingenious limits on property taxation. According to Anderson (2007), in 2006 only 5 of the 48 states of the continental United States had no limits. Not just in California but in Florida and other locales, the voters have rejected market value systems for acquisition systems that break the link between market and assessed values. Why is there this disconnect between elite opinion and public opinion?

In some respects, the folk wisdom of the public may be wiser than elite opinion. As a benefit tax in most states, the property tax system does not work very effectively. Virtually all states maintain some control over local educational spending and redistribute resources across districts through a variety of tax and subsidy schema. Thus, taxpayers cannot simply shop for districts with the educational package they desire without being affected by state redistribution mechanisms. In the extreme case, the state could dictate virtual equality in per pupil spending across districts—as mandated in California by the *Serrano* court decisions—thereby sharply reducing taxpayer options for districts with widely different levels of educational spending. Taxpayers may still sort by peer groups and use more limited fiscal means to achieve desired outcomes, but state restrictions do undercut the benefit rationale for the property tax.

Taxpayers are also rightly skeptical of role of the property tax as a wealth tax. In its earliest days in the late nineteenth century, the property tax did aspire to a universal tax on wealth, but a variety of practical difficulties soon restricted the tax to real and personal property. As a result, the property tax does not reach financial wealth and thus serves as a very imperfect means to tax assets. In general, as Campbell (2008) discusses, Americans have limited taste for redistribution. In surveys they may support general statements that the rich should pay more, but they oppose confiscatory taxation at high levels of income. Taxpayers are also reluctant to tax the wealthy too heavily. Attitudes towards the estate and gift tax are notoriously unfavorable.

What taxpayers really dislike, however, about the property tax is their potential exposure to risk. Consider a local government collecting a fixed amount of property tax revenue to provide local services. The revenue received from each property is the tax rate times its assessed value. The tax rate adjusts to meet the preset revenue target. In this case, taxes on any given property depend on its *relative* share of total assessed value. Thus, any increase in the relative share will increase taxes

Here are a few external events that could increase the property tax bill for a given homeowner:

- A new mall opens outside the community reducing the market value (and assessed value) of the mall within the community.
- A raft of foreclosures hit another part of the community with resulting property tax delinquencies and nonpayment.
- The EPA discloses that toxic wastes were found in another part of the community, sharply lowering market and assessed values.

- An assessor recalibrates his statistical assessment model and, based on recent sales of cul-de-sac property similar to that of the homeowner, increases the assessed value of the property more than the average for the community.
- Newly made entrepreneurs move into the neighborhood, which has the consequences of increasing the market and assessed value of the property.

All these events are outside the taxpayer's direct control and make the actual property tax bill risky for the taxpayers. Quoting from Adam Smith, Anderson (2007, p. 100), suggests that taxpayers may be guided by the principle that

> The tax each individual is bound to pay ought to be certain, and not arbitrary. . . . The certainty of what each individual ought to pay is, in taxation, a matter of so great importance, that a very considerable degree of inequality, it appears, I believe, from the experience of all nations is not near so great an evil as a very small degree of uncertainty.

The perceived unfairness of shifts in assessed values altering property tax payments may have deep psychological roots. Lind and Tyler (1988) proved a comprehensive review of a literature in social psychology that focuses on "procedural justice." In this tradition, procedures or processes that are perceived to be fair are those in which individuals affected by the decisions have a "voice" in the process. Voice can be effective by giving individuals a chance to alter outcomes and by also providing for opportunities for personal satisfaction from participation in the process or simple expression of their views.

At first glance, property taxes may fare well on this criterion. In the idealized New England style town-hall setting, local control of property tax rates, with decisions made by local governing boards, can be seen as example of permitting "voice" in the process of determining property tax payments. This is a natural complement to the "exit" alternative highlighted in the benefit view of taxation where taxpayers choose communities.

However, procedural justice is not met in property tax systems in which a property's tax bill is directly tied to its relative assessed value. What was striking about the events that could have impacted our hypothetical homeowner's relative share of market value was how abstract and distant they were from his or her immediate universe. The assessor did not pay a visit to and discuss whether the extensive new remodeling in kitchen and porch area warranted reassessment. Instead, assessments increased because of market forces outside the owner's control, newly uncovered knowledge, or perhaps worst of all, the vagaries of an impenetrable computer program. To the typical taxpayer it seems unfair that property tax bills can change, often dramatically, with potentially no change in actual value of a house or in the services provided by the community.

Other psychological factors are at work as well. Psychological researchers have long noted that individuals view personal belongings as extensions of themselves, value them in that light and, according to "symbolic self-completion theory" use them to communicate their identities to others. Recent research by Ledgerwood et al. (2007) demonstrates that the actual dollar values that indi-

viduals place on property also depend on social phenomenon, such as group identity. Thus, valuations of property may be sensitive to social aspects of their environment that may not be directly correlated to economic phenomenon. For example, an influx of immigrants to a neighborhood could actually have a positive influence on property values, but could be perceived negatively if the influx of immigrants were viewed as a "threat" to the neighborhood.

Taxpayers respond to the uncertainty in their taxing environment by imposing limits on changes in tax assessments. Indeed, Anderson (2007) conjectures that this flight from uncertainty may underlie taxpayer support for property tax limitations. Proposition 13 may be an extreme case, but it is not an isolated phenomenon.

IV. Proposition 13 in Historical Context

To place the origins of Proposition 13 in context, it is useful to develop two ideal-types for property tax systems. Under a *budget-based system*, property tax rates are adjusted to meet budgetary targets. Increases in assessed values are offset by changes in tax rates. This is the type of system we described earlier in which a taxpayer's bill depends on the property's relative share of assessed value.

An alternative system is a *rate-based system* in which tax rates are not adjusted for changes in assessments. In this system, an increase in assessed value would lead directly to an increase in tax bills. Over time, one would expect rates to adjust towards the outcome in the budget-based system, but these adjustments make take considerable time.

As Martin (2008) describes, before Proposition 13, California's property tax system was a combination of two idealized property tax systems. Consider a typical county. A property owner in that county would be subject to taxes on his or her property from multiple and overlapping jurisdictions. The county, city, school district, mosquito district, and a host of other special districts could each choose their own tax rate. The total tax rate faced by the property owner would be the sum of each of the rates chosen by the jurisdiction. There was often no coordination between these governmental actors and each would have its own rules for setting tax rates. Some political bodies would be more visible and open to the public, while others would remain obscure and work in relative anonymity. This was not the idealized town-hall meeting with one rate setting authority and extensive public comment. It was large, unwieldy and complex.

Another key player in this drama was the elected county assessor. Pressured by different interests, of varying technical sophistication, political skill, and honesty, and only loosely supervised by the California State Board of Equalization, these elected officials determined assessments of all nonstate assessed properties within the county. Commercial and industrial properties were assessed by different methods than residential properties and typically on different cycles.

As long as inflation remained low and property values did not increase dramatically, this jerrybuilt system managed to work. Individual property tax owners might see assessment increases and governmental authorities might raise rates, but there were no wholesale forces undermining the system.

The great inflation of the 1970s and rise in housing prices undermined this system. Now the changes in assessments wrought by the assessors mattered a great deal. As local governmental agencies were not coordinated, inertia often ruled, tax rates were not reduced immediately as assessments soared and local agencies profited and governmental entities often reaped windfalls. In addition, the more frequent assessment of residential property relative to commercial properties engendered a shift in the distribution of the property tax burden towards homeowners. This was exacerbated by newly implemented methods of computer-assisted mass assessments (CAMA) that now became possible through computer technology.

The fall in incomes and property values during the Great Depression undermined the existing property tax system at that time and, as described in Hartley, Sheffrin, and Vasche (1996) set the stage for the birth of the income and sales taxes. Similarly, the great inflation in the 1970s was another tumultuous force, undermining California's state and local fiscal system. The assault on the homeowner was real and, while not inevitable in its precise form, Martin (2008) views Proposition 13 as a last-ditch protective response to an unpredictable and unlegislated increase in the tax burden for homeowners.

V. Taking Stock: What Options Remain?

With the passage of Proposition 13, California taxpayers abandoned the politically fragmented mixture of budget and rate-based systems of property taxation and moved to a pure rate-based system with strict assessment limits. At least for property taxes, they achieved the Adam Smith goal of certainty in taxation.

But it has not been without costs. The 1% fixed tax rate eliminates local discretion, virtually eliminating connections between tax payments and benefits. Indeed, the fixed tax rate effectively converts the property tax to a statewide tax and severely curbs local discretion. Perhaps, as William Fischel (1989) has argued this is an inevitable outcome of the *Serrano* decision on educational finance. While anti-tax conservatives still applaud Proposition 13, it has had the consequence of shifting spending and taxation decisions to state government, which by its very nature, cannot be as directly responsive to immediate public needs.

Despite these defects, Proposition 13 remains very popular among California voters. Results of a recent Field poll (2008) show that 57% of registered voters would vote again for Proposition 13 today. As expected, a higher proportion of homeowners would vote again for the measure (64%) but even 41% of renters would also vote for it today. A report authored by Mark Baldassare from the

Public Policy Institute of California (2006) with similar findings reflects on its support:

> By a large margin (56% to 33%), likely voters (mostly homeowners) believe that Proposition 13 turned out to be a good thing rather than a bad thing for California. Nearly half (49%) are also comfortable with the fact that Proposition 13 (and rising prices) can make recent homebuyers pay higher property taxes than those who purchased a similar home in the same neighborhood several years before.

Why does Proposition 13 remain popular? As I noted above, the driving factors are certainty in taxation coupled with the knowledge that they will eventually step into their neighbors shoes. As long as they remain in their residence, they will not find their lives disrupted by changes in property taxation. If they choose to move, they understood they will most certainly face a new fiscal reality. That, however, is viewed as a "voluntary" action, in the same way that paying a sales tax on a purchase of a new consumer durable can also be seen as a "voluntary" action. In surveys of tax fairness, sales taxes typically rank relatively high. In the 2008 Field poll cited above, of all the major taxes, when asked what state and local taxes were "too high" the sales tax fared the best. This finding is another application of procedural justice theory—taxpayers are effectively given a voice if they choose to move or to purchase a new consumer durable.

Given the popularity and durability of Proposition 13, are there any reforms that might have salience with the voters? Reformers have typically considered three broad areas: relaxation of the rate limit or voting restrictions, a "split-roll" system under which residential and commercial property are treated differently, and gradual relaxation of assessment limitations. Here our focus is only on the property tax aspects of Proposition 13, not the voting requirements it imposes for taxation at the state level.

Proposition 13 prohibits additional *ad valorem* taxes on property but does allow parcel taxes, which levy a fixed sum on each parcel in the community. They require a two-thirds vote and have been successfully used in many communities for libraries and schools. Some reformers have suggested that a supermajority be allowed to impose *ad valorem* taxes as well. With strict assessment limits in place, this would not necessarily be disruptive for homeowners. However, two factors work against this possible reform. First, the parcel tax option—already requiring a two-thirds vote—already exists. Second, potential purchasers of new properties, including existing homeowners, may envision higher rates than 1% levied on the market value of their property as posing too high a burden. If so, there could be unintended consequences. We would certainly not want California residents to circumvent this problem by embracing Florida's recent change to its acquisition property tax that now allows homeowners to carry over their existing assessments to newly purchased residences.

Proposition 13 does not distinguish between residential and nonresidential property. All properties, except state assessed utilities, are subject to the 1% rate and the 2% limit on assessment increases. As Martin (2008) recounts, the established business community, including the California Taxpayers Association, originally opposed the passage of Proposition 13 because they feared adverse fiscal consequences for the state. Other states, for example Florida, that subsequently adopted acquisition value property taxation only applied it to homeowners.

It is difficult to develop an intellectual rationale for extending Proposition 13 to businesses. Large businesses often modify or lease rather than sell and, as a consequence, the increase in underlying land values often goes untaxed. The business community naturally fears a split-roll because it would raise their tax burden and potentially leave them vulnerable to additional taxation. Sexton and Sheffrin (2003) estimate that raising assessments on commercial and industrial property to market value while maintaining the 1% rate would yield approximately $3 billion statewide.

A recent Field survey (2008) found mild support for a split-roll among California registered voters if the issue was framed as raising taxes on business; it had much stronger support if the split-roll was envisioned to lower residential property taxes. The split-roll has been on the ballot in California and was defeated. But it was deliberately coupled with a variety of onerous business taxes in order to divert campaign contributions from affected businesses away from other candidates and propositions.

What is surprising, however, is that the public does not have a clear idea that Proposition 13 applies to all properties. A June 2005 Field poll (2005) posed the following question: "As you may know, in 1978 California voters approved Proposition 13, which reduced local property taxes. To the best of your knowledge, did Proposition 13's tax reduction apply only to residential property taxes, only to commercial property taxes, or both?" Only 34% of the respondents correctly said it applied to both residential and commercial property. Since Proposition 13 is a constitutional amendment, any changes would require statewide voter approval. Given the lack of deep rationale, general public unawareness, and the prospect of additional revenue, it is possible that under the right ballot circumstances, a split-roll could be enacted.

A final reform would be to relax slightly the 2% assessment increase limitation and raise it, to say, 4%. Other states have higher assessment increase limits, for example Florida's is 3%. How much would this seemingly minor change matter? Table 3 contains estimates of disparity ratios unmodified homeowner property in Los Angeles County for 1975 and 1988 base year properties under both 2% and 4% assessment increase limits. The table is constructed by taking the disparity ratios in 1996 as given and then applying the alternative limits over the next 12 years.

As Table 3 indicates, even over a relatively short 12-year period, the disparity ratios decrease by approximately 21%. Over even longer horizons, the power of compound interest works effectively to lower disparity ratios.

Table 3. Effects of Alternative Assessment Increase Limits in Los Angeles

	2% limit	**4% limit**
1975 base years	8.06	6.30
1988 base year	2.09	1.64

California taxpayers would be resistant to reforms of this nature even though the impact would be very gradual for existing homeowners. Such a change would have to be coupled with other tax reform measures or desired spending measures to make it effective.

While California's Proposition 13 is often maligned as an unfair tax system, as this chapter has emphasized, all property tax systems exhibit inequities. Combining a split-roll with a 1% rate and a modest increase in the assessment limit increases would improve the equity of California's system considerably.

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