

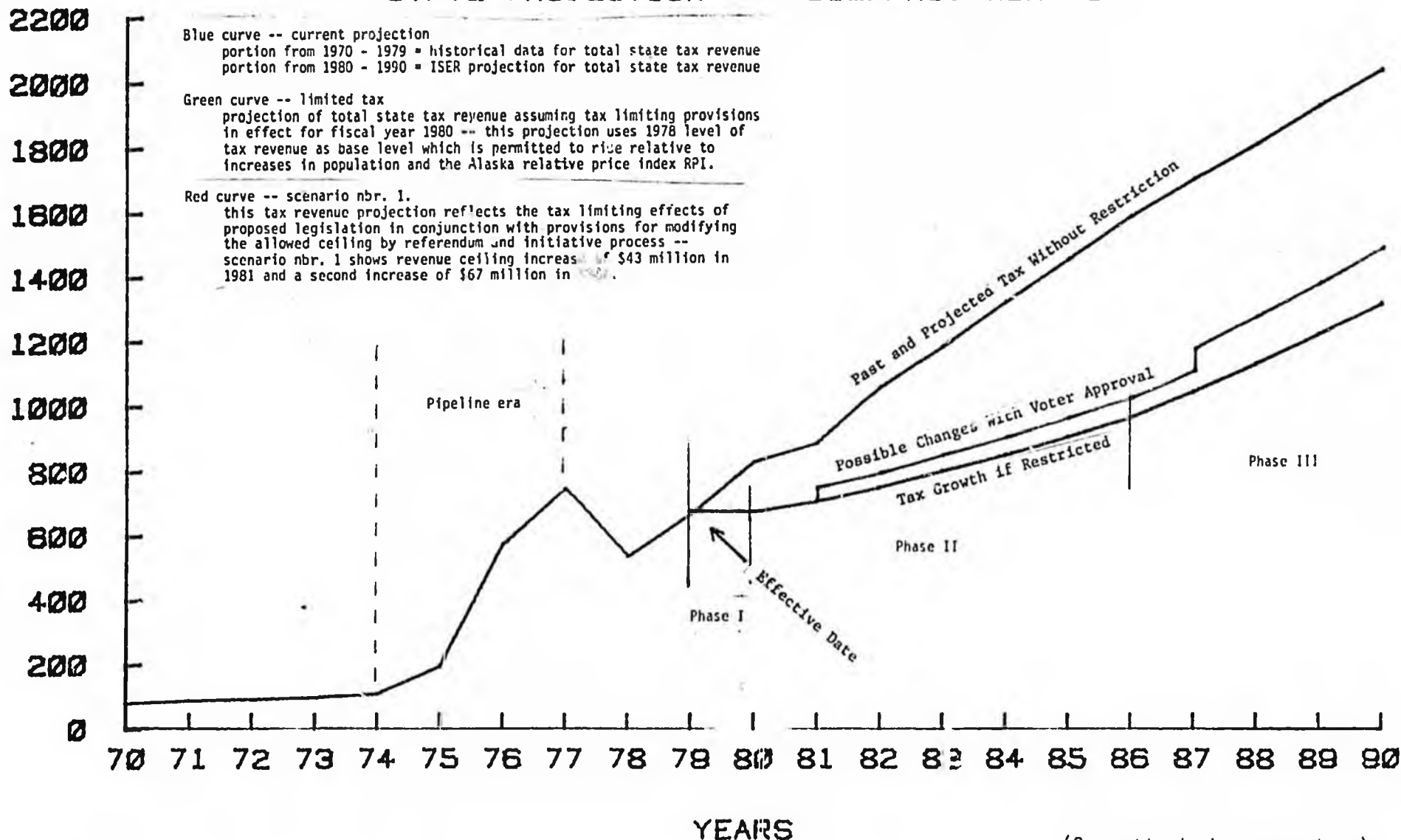
~~TAX~~

PROPOSITION

TAX REVENUE LIMITATION

STATE PROJECTION --- SCENARIO NBR. 1

BILLIONS OF DOLLARS

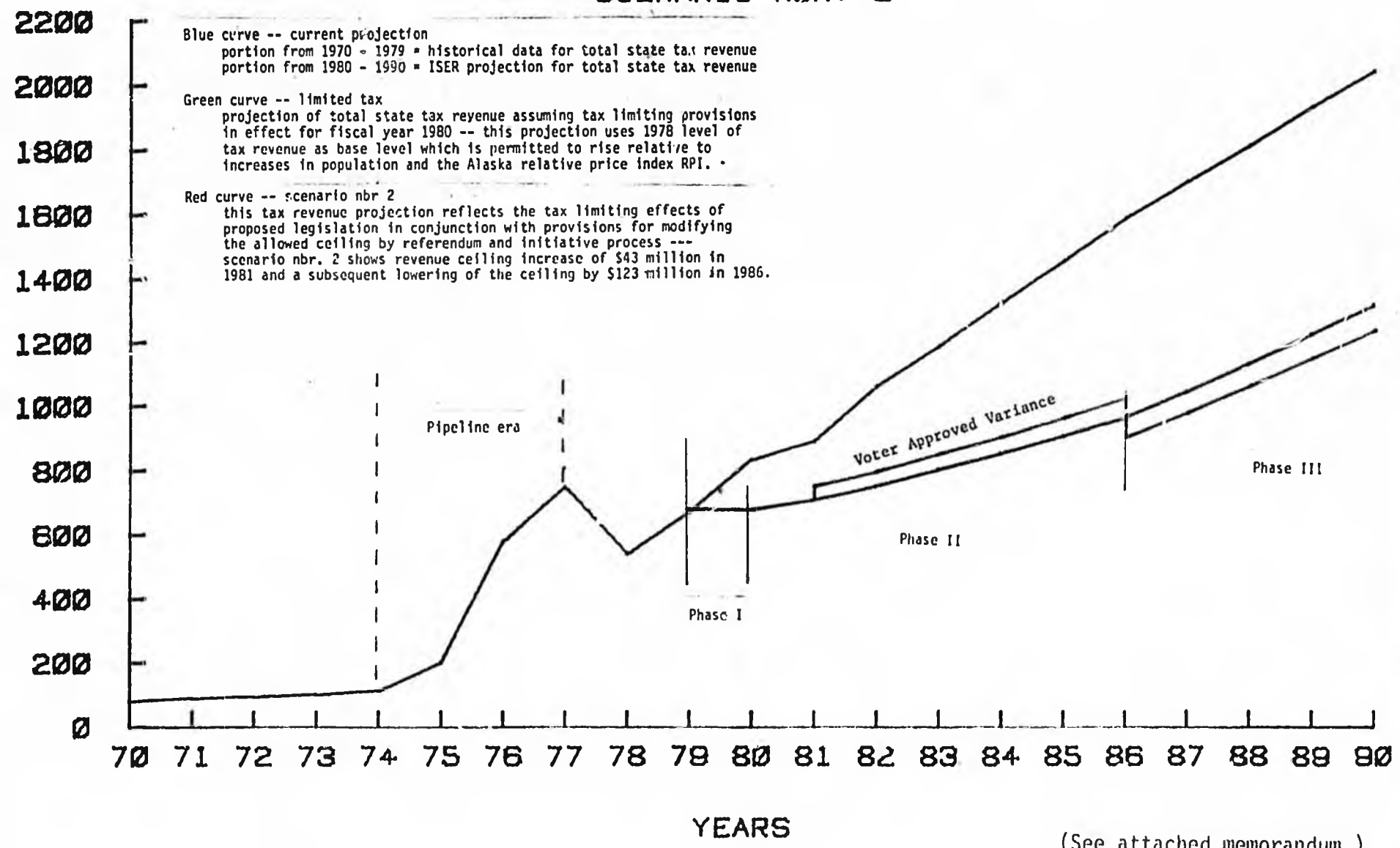


(See attached memorandum.)

KEY: — CURRENT PROJECTION — LIMITED TAX — SCENARIO NBR. 1

TAX REVENUE LIMITATION SCENARIO NBR. 2

SEVENTH OIL POLLS

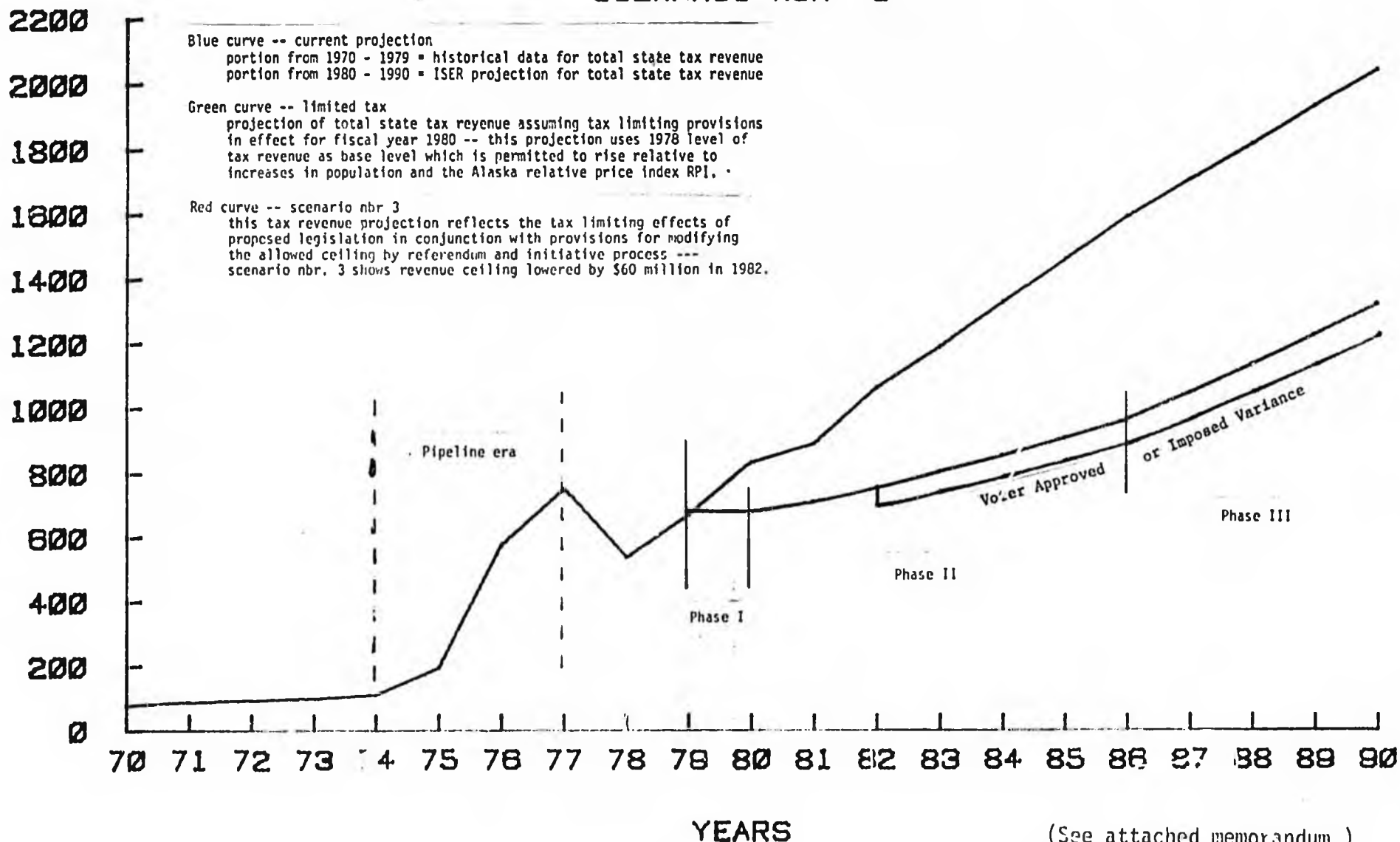


(See attached memorandum.)

KEY: — CURRENT PROJECTION — LIMITED TAX — SCENARIO NBR. 2

TAX REVENUE LIMITATION SCENARIO NBR. 3

BILLIONS OF DOLLARS



(See attached memorandum.)

KEY: — CURRENT PROJECTION — LIMITED TAX — SCENARIO NBR. 3

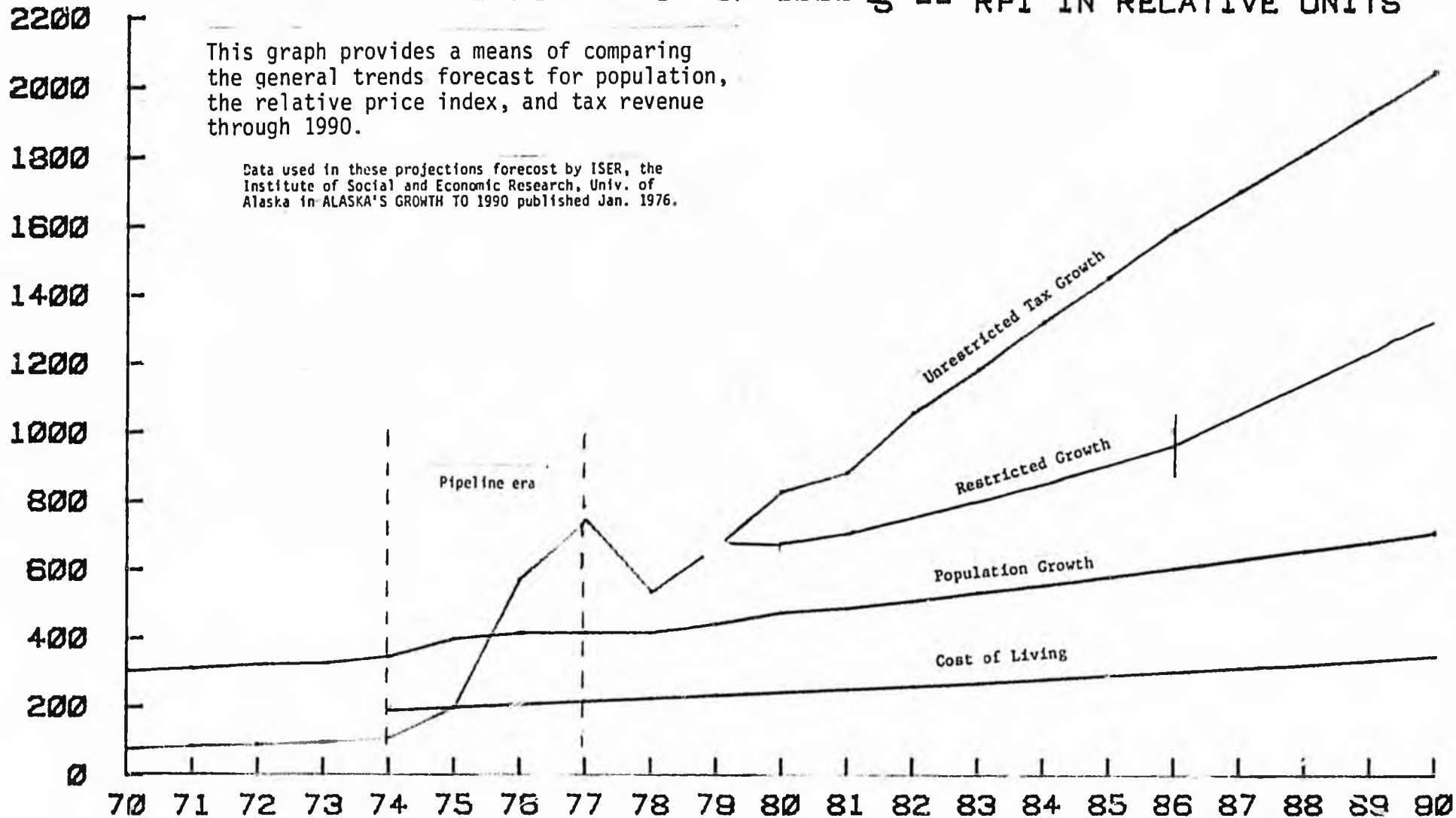
TAX REVENUE - POPULATION - PRICE INDEX

TAX REV IN \$MILLIONS -- POP IN 1000'S -- RPI IN RELATIVE UNITS

This graph provides a means of comparing the general trends forecast for population, the relative price index, and tax revenue through 1990.

Data used in these projections forecast by ISER, the Institute of Social and Economic Research, Univ. of Alaska in ALASKA'S GROWTH TO 1990 published Jan. 1976.

POP X 1000



YEARS

RPI - relative price index - is a composite index of the Anchorage consumer price index and a state-wide survey of food costs.

(See attached memorandum.)

KEY: — POPULATION — TAX REVENUE — RELATIVE PRICE INDEX

EXPLANATION OF BILL
PREPARED AND PROPOSED BY RAY METCALFE

To create a truly effective tax proposition, all taxes must be addressed. People do not concern themselves with income tax, property tax, state or municipal tax nearly as much as they are concerned about the overall cost of government.

If one addresses property tax only, as was the case in Proposition 13 of California, the door is left open for other taxes to be increased. Twenty years from now Proposition 13 will have been rendered impotent as a result of the many avenues that were left for government to grow sufficiently to eventually offset any effects that resulted from Proposition 13. Equally, important, it is necessary that one not address State taxes alone. If State taxes alone are addressed, local taxes will automatically increase sufficiently to bridge any potential gap for the funding of existing services, and therefore the cost of government continues to remain the same.

Therefore, I have chosen not to address a specific tax but to place a limit on all taxing powers of the State as well as insure that the State cannot grant taxing powers which exceed its own taxing powers.

Many tax proposition proposals have required an unhealthy over-night hatchet job for the purpose of taking out the fat. This proposition has totally avoided that possibility. The tax ceiling allowable under this proposed proposition would be established at approximately that level which would be concurrent as of the effective date.

For a period of six years thereafter, all taxing authorities within the State of Alaska would be restricted to a growth rate which would be slightly less than the overall growth rate of the State. At no time does this proposition place anyones job in jeopardy, or require any massive cutbacks. Over a period of six years, all government within the State of Alaska would be required to slowly but thoughtfully trim the fat from within itself.

At the end of the six years government would have shrunk relative to the size of the State, by an approximate 20%. After six years of restrictive growth, the State, as well as any community within the State would be tied to a growth rate that would require the State and local government to restrict itself to a growth rate paralell to the growth rate of the State or community.

Many propositions that have been passed or proposed in other states will eventually become no longer workable. This proposition has an allowed flexibility clause, which is designed to make this tax proposition fuctional, and adjustable to any life style, thereby making this proposition sufficiently flexible to remain a part of the Constitution of Alaska for as long as Alaska has a Constitution.

Beginning with the effective date of this amendment and at any time thereafter, the Legislature or the governing body of any political subdivision, as well as the people of any political subdivision or the people of the State, will be

allowed to place a proposition on the ballot and before the people to request voter approval of a variance either upward or downward from what is otherwise a constitutionally imposed ceiling on the amount of money that government can take from people.

The most significant item about this proposed Constitutional amendment, is that this amendment effectively takes the purse strings out of the hands of government and places them where they belong, which is in the hands of the people.

It is designed to be a painless but also effective tax cutting proposition.

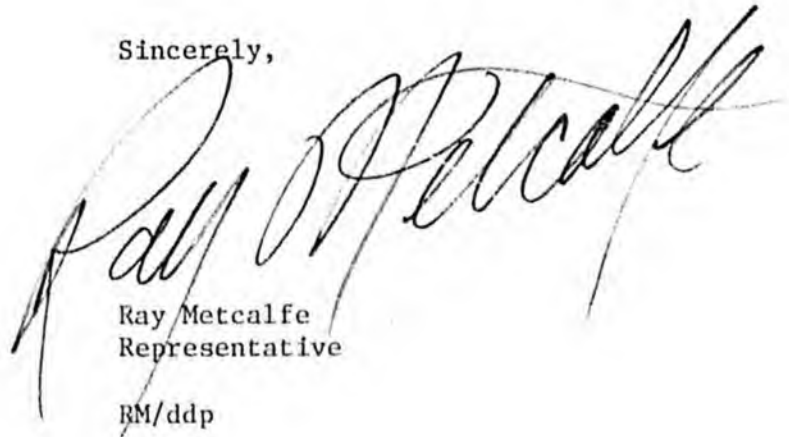
Deliberately so, it only tells government how much it can take from the people, it does not tell government where to get the money from the people. If one were to do so, inequities invariably occur. A typical example would have been a proposition which has passed in another state that put an immediate freeze on property taxes, as well as assessed evaluations. The problem that many communities immediately thereafter found themselves faced with, was that in many cases similar properties had been appraised in different years. Because similar properties were subject to two different rates of taxation; one property was worth dramatically more on the open market than the other. This proposition allows sufficient flexibility to address such problems, and the flexibility to adapt to our changing times.

Attached you will find graphs which outline projected increases in the cost of government, and the effects of this proposed amendment.

Please note, that at no time does government have less money to spend than it did in the prior year, and at no time does it require any radical changes, unless such changes are mandated by a vote of the people.

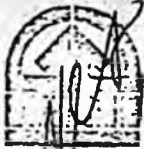
Your support in this effort will be most sincerely appreciated.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read 'Ray Metcalfe'. The signature is written in a cursive style with a large initial 'R' and 'M'.

Ray Metcalfe
Representative

RM/ddp



**National
Conference
of State
Legislatures**

Office of
State
Federal
Relations

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2nd Floor
Washington, D.C.
20001
202/624-5400

President
Fred E. Anderson
President of the Senate
Colorado
Executive Director
Earl S. Mackey

March 24, 1978

TO: Legislative Leaders and Key Legislative Staff

RE: Treatment of Taxes for Tax Year 1977

*Legislators
3-28-78*

1. The Senate has passed and sent to the President a minor tax measure, P.R. 11055, which extends for one year (1977) the treatment of legislator expenses which is described below. This particular provision of the tax code has now applied to tax years 1972-1977. We hope to work out a permanent resolution of this tax problem during this year.

2. The law applying to legislator expenses in the capital (section 162(a) of the Tax Code) provides first that a legislator's home for federal income tax purposes is in the district which is represented in the legislature.

3. Legislators have two alternatives for computing their deductions for meal and lodging expenses in the capital. The first approach, used by businesspeople who are away from home, requires records of all expenses claimed as deductible. The only restriction on deductions is that they be ordinary or necessary. Legislators who believe that their circumstances show that the capital is their "tax home" should not use this method of computing expenses. The method provided by the extension will prove more beneficial.

The second method, spelled out in section 162(a) of the U.S. Tax Code, would permit legislators to compute their expenses by multiplying the number of "legislative days" by the federal per diem rate in the capital. Legislators are "deemed" to have spent this amount; no more substantiation is required.

"Legislative day" is defined as a day in which the legislature is in session, a day in which the legislature is not in session for four consecutive days or less (such as Friday-Tuesday recesses during sessions), and days when a member is formally recorded at a meeting of a legislative committee.

The federal per diem rate is set by statute at \$35 but the General Services Administration may adjust that figure up to a maximum of \$50 a day if the costs in a city rise 10% or more above the \$35 figure. The figures for Hawaii and Alaska are set by the Defense Department. Latest figures are below. Unless a capital is on the list, legislators should assume that the applicable per diem rate is \$35.

Boston	\$49	Hartford	\$39
Juneau	\$70	Providence	\$40
Albany	\$39	Charleston, W.Va.	\$39
Honolulu	\$46	St. Paul	\$41

PLEASE PASS THIS MESSAGE TO YOUR COLLEAGUES

For further information, contact Paul Sweet (202) 624-5409.



DIED ON ADJOURNMENT (8/31/78)

AMENDED IN ASSEMBLY JUNE 23, 1978

AMENDED IN SENATE JUNE 12, 1978

AMENDED IN SENATE FEBRUARY 1, 1978

AMENDED IN SENATE JANUARY 17, 1978

Senate Constitutional Amendment

No. 42

Introduced by Senator Deukmejian

(Principal Coauthor: Assemblyman Priolo)

(Coauthors: Senators Beverly, Cusanovich, Russell, and
~~Stull~~ *Stull, Ayala, Campbell, Paul Carpenter, Johnson,*
Nejedly, Nimmo, Presley, Richardson, Rains, Stiern, and
Wilson)

(Coauthors: Assemblymen Antonovich, Arnett, Chappie,
Cline, Craven, Dannemeyer, Ellis, Hallett, Hayden,
Imbrecht, Lancaster, Maddy, Nestande, Ryan, Statham,
Stirling, and ~~William Thomas~~ *William Thomas, Bannai,*
Chel, Collier, Cordova, Mangers, Vincent Thomas, and
Young)

April 21, 1977

Senate Constitutional Amendment No. 42—A resolution to propose to the people of the State of California an amendment to the Constitution of the state, by adding Article XXIX thereto, relating to revenues and appropriations.

LEGISLATIVE COUNSEL'S DIGEST

SCA 42, as amended, Deukmejian. Revenues and appropriations.

Existing provisions of the California Constitution do not limit the total annual appropriations of the state or by local government.

This measure would prohibit the annual appropriations of any governmental entity from exceeding the total appropria-

tions of such entity of government for the prior year by more than the annual percentage change in the cost of living and population, with certain exceptions.

This measure would also require the Legislature to provide a method of determining the change in the cost of living and for estimating the actual population change for the state and each local government.

Existing statutory law mandates that the state shall reimburse local government for the cost of complying with a state-mandated local program, as defined.

This measure would establish a constitutional mandate that whenever the Legislature or any state agency mandates a new program or higher level of service on any local government, it shall provide an appropriation to reimburse such local government for the costs of such program or increased level of service, with certain exceptions.

The measure would become effective commencing with the 1979-80 fiscal year.

Vote: 2/3. Appropriation: no. Fiscal committee: no. State-mandated local program: no.

1 *Resolved by the Senate, the Assembly concurring, That*
2 *the Legislature of the State of California at its 1977-78*
3 *Regular Session commencing on the sixth day of*
4 *December, 1976, two-thirds of the members elected to*
5 *each of the two houses of the Legislature voting therefor,*
6 *hereby proposes to the people of the State of California*
7 *that the Constitution of the state be amended by adding*
8 *Article XXIX thereto, to read:*

9
10 ARTICLE XXIX

11
12 EXPENDITURES

13
14 SEC. 1. The annual appropriations of the state and of
15 each local government shall not exceed the total
16 appropriations of such entity of government for the prior
17 year by more than the annual percentage changes in the
18 cost of living and population. The Legislature shall
19 provide a method for determining the change in the cost

1 of living which shall reflect the actual change in the cost
2 of providing governmental services, but in no case shall
3 such change exceed the change in the state's per capita
4 personal income. The Legislature shall provide a method
5 for estimating the actual population changes for the state
6 and each local government, however, the population of
7 school districts shall be the average daily attendance. The
8 limitation on *state* appropriations contained in this article
9 shall not apply to funds received by the state from the
10 federal government ~~or~~, *nor shall the limitation on local*
11 *government appropriations apply* to funds received by
12 local governments from either the state or the federal
13 government.

14 SEC. 2. The Legislature may exempt from the
15 limitations imposed by Section 1 any of the following,
16 provided that both the state and the local governments
17 shall be treated in substantially the same manner:

18 (a) Appropriations made upon the separately recorded
19 vote of two-thirds of the membership of the governing
20 body declaring an emergency. In no case shall an
21 emergency authorization exceed the period of time
22 between the declaration thereof and the next election in
23 the government entity for which the emergency
24 appropriation is authorized, nor shall an emergency
25 appropriation be considered an appropriation for
26 determining appropriations for subsequent years
27 pursuant to Section 1.

28 (b) A reserve fund not to exceed 5 percent of the
29 allowable appropriations of the government entity. Such
30 reserve funds may be utilized only for emergency
31 appropriations authorized pursuant to subdivision (a),
32 and only if such fund is exhausted, may a government
33 entity resort to emergency tax increases or debt.

34 (c) Appropriations required for purposes of complying
35 with mandates of the courts or the federal government
36 which, without discretion, require an expenditure for
37 additional services or which unavoidably make the
38 providing of existing services more costly.

39 (d) Appropriations made to assume the responsibility
40 of providing services or programs previously provided by

1 another entity or level of government, provided that the
2 allowable appropriations of such other government
3 entities are reduced by an equal amount.

4 (e) Appropriations by local governments which
5 correspond to subventions made by the state for
6 state-mandated programs, pursuant to Section 5.

7 ~~(f) Appropriations of any special district which existed
8 on January 1, 1978, or which are thereafter created by a
9 vote of the people to be included therein, which does not
10 levy an ad valorem tax on property in excess of 12½ cents
11 per \$100 of full value.~~

12 (f) *Appropriations of any special district which existed
13 on January 1, 1978, and which did not as of the 1977-78
14 fiscal year levy an ad valorem tax on property in excess
15 of 12½ cents per \$100 of full value; or the appropriations
16 of any special district then existing or thereafter created
17 by a vote of the people, which is totally funded by fees,
18 rates, tolls, or other charges for service.*

19 SEC. 3. (a) The limitations imposed on the state
20 government by this article may be exceeded if a majority
21 of the electors voting in a statewide election approve an
22 appropriation level exceeding such limitations.

23 (b) The limitations imposed on a local government by
24 this article may be exceeded if a majority of the electors
25 voting in an election held for such purpose and
26 encompassing the entire government entity approve an
27 appropriation level exceeding such limitations.

28 SEC. 4. Any revenues collected by any government
29 entity in excess of the appropriations of that government
30 entity allowed by this article shall be reflected in a
31 corresponding reduction in one or more of the taxes
32 collected by that government entity in the next ensuing
33 tax year.

34 SEC. 5. Whenever the Legislature or any state agency
35 mandates a new program or higher level of service on any
36 local government, it shall provide an appropriation to
37 reimburse such local government for the costs of such
38 program or increased level of service, except:

39 (a) Legislation defining a new crime or changing an
40 existing definition of a crime, or

1 (b) Legislative mandates enacted prior to January 1,
2 1975, or executive orders or regulations initially
3 implementing legislation enacted prior to January 1,
4 1975.

5 SEC. 6. Nothing in this article shall be construed to
6 impair the ability of the state or of any local government
7 to meet its obligations with respect to existing or future
8 bonded indebtedness. Appropriations required to pay
9 the cost of interest and redemption charges on existing
10 bonded or other indebtedness, together with any reserve
11 or sinking funds required in connection therewith, shall
12 be exempt from the appropriations limitations and base
13 year calculations imposed by Section 1. Bonded
14 indebtedness hereinafter approved by a vote of the
15 electors of the issuing jurisdiction voting in an election for
16 such purpose shall constitute priority expenditures of
17 such government entity; and if the principal and interest
18 payments of such bonds shall exceed the appropriations
19 limitations of the issuing government entity, such
20 limitations may be exceeded to satisfy such payments.

21 SEC. 7. *This article shall be effective commencing
22 with the 1979-80 fiscal year, and for purposes of
23 establishing the appropriations limitations contained
24 herein, the base year shall be the 1978-79 fiscal year.*

25 SEC. 8. The Legislature shall have plenary power to
26 enact legislation consistent with, and to implement the
27 purposes of, this article.

No Real Tax Revolt But Antitax Forces Won

In addition to choosing lawmakers on Nov. 7, voters were making new laws. Thirty-eight states sponsored nearly 350 referendums and when it was all over, those who voted (only one-third of those eligible) had decided on issues ranging from denture-fitting to the death penalty.



The big issues, though, were taxes and government spending — on the ballot in nearly one-third of the states. While there was no real tax revolt, as some had predicted, antitax forces won consistently.

Tax-cutting proposals similar to Proposition 13 passed easily in Idaho and Nevada, but were defeated in Michigan and Oregon. In other states, voters voiced opinions on other tax measures that proposed either a tight control on tax increases or a limit on state spending. Most won, but measures were defeated in Colorado, Nebraska and Arkansas.

The liveliest battles over taxes occurred in states where voters had at least two alternatives to choose from. In Oregon, the two gubernatorial candidates lined up on opposite sides of the fence. Republican winner Victor Atiyeh backed a Proposition 13-type measure while Democratic Gov. Robert Straub proposed a combination tax relief-spending limit alternative. Both measures were defeated.

Michigan gave its voters three choices: a Proposition 13-type offspring, a more moderate proposal to limit both tax increases and state spending (known as the Headlee Amendment), and a voucher-system substitute for property tax to finance the schools. The Headlee plan won narrowly, while the other two measures failed.

The results of other state ballot propositions were as follows:

Alabama — Limit property taxes to 20 percent yearly. *Passed.*

Arizona — Limit state spending to seven percent of total personal income. *Passed.*

Arkansas — Eliminate sales tax on food and medicine. *Defeated.*

Colorado — Tie state and local spending to cost of living. *Defeated.*

Hawaii — Limit state spending to growth rate of state economy. *Passed.*

Idaho — Reduce property tax to one percent of market value. *Passed.*

Massachusetts — Prevent sharp boosts in residential property taxes. *Passed.*

Nebraska — Limit annual increase in local budgets to five percent. *Defeated.*

Nevada — Reduce property tax to one percent of market value. *Passed.*

North Dakota — Cut personal income taxes for individuals, increase for corporations. *Passed.*

South Dakota — Require two-thirds vote of legislature to raise taxes rather than the present simple majority. *Passed.*

Texas — Package that includes linking state spending increases to growth of economy. *Passed.*

In other referendums of interest, voters in a special election in Long Beach, Ca., supported a plan by Standard Oil of Ohio to build an oil-tanker terminal in their city to handle crude oil from Alaska. The voters also approved an accompanying pipeline system that would run east from Long Beach to Midland, Tex. Philadelphia voters turned down a proposed revision of the City Charter that would have permitted Mayor Frank Rizzo to run for a third term next year.

Published by the Civic Action Program, Atlantic Richfield Company, 515 South Flower Street, Room 461, Los Angeles, CA 90071. (213) 486-0892.
Director of Volunteer Political Programs: Bob McElroy.
Editor: Beverly Copeland.

INITIATIVE

(This Initiative Measure proposes to add a new Article to the Constitution.)

PROPOSED ARTICLE XIII B. CONSTITUTION
GOVERNMENT SPENDING LIMITATION

Sec. 1. The total annual appropriations subject to limitation of the state and of each local government shall not exceed the appropriations limit of such entity of government for the prior year adjusted for changes in the cost of living and population except as otherwise provided in this Article.

Sec. 2. Revenues received by any entity of government in excess of that amount which is appropriated by such entity in compliance with this Article during the fiscal year shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

Sec. 3. The appropriations limit for any fiscal year pursuant to Sec. 1 shall be adjusted as follows:

(a) In the event that the financial responsibility of providing services is transferred, in whole or in part, whether by annexation, incorporation or otherwise, from one entity of government to another, then for the year in which such transfer becomes effective the appropriations limit of the transferee entity shall be increased by such reasonable amount as the said entities shall mutually agree and the appropriations limit of the transferor entity shall be decreased by the same amount.

(b) In the event that the financial responsibility of providing services is transferred, in whole or in part, from an entity of government to a private entity, or the financial source for the provision of services is transferred, in whole or in part, from other revenues of an entity of government, to regulatory licenses, user charges or user fees, then for the year of such transfer the appropriations limit of such entity of government shall be decreased accordingly.

(c) In the event of an emergency, the appropriation limit may be exceeded provided that the appropriation limits in the following three years are reduced accordingly to prevent an aggregate increase in appropriations resulting from the emergency.

Sec. 4. The appropriations limit imposed on any new or existing entity of government by this Article may be established or changed by the electors of such entity, subject to and in conformity with constitutional and statutory voting requirements. The duration of any such change shall be as determined by said electors, but shall in no event exceed four years from the most recent vote of said electors creating or continuing such change.

Sec. 5. Each entity of government may establish such contingency, emergency, unemployment, reserve, retirement, sinking fund, trust, or similar funds as it shall deem reasonable and proper. Contributions to any such fund, to the extent that such contributions are derived from the proceeds of tax, shall for purposes of this Article constitute appropriations subject to limitation in the year of contribution. Neither withdrawals from any such fund, nor expenditures of (or authorizations to expend) such withdrawals, nor transfers between or among such funds, shall for purposes of this Article constitute appropriations subject to limitation.

Sec. 6. Whenever the Legislature or any state agency mandates a new program or higher level of service on any local government, the state shall provide a subvention of funds to reimburse such local government for the costs of such program or increased level of service, except that the Legislature may, but need not, provide such subvention of funds for the following mandates:

- (a) Legislative mandates requested by the local agency affected;
- (b) Legislation defining a new crime or changing an existing definition of a crime; or
- (c) Legislative mandates enacted prior to January 1, 1975, or executive orders or regulations initially implementing

legislation enacted prior to January 1, 1975.

Sec. 7. Nothing in this Article shall be construed to impair the ability of the state or of any local government to meet its obligations with respect to existing or future bonded indebtedness.

Sec. 8. As used in this Article and except as otherwise expressly provided herein:

(a) "Appropriations subject to limitation" of the state shall mean any authorization to expend during a fiscal year the proceeds of taxes levied by or for the state, exclusive of state subventions for the use and operation of local government (other than subventions made pursuant to Section 6 of this Article) and further exclusive of refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds;

(b) "Appropriations subject to limitation" of an entity of local government shall mean any authorization to expend during a fiscal year the proceeds of taxes levied by or for that entity and the proceeds of state subventions to that entity (other than subventions made pursuant to Section 6 of this Article) exclusive of refunds of taxes;

(c) "Proceeds of taxes" shall include, but not be restricted to, all tax revenues and the proceeds to an entity of government, from (i) regulatory licenses, user charges, and user fees to the extent that such proceeds exceed the costs reasonably borne by such entity in providing the regulation, product, or service, and (ii) the investment of tax revenues. With respect to any local government, "proceeds of taxes" shall include subventions received from the state, other than pursuant to Section 6 of this Article, and, with respect to the state, proceeds of taxes shall exclude such subventions;

(d) "Local government" shall mean any city, county, city and county, school district, special district, authority, or other political subdivision of or within the state;

(e) "Cost of living" shall mean the Consumer Price Index for

the United States as reported by the United States Department of Labor, or successor agency of the United States Government; provided, however, that for purposes of Section 1, the change in cost of living from the preceding year shall in no event exceed the change in California per capita personal income from said preceding year;

(f) "Population" of any entity of government, other than a school district, shall be determined by a method prescribed by the Legislature, provided that such determination shall be revised, as necessary, to reflect the periodic census conducted by the United States Department of Commerce, or successor agency of the United States Government. The population of any school district shall be such school district's average daily attendance as determined by a method prescribed by the Legislature;

(g) "Debt service" shall mean appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund required in connection therewith, on indebtedness existing or legally authorized as of January 1, 1979 or on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose.

(h) The "appropriations limit" of each entity of government for each fiscal year shall be that amount which total annual appropriations subject to limitation may not exceed under Section 1 and Section 3; provided, however, that the "appropriations limit" of each entity of government for fiscal year 1978-79 shall be the total of the appropriations subject to limitation of such entity for that fiscal year. For fiscal year 1978-79, state subventions to local governments, exclusive of federal grants, shall be deemed to have been derived from the proceeds of state taxes.

(i) Except as otherwise provided in Section 5, "appropriations subject to limitation" shall not include local agency loan funds or indebtedness funds, investment (or authorizations to invest) funds of the state, or of an entity of local government in accounts at banks or savings and loan associations or in liquid securities.

Sec. 9. "Appropriations subject to limitation" for each entity of government shall not include:

(a) Debt service.

(b) Appropriations required for purposes of complying with mandates of the courts or the federal government which, without discretion, require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

(c) Appropriations of any special district which existed on January 1, 1978, and which did not as of the 1977-78 fiscal year levy an ad valorem tax on property in excess of 12-1/2 cents per \$100 of assessed value; or the appropriations of any special district then existing or thereafter created by a vote of the people, which is totally funded by other than the proceeds of taxes.

Sec. 10. This Article shall be effective commencing with the first day of the fiscal year following its adoption.

Sec. 11. If any appropriation category shall be added to or removed from appropriations subject to limitation, pursuant to final judgment of any court of competent jurisdiction and any appeal therefrom, the appropriations limit shall be adjusted accordingly. If any section, part, clause or phrase in this Article is for any reason held invalid or unconstitutional, the remaining portions of this Article shall not be affected but shall remain in full force and effect.



OFFICE OF THE ATTORNEY GENERAL

Department of Justice

555 CAPITOL MALL, SUITE 35
SACRAMENTO 95814
(916) 445-9555



October 20, 1978

FILED
In the office of the Secretary of State
of the State of California

OCT 25 1978

MARCH FONG EU, Secretary of State

By Esther M. Apperson
Deputy

Honorable March Fong Eu
Secretary of State
925 L Street, Suite 605
Sacramento, CA 95814

Attention: Rico Nannini

Re: Initiative Constitutional Amendment -- Limitation
of Government Appropriations.

Dear Mrs. Eu:

Pursuant to the provisions of sections 3503 and 3513 of the Elections Code, you are hereby informed that on this day we mailed to Paul Gann, as proponent, the following title and summary:

LIMITATION OF GOVERNMENT APPROPRIATIONS. INITIATIVE CONSTITUTIONAL AMENDMENT. Establishes and defines annual appropriation limits on state and local governmental entities based on annual appropriations for prior fiscal year. Requires adjustments for changes in cost of living, population and other specified factors. Appropriation limits may be established or temporarily changed by electorate. Requires revenues received in excess of appropriations permitted by this measure to be returned by revision of tax rates or fee schedules within two fiscal years next following year excess created. With exceptions, provides for reimbursement of local governments for new programs or higher level of services mandated by state. Financial Impact: Indeterminable.

Enclosed herewith is a declaration of mailing thereof, and a copy of the proposed measure.

Honorable March Fong Eu
Page 2
October 20, 1978

According to information available in our records the address and phone number of the proponent of this measure are as stated on the declaration of mailing.

Very truly yours,

EVELLE J. YOUNGER
Attorney General


VANCE W. RAYE
Deputy Attorney General

VWR:mf
Enclosures

INITIATIVE

(This Initiative Measure proposes to add a new Article to the Constitution.)

PROPOSED ARTICLE XIII B. CONSTITUTION GOVERNMENT SPENDING LIMITATION

Sec. 1. The total annual appropriations subject to limitation of the state and of each local government shall not exceed the appropriations limit of such entity of government for the prior year adjusted for changes in the cost of living and population except as otherwise provided in this Article.

Sec. 2. Revenues received by any entity of government in excess of that amount which is appropriated by such entity in compliance with this Article during the fiscal year shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

Sec. 3. The appropriations limit for any fiscal year pursuant to Sec. 1 shall be adjusted as follows:

(a) In the event that the financial responsibility of providing services is transferred, in whole or in part, whether by annexation, incorporation or otherwise, from one entity of government to another, then for the year in which such transfer becomes effective the appropriations limit of the transferee entity shall be increased by such reasonable amount as the said entities shall mutually agree and the appropriations limit of the transferor entity shall be decreased by the same amount.

(b) In the event that the financial responsibility of providing services is transferred, in whole or in part, from an entity of government to a private entity, or the financial source for the provision of services is transferred, in whole or in part, from other revenues of an entity of government, to regulatory licenses, user charges or user fees, then for the year of such transfer the appropriations limit of such entity of government shall be decreased accordingly.

(c) In the event of an emergency, the appropriation limit may be exceeded provided that the appropriation limits in the following three years are reduced accordingly to prevent an aggregate increase in appropriations resulting from the emergency.

Sec. 4. The appropriations limit imposed on any new or existing entity of government by this Article may be established or changed by the electors of such entity, subject to and in conformity with constitutional and statutory voting requirements. The duration of any such change shall be as determined by said electors, but shall in no event exceed four years from the most-recent vote of said electors creating or continuing such change.

Sec. 5. Each entity of government may establish such contingency, emergency, unemployment, reserve, retirement, sinking fund, trust, or similar funds as it shall deem reasonable and proper. Contributions to any such fund, to the extent that such contributions are derived from the proceeds of taxes, shall for purposes of this Article constitute appropriations subject to limitation in the year of contribution. Neither withdrawals from any such fund, nor expenditures of (or authorizations to expend) such withdrawals, nor transfers between or among such funds, shall for purposes of this Article constitute appropriations subject to limitation.

Sec. 6. Whenever the Legislature or any state agency mandates a new program or higher level of service on any local government, the state shall provide a subvention of funds to reimburse such local government for the costs of such program or increased level of service, except that the Legislature may, but need not, provide such subvention of funds for the following mandates:

- (a) Legislative mandates requested by the local agency affected;
- (b) Legislation defining a new crime or changing an existing definition of a crime; or
- (c) Legislative mandates enacted prior to January 1, 1975, or executive orders or regulations initially implementing

legislation enacted prior to January 1, 1975.

Sec. 7. Nothing in this Article shall be construed to impair the ability of the state or of any local government to meet its obligations with respect to existing or future bonded indebtedness.

Sec. 8. As used in this Article and except as otherwise expressly provided herein:

(a) "Appropriations subject to limitation" of the state shall mean any authorization to expend during a fiscal year the proceeds of taxes levied by or for the state, exclusive of state subventions for the use and operation of local government (other than subventions made pursuant to Section 6 of this Article) and further exclusive of refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds;

(b) "Appropriations subject to limitation" of an entity of local government shall mean any authorization to expend during a fiscal year the proceeds of taxes levied by or for that entity and the proceeds of state subventions to that entity (other than subventions made pursuant to Section 6 of this Article) exclusive of refunds of taxes;

(c) "Proceeds of taxes" shall include, but not be restricted to, all tax revenues and the proceeds to an entity of government, from (i) regulatory licenses, user charges, and user fees to the extent that such proceeds exceed the costs reasonably borne by such entity in providing the regulation, product, or service, and (ii) the investment of tax revenues. With respect to any local government, "proceeds of taxes" shall include subventions received from the state, other than pursuant to Section 6 of this Article, and, with respect to the state, proceeds of taxes shall exclude such subventions;

(d) "Local government" shall mean any city, county, city and county, school district, special district, authority, or other political subdivision of or within the state;

(e) "Cost of living" shall mean the Consumer Price Index for

the United States as reported by the United States Department of Labor, or successor agency of the United States Government; provided, however, that for purposes of Section 1, the change in cost of living from the preceding year shall in no event exceed the change in California per capita personal income from said preceding year;

(f) "Population" of any entity of government, other than a school district, shall be determined by a method prescribed by the Legislature, provided that such determination shall be revised, as necessary, to reflect the periodic census conducted by the United States Department of Commerce, or successor agency of the United States Government. The population of any school district shall be such school district's average daily attendance as determined by a method prescribed by the Legislature;

(g) "Debt service" shall mean appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund required in connection therewith, on indebtedness existing or legally authorized as of January 1, 1979 or on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose.

(h) The "appropriations limit" of each entity of government for each fiscal year shall be that amount which total annual appropriations subject to limitation may not exceed under Section 1 and Section 3; provided, however, that the "appropriations limit" of each entity of government for fiscal year 1978-79 shall be the total of the appropriations subject to limitation of such entity for that fiscal year. For fiscal year 1978-79, state subventions to local governments, exclusive of federal grants, shall be deemed to have been derived from the proceeds of state taxes.

(i) Except as otherwise provided in Section 5, "appropriations subject to limitation" shall not include local agency loan funds or indebtedness funds, investment (or authorizations to invest) funds of the state, or of an entity of local government in accounts at banks or savings and loan associations or in liquid securities.

Sec. 9. "Appropriations subject to limitation" for each entity of government shall not include:

(a) Debt service.

(b) Appropriations required for purposes of complying with mandates of the courts or the federal government which, without discretion, require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

(c) Appropriations of any special district which existed on January 1, 1978, and which did not as of the 1977-78 fiscal year levy an ad valorem tax on property in excess of 12-1/2 cents per \$100 of assessed value; or the appropriations of any special district then existing or thereafter created by a vote of the people, which is totally funded by other than the proceeds of taxes.

Sec. 10. This Article shall be effective commencing with the first day of the fiscal year following its adoption.

Sec. 11. If any appropriation category shall be added to or removed from appropriations subject to limitation, pursuant to final judgment of any court of competent jurisdiction and any appeal therefrom, the appropriations limit shall be adjusted accordingly. If any section, part, clause or phrase in this Article is for any reason held invalid or unconstitutional, the remaining portions of this Article shall not be affected but shall remain in full force and effect.

Tax initiative

'SPIRIT OF 13' - MINUS JARVIS

POWER TO THE CONTROLLER UNDER THE NEW GANN PLAN

By ED SALZMAN

On July 1st, 1980, State Controller Ken Cory will probably become the third most powerful official in state government, trailing only Governor Jerry Brown and Assembly Speaker Leo McCarthy. The reason: the controller on that date could gain a large measure of control over the budgets of every governmental entity in the state. Cory won't be able to tell state and local officials how they can spend their money, but he will be able to tell them that they can spend a specified amount and no more.

This significant jump in the controller's authority is predicated on the assumption that California voters will approve a spending-limit initiative, sponsored by Paul Gann of Proposition 13 fame, on the June 1980 ballot. Gann has not yet qualified the initiative for the ballot, but he had about four-fifths of the necessary signatures in early December and was expected to exceed the necessary 500,000 with ease by the March 19th deadline. And does anyone doubt that the proposition will pass if it reaches the ballot?

The Gann proposal, carefully written by a drafting committee, would restrict the state and every unit of local government from increasing spending in any year more than the increase in the cost of living and population. (For details, see box.) The job of policing the initiative would fall on the shoulders of the controller's office, unless the Legislature decided to establish a new bureaucracy to do that job.

The practical effects

The local affairs and accounting units in the controller's office already exercise some measure of control over government expenditures — but that is nothing compared to the power Cory would get under the Gann plan. Even though the authority is not specifically given to him in the measure, it is significant. The controller could establish each year the allowable percentage increase for the state and for each school district, city, county and special district. He could crack down on any entity exceeding the limit, and he would have to interpret some of the more esoteric provisions of the initiative, pending court rulings. It is entirely possible that disputes could arise between the controller and a governmental agency over the proper expenditure limit in any given year. The initiative itself is silent on how the proposed limit law would be implemented. In all probability, the Legislature would have to establish a procedure for establishing the allowable percentage increases in spending each year.

But for the average citizen, the key question is what practical effect the initiative would have on governmental budgets. Fearing a major change in economic conditions, both state and local government would be able to increase spending about 7 percent a year, according to Kirk West, executive vice president of the California Taxpayers Association (Cal-Tax). For school districts, the increase would be less, about six percent, because enrollments are declining



and average daily attendance is one factor involved in establishing spending limits for public schools.

How does that compare with the recent rate of increase in government spending? Over the past 10 years, the total state budget has been rising at the average rate of 14 percent. But that includes subventions to local government, capital outlay and some items that would be excluded from the Gann limit. A better comparative figure is the average general-fund increase of 10 percent. According to West, a typical unit of local government has spent 11 or 12 percent more each year over the past decade, but there are great variations within the hundreds of units.

Thus, the net effect of this initiative would be about the same as the spending-limitation measure sponsored by then-Governor Ronald Reagan in 1973. The Reagan plan, which was defeated, was tied to personal income and would have reduced the amount of the increase over a period of years from 8.3 percent to 7 percent, which would hold firm starting in the 1981-80 fiscal year.

One of the key participants in the drafting of the Reagan proposal was William Craig Stubblebine, an economics professor at Claremont Men's College. He also served on the committee that wrote the current initiative. Others on the

The 'Spirit of 13' initiative

Here is an outline of the main provisions of the spending-limitation initiative sponsored by Proposition 13's Paul Gann and expected to qualify for the ballot in June of 1980:

- State and local government appropriations each year generally shall not exceed the limit set for the previous year, adjusted for changes in the cost of living and population.

- Surplus funds shall be returned to the taxpayers through downward revision of tax rates and fee schedules during the subsequent two fiscal years.

- In the event of any emergency, the limit may be exceeded. However, the excess must be "paid off" through appropriation reductions in the subsequent three years.

- The limits may be revised upward or downward by a majority vote of the people at the state or local level. However, these changes cannot remain in effect for more than four years without another vote of the people.

- Whenever a state agency mandates a new program or higher level of service on local government, the state shall provide the funds for the costs of these programs and services. There are three exceptions: mandates requested by local government, new crimes and mandates enacted before 1975.

- State appropriations subject to limitation include all expenditures from the proceeds of taxes except those funds subvented to local government, refunds of taxes, and benefits for retirement, unemployment insurance and disability insurance. Appropriations subject to limitation at the local level include all expenditures from the proceeds of local taxes and subventions from the state; the only exception is tax refunds.

- In effect, state and local government would be prohibited from charging user fees higher than necessary to provide the product or service for which the fee is established.

- For purposes of calculating the spending limit, the federal Consumer Price Index shall be used. However, the allowable percentage increase shall not exceed the change in California per capita income from the previous year. Federal census figures shall be the basis for establishing population trends, although the Legislature is given some leeway in this area. For purposes of establishing school limits, average daily attendance will be used instead of overall population statistics.

- The limitation shall not include funds for debt service, compliance with certain court orders and expenditures of a few special districts.

- The measure shall go into effect on the first day of the fiscal year following its adoption, presumably July 1st, 1980.

- If any portion of the initiative is thrown out by the courts, the remainder would continue in effect.

committee included West, Dugald Gillies of the California Association of Realtors, James P. Kennedy of the California Chamber of Commerce, and Richard Gann, son of the sponsor. Lewis Uhler, a former Reagan Administration executive and head of a national spending-limitation committee, also participated in some sessions. Paul Gann, who doesn't pretend to be a technician, played a relatively minor role.

The most difficult job for the committee was establishing a definition of "appropriation" so that the initiative could work in the real world. There was a move to substitute a revenue-limitation approach, but that was rejected.

Stubblebine insists that the most important element in the initiative is not that it will control the cost of government but that it establishes a new system under which the people themselves will decide how much they are going to pay in taxes. This is because the proposal does not forever fix limits in the constitution. It allows the people of the state or any local entity to increase the limit by a simple majority vote.

Fees versus taxes

West thinks a key provision in the initiative is one designed to end a local-government practice that came onto the scene following the passage of Proposition 13 — sharp increases in all fees. There are those who claim that some of these fees are really taxes that are used to pay for the cost of general government, over and above the amount necessary to provide the service for which the fee is collected. Under the Gann measure, any excess fees (above the amount necessary to pay for the service) would be counted as general revenue and thus subject to the limitation. The net effect of this provision should be to reduce or eliminate the use of fees for general government support.

There are all sorts of scenarios that can be written around the fee-versus-tax concept. West says the drafters were trying to get at what he calls the "Polson zoo" problem: "The city of Polson has a small zoo. Let's say they get a super attraction, like some panda bears. The revenues from the zoo then might be able to support the entire city." Would that be proper? On the other hand, would it be right to allow the zoo to have so much money in its special fund that it might be forced to build a Taj Mahal of zoological gardens? West says the same problem could arise out of income from marinas, cemeteries, electricity and a variety of other fee-for-service situations.

The initiative also attacks the delicate area of state-local relations. Under legislation enacted several years ago, the state is supposed to reimburse local government for the cost of any new programs or increased workload mandated upon cities, counties and special districts by the Legislature and the governor. The state has managed to step around this pledge on numerous occasions, despite the fact that the state Board of Control was given the authority to resolve disputes over this supposed guarantee. With this so-called SB 90 provision in the constitution via initiative, it will be possible for local governments to sue the state over the mandated cost issue and to win.

Two trouble spots

At this point, it appears that there is no stopping the initiative. It is being promoted by an organization called the "Spirit of 13" and headed by the senior Gann. Among the organizations supporting the measure are the National Federation of Independent Business, the Chamber of Commerce, the Realtors, Cal-Tax, the California Farm Bureau Association and the California Apartment Owners Association. But there are two potential trouble spots:

- *The Legislature* could enact its own spending-limit initiative or place one on the ballot. There would then be competing measures before the public. Dan Boatwright,

Jan 1979



chairman of the Assembly Ways and Means Committee, has come forward with a plan that some claim is a more stringent limitation proposal than the one contained in the Gann initiative. The Boatwright formula is based on California cost-of-living and population statistics — with a 10 percent lid.


• *Howard Jarvis*, lead sponsor of Proposition 13, has been bad-mouthing Gann's new initiative. Should he actually oppose the measure, voters by the droves might follow his lead — as they did in several contests on the November ballot.

The open warfare between Jarvis and Gann should not have been unexpected. Their Proposition 13 marriage was one strictly of convenience. Both of them had failed in prior attempts to cut taxes and decided that they might qualify a measure for the ballot by pooling their resources. But they never were friends. Gann is an efficient and quiet former real estate salesman. Jarvis is a bombastic talker and perennial candidate for office. A classic odd couple.

Jarvis unloaded on his former partner in a television interview. He declared that "Gann is trying to promote something to make money — for Gann." In response, Gann denied he was getting anything but expenses out of the "Spirit of 13" campaign and added: "Howard has a very difficult problem with the English language. It's hard for him to get above a two-letter word. He says 'I' and 'me' very well."

Taking a back seat

Within the Legislature this year, the concern about the spending-limit initiative — if indeed there is any concern — will take a back seat to the enormous problems of implementing the second year of Proposition 13. There are many questions to be resolved: How much surplus money does the state have available for local government? How much can the state budget be trimmed? Is Governor Brown's 10 percent cutback feasible for most departments? How will local government survive with reduced support from the state and no additional revenues from local taxes? How soon can local government be told what is available, and how it will be distributed? How much can the state afford to offer public employees in pay increases?

While the Legislature is concentrating on these questions, Paul Gann and company will quietly be rounding up signatures on some 600,000 petitions in circulation. Probably long before March 19th, Gann should announce that he is over the top. It will then be up to the state's politicians to decide whether to join or fight. The best guess is that the Gann measure will have little opposition, and the day will come when Ken Cory may have his vehicle to carry him to higher office. In this era, what better job is there than government-spending traffic cop? 



The classroom combination

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CWA #9000

GOVTAL AFFAIRS

PROPOSED INITIATIVE TO THE LEGISLATURE

JUL 14 1978

COORD. & POLICIES

Section 1 - Declares that it is the intent of this initiative to limit the growth rate of state government, assure adequate funding of essential services, protect funding of local government and provide for emergency situations.

Section 2 - Prescribes that state tax revenue growth cannot exceed the average growth rate of personal income over the three preceding calendar years.

Section 3 - Assures that estimated state tax revenue will not exceed the state tax revenue limit.

Section 4 - Provides that the legislature may by a two-thirds vote exceed the limit to meet an emergency.

Section 5 - Requires the state to (1) pay the costs of any program imposed on local government, (2) maintain the 1977-1979 proportion of support to local governments, and (3) provide for adjustment of the limit when costs of a program are transferred between the state and another political entity.

Section 6 - Requires that (1) payment of the principal and interest of the state indebtedness shall have priority over other appropriations, and (2) revenue collected in excess of the limit shall be included as revenue for the following year.

Section 7 - Definitions

Section 8 - Declares that if any provision of the act is held invalid the remainder of the act is not affected.

Section 9 - Establishes effective dates. The first fiscal year affected by the limit will be the fiscal year beginning July 1, 1980.

90001

~~UNCLASSIFIED INFORMATION NO PUBLIC DISSEMINATION~~

Filed with the Secretary of State

by

~~WASHINGTON TAX LIMITATION COMMITTEE~~

Ron Dunlap, Ellen Craswell, Co-chairmen

June 1, 1978

BE IT ENACTED BY THE PEOPLE OF THE STATE OF WASHINGTON:

NEW SECTION. Section 1. The people of the State of Washington hereby find and declare:

(1) The continuing increases in our state tax burden and the corresponding growth of state government is contrary to the interest of the people of the State of Washington.

(2) It is necessary to limit the rate of growth of state government while assuring adequate funding of essential services, including basic education as defined by the legislature.

(3) It is therefore the intent of this act to:

(a) establish a limit which will assure that the growth rate of state tax revenue does not exceed the growth rate of state personal income;

(b) assure that local governments are provided funds adequate to render those services deemed essential by their citizens;

(c) assure that the state shall not impose, on any taxing district, responsibility for new programs or increased levels of service under existing programs unless the costs thereof shall be paid for by the state;

(d) provide for adjustment of the limit when costs of a program are transferred between the state and another political entity;

(e) establish a procedure for exceeding this limit in emergency situations.

NEW SECTION. Sec. 2. The state tax revenue limit for any fiscal year shall be the previous fiscal year's state tax revenue limit multiplied by the average state personal income ratio for the three calendar years immediately preceding the beginning of the fiscal year for which the limit is being computed.

~~NEW SECTION. Sec. 4. (1) The state tax revenue limit for any fiscal year may be exceeded in order to meet an emergency as declared by the legislature; Provided, that the legislature, by two-thirds vote of each house, shall set forth the circumstances constituting the emergency and the amount of state tax revenue in excess of the applicable state tax revenue limit necessary to meet the emergency.~~

may at any time adjust such taxes, fees and charges for the second fiscal year of the biennium.

NEW SECTION. Sec. 4. (1) The state tax revenue limit for any fiscal year may be exceeded in order to meet an emergency as declared by the legislature; Provided, that the legislature, by two-thirds vote of each house, shall set forth the circumstances constituting the emergency and the amount of state tax revenue in excess of the applicable state tax revenue limit necessary to meet the emergency.

(2) Any amount of state tax revenue authorized pursuant to subsection (1) in excess of the state tax revenue limit shall be authorized only for the fiscal year in which the vote is taken and/or the next succeeding fiscal year, as directed by the legislature.

(3) Except where the emergency results from a court order, the amount of state tax revenue authorized pursuant to subsection (1) in excess of the limit shall not be used in the revenue base used to compute the state tax revenue limit for subsequent years.

NEW SECTION. Sec. 5. (1) The legislature shall not impose responsibility for new programs or increased levels of service under existing programs on any taxing district unless such districts are reimbursed for the costs thereof by the state.

(2) That proportion of state tax revenue which consists of direct state appropriations to taxing districts taken as a group shall not be decreased below that proportion appropriated in the biennium immediately preceding the effective date of this act; Provided, such proportion shall be decreased in any fiscal year only if: (i) the legislature decreases the state tax revenue limit for that fiscal year by an amount equal to the dollar amount of any decrease in direct state appropriations to taxing districts taken as a whole; or (ii) the state tax revenue limit has been increased pursuant to sections 4 (3) or 5 (3) of this act, and the decrease of such proportion shall be commensurate with the increase in the state tax revenue limit.

(3) If by order of any court, or legislative enactment the costs of a federal or taxing district program are transferred to or from the state, the otherwise applicable state tax revenue limit shall be increased or decreased, as the case may be, by the dollar amount of the costs of such program.

(4) The legislature, in consultation with the Office of Financial Management or its successor agency, shall determine the need for any new taxing programs imposed on any taxing district or transferred to or from the state.

NEW SECTION. Sec. 6. The principal and interest of the indebtedness of the state. State tax revenue collected in any fiscal year in excess of the state tax revenue limit for that fiscal year shall be included as part of the state tax revenue for the succeeding fiscal year.

NEW SECTION. Sec. 7. As used in this act, the following terms shall have the meanings indicated unless otherwise required:

(1) "State tax revenue" means all state money received in the treasury from each and every source whatsoever except those revenues excluded for the term "general state revenues" by Article VIII, Section (1) (c) of the state Constitution other than the state property tax levied for the support of the common schools pursuant to RCW 84.52.065, as now or hereafter amended.

(2) "State personal income" means the dollar amount published as total personal income of persons of the state for that calendar year by the United States Department of Commerce or its successor agency.

(3) "State tax revenue limit" or "limit" means the state tax revenue limit created by this act.

(4) "Taxing district" means those districts included within the term "taxing district" as set forth in RCW 84.04.120, as now or hereafter amended.

(5) "State personal income ratio" for any calendar year means the quotient formed by (a) state personal income for the calendar year under consideration, divided by (b) the state personal income for the immediately preceding calendar year.

NEW SECTION. Sec. 8. If any provision of this act, or its application to any person or circumstance is held invalid, the remainder of the act, or the application of the provision to other persons or circumstances is not affected.

NEW SECTION. Sec. 9. This act shall take effect on January 1, 1980; Provided, that the first fiscal year for which the state tax revenue limit shall be in effect is the fiscal year beginning on July 1, 1980; and provided further, that for purposes of computing the state tax revenue limit for such first fiscal year in accordance with section 2 of this act, the phrase "...the previous fiscal year's state tax revenue limit..." set forth in section 2 of this act shall mean the state tax revenue collected in the fiscal year beginning July 1, 1978 multiplied by the average state personal income ratio for the calendar years 1976, 1977 and 1978.

COMPARISON OF ACTUAL REVENUE COLLECTIONS
AND THOSE PERMITTED UNDER A LIMITATION
(AMOUNTS IN THOUSANDS)

Fiscal Year	General State Revenues (a)	Estimated School Property Tax Collections (b)	Total	Increase		Limited Revenues (c)	Increase	
				Amount	Percent		Amount	Percent
1969-70	\$ 765,209.6	\$109,534.2	\$ 872,734.8			\$ 872,734.8		
1970-71	885,972.3	118,652.6	1,004,624.9	\$131,890.1	15.1%	954,597.3	\$31,662.5	9.4%
1971-72	871,731.0	128,374.9	1,000,605.9	- 4,019.0	- 0.4	1,029,724.1	75,126.8	7.9
1972-73	1,021,563.4	137,192.6	1,158,756.0	158,150.1	15.8	1,090,560.8	60,666.7	5.9
1973-74	1,094,334.2	148,915.7	1,243,219.9	84,463.9	7.3	1,156,015.6	65,434.8	6.0
1974-75	1,227,533.6	164,293.3	1,391,826.9	148,607.0	12.0	1,255,895.3	99,579.7	8.5
1975-76	1,379,026.0	182,366.1	1,561,412.1	169,585.2	12.2	1,398,062.6	142,167.3	11.3
1976-77	1,600,461.9	201,955.6	1,802,437.5	241,025.4	15.4	1,577,653.4	179,790.8	12.9
Total.....			\$10,035,819.0			\$9,335,463.9		
Seven year increase				\$929,702.7			\$705,112.6	
Potential savings if limit had been in effect since 1969-70							\$224,594.1	
Accumulative effect (1969-70 through 1976-77)							\$700,154.1	

(a) Reported by the Office of the State Treasurer.

(b) Includes regular levy collected locally between 1969 and 1974; it is assumed the spring-fall collection ratio is 55 - 45 percent. Basic estimates computed by Dr. Edwin G. Olson, Consultant to the Department of Revenue.

(c) Collections permitted under limitation assuming it had been in effect since 1969-70.

Knechtik

GOVTAL AFFAIRS

JUL 14 1978

COORD. & POLICIES

1 AN ACT Relating to state government; adding a new chapter to Title 39 CR77B
2 RCW; and providing an effective date. F

3 BE IT ENACTED BY THE PEOPLE OF THE STATE OF WASHINGTON: I

4 NEW SECTION. Section 1. The people of the state of -130:
5 Washington declare it to be in the best interests of the state and of 1
6 its citizens to effect financial integrity and fiscal responsibility, PARTA
7 through orderly limitations on state taxing and spending powers, by :2
8 requiring that all budgets of every unit of state government be 11
9 balanced for the ordinary fiscal period of the state. 12

10 NEW SECTION. Sec. 2. (1) The maximum rate of growth of 13
11 state tax revenues to be allowed to the legislature to fund its 1979- 14
12 1981 and all future budgets shall not exceed the estimated rate of 15
13 growth of state personal income from July 1, 1978, measured 16
14 cumulatively from both rates' baselines established in section 3 of 16
15 this act, up to and including the last day of the upcoming biennium. 17

16 (2) The department of revenue shall establish this estimated 19
17 rate of growth (and the maximum dollar amount resultant), on the 19
18 basis of moderate revenue and economic assumptions, by January 31 of 20
19 each odd-numbered year: PROVIDED, That the legislature may, during 21
20 its regular session, establish a different estimated rate of growth 21
21 (and maximum dollar amount resultant) for the upcoming biennium, also .22
22 using moderate revenue and economic assumptions, by an act containing 23
23 no other subject matter and setting forth the basis of the 24
24 legislature's determination (which determination shall not differ 25
25 from that used by the legislature to establish its upcoming biennial 26
26 operating budget): PROVIDED FURTHER, That the legislature may, by 27
27 April 30 of any even-numbered year in which the legislature has 28
28 convened by April 1, pursuant to the same requirements, establish a 28
29 different rate of growth (and maximum dollar amount resultant) for 29
30 the second fiscal year of the then current biennium (which 30

1 determination shall not differ from that used by the legislature to 31
2 establish a supplemental budget or to make reductions in its then 31
3 current biennial budget). 32

4 NEW SECTION. Sec. 3. (1) The annual state tax revenues 33
5 collected by the state during the 1973-1975 and 1975-1977 biennia and 34
6 the first year of the 1977-1979 biennium, adjusted for inflation to 35
7 June 30, 1978, using the United States' consumer price index and 36
8 averaged by the department of revenue, shall establish a dollar 36
9 amount which shall constitute the tax baseline from which the maximum 37
10 rate of growth of state tax revenues allowed under this chapter shall 38
11 be calculated. 39

12 (2) The actual level of state personal income for the twelve 40
13 months ending June 30, 1978, as determined by the department of 40
14 revenue, shall establish a dollar amount which shall constitute the 41
15 personal-income baseline from which the estimated rate of growth of 42
16 state personal income shall be calculated under this chapter. 43

17 NEW SECTION. Sec. 4. (1) The legislature may exceed the 44
18 limit established in section 2 of this act for a period of not more 45
19 than two years, by a two-thirds vote of both houses, by an act 46
20 containing no other subject matter and setting forth the dollar 47
21 amount and the percentage rate by which the state tax revenue growth 47
22 limit may be exceeded. 48

23 (2) The legislature may not exceed the limit established in 49
24 section 2 of this act for a period of more than two years, either 49
25 directly or indirectly, unless, in addition to the requirements of 50
26 subsection (1) of this section, the legislature submits the act to 51
27 the voters of the state, for their approval or disapproval, at a 52
28 special or general election, and the voters approve the act by a 53
29 majority of the votes cast thereon. 53

30 NEW SECTION. Sec. 5. If the state tax revenues are collected 54
31 in excess of the maximum authorized in this chapter, then the excess 55
32 revenues shall be appropriated solely to fund the unfunded liability 56
33 of those pension systems supported by the state which accumulated 57
34 before the effective date of this act: PROVIDED, That the state may 58
35 maintain a reserve fund within the general fund which shall not, as 59
36 of the day after the last day of the state's ordinary biennial fiscal 60

1 period, be greater than two percent of the state's total budget for 60
2 the preceding ordinary fiscal period: PROVIDED FURTHER, That the 61
3 state treasurer shall promptly place into the state tax revenue 62
4 account, which is hereby established within the general fund, all 63
5 moneys in excess of the reserve-fund limit imposed in this section to 63
6 be held until appropriated in accordance with this section by the 64
7 legislature. 65

8 NEW SECTION. Sec. 6. The state shall not impose on local 66
9 units of government responsibility for new programs, or increased 67
10 levels of service under existing programs, either directly or 68
11 indirectly, unless the costs thereof are paid by the state. 69

12 REV. SECTION. Sec. 7. If the responsibility for funding one 70
13 or more programs, in part or whole, is transferred from a political 71
14 subdivision of the state to the state, either by court order or by 72
15 legislative enactment, including but not limited to full funding of 73
16 basic education, the department of revenue shall promptly provide for 73
17 commensurate adjustments in the limit imposed in this chapter. 74

18 REV. SECTION. Sec. 8. Nothing in this chapter requires the 75
19 state to collect, during any fiscal year or biennial period, the full 76
20 amount of state tax revenues permitted under section 2 of this act 77
21 unless the collection is necessary to attain a balanced state budget 77
22 for the ordinary fiscal period of the state. 78

23 REV. SECTION. Sec. 9. Before any other appropriation, the 80
24 legislature shall provide for the payment of the principal and 81
25 interest of the indebtedness of the state. 82

26 REV. SECTION. Sec. 10. As used in this chapter, "state tax 83
27 revenues" has the meaning ascribed to "general state revenues" under 84
28 Article VIII, section 1(c) of the state Constitution. 85

29 REV. SECTION. Sec. 11. At the general election to be held in 86
30 November, 1990, the voters of the state shall be offered on the 87
31 ballot the opportunity to continue, or to repeal, this chapter and 88
32 any subsequent amendments. 89

33 REV. SECTION. Sec. 12. The people of the state of Washington 90
34 find that sections 1 through 12 of this act constitute a single 91
35 integrated plan for maintaining balanced state budgets through 92
36 orderly limitations on state taxing and spending powers, and, in the 93

1 event that any provision of sections 1 through 12 of this act, or its 93
2 application to any person or circumstance, is held invalid by the 94
3 final operation of law or by the supreme court of the state of 95
4 Washington, then the entire remainder of this act shall be null and 96
5 void simultaneous with the establishment of such invalidity. 97

6 NEW SECTION. Sec. 13. Sections 1 through 12 of this act 98
7 shall constitute a new chapter in Title 39 RCW. 99

8 NEW SECTION. Sec. 14. Sections 1 through 12 of this act 100
9 shall take effect January 1, 1979. 101

STATE OF ALASKA
THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

March 8, 1979

SUBJECT: Graphic Presentation of Proposed Tax-Limiting Amendment
to Constitution (W.O. # 6642)

TO: The Honorable Ray Metcalfe

FROM: Alexander Hoke, Policy Analyst

O. Alexander Hoke

Enclosed are graphs depicting the impact and flexibility of the tax limiting formula proposed in the constitutional amendment provided for in your House Joint Resolution. As you requested, the enclosed graphs present a comparison of forecasts of tax revenue under present law to the limited tax revenue projections determined by the influence of provisions in your joint resolution. Moreover, these graphs show hypothetical cases in which the self-perpetuating limitation is intentionally altered to meet the desires of voters in the state or its political subdivisions according to procedures provided for in your resolution.

Graphs 1, 2 and 3 show hypothetical examples of how the tax revenue ceiling may be increased or decreased in accordance with the provisions of the proposed constitutional amendment. In each graph, the blue curve is a projection of total state tax revenue based on data published by the Institute of Social and Economic Research within the University of Alaska in the January 1976 Review of Business and Economic Conditions. The green curves in the three graphs show how the proposed tax-limiting formula affects projected tax revenue on the basis of forecast changes in population and the consumer price index (this data is also published in the ISER article). The proposed constitutional amendment operates in three phases as marked on the graphs. Phase 1 continues for one year beyond the effective date for the proposed constitutional amendment, Phase 2 covers the next six successive years, and Phase 3 extends indefinitely beyond the end of Phase 2.

According to the amendment, computations of the tax ceiling start from the previous year's tax ceiling except in the case of Phase 1 where the 1978 value of total tax revenue is the base from which calculations are made. For each fiscal year, the tax revenue ceiling is equal to the previous year's ceiling adjusted by a combined multiplier. The combined multiplier is a product of the population multiplier and the relative price index (RPI) multiplier. Both the population multiplier and RPI multiplier can be computed by taking the percentage change from the

previous year to the present year for each parameter, and adding that value to 1.0.

Graph 4 shows that the product of the population multiplier and the RPI multiplier (which equals the combined multiplier) is forecast to run slightly above 1.0 through 1990 - this projection is represented by the green curve on Graph 4. The red curve on Graph 4 shows the cumulative effect of the combined multiplier over this period of time.

Graph 5 is a relative comparison of the forecast increases in population and the relative price index compared to the projection for total tax revenue. Although the population projection (in blue) and the relative price index projection (in green) are relatively flat curves, the percentage change from one year to the next is more emphatically demonstrated in Graph 5 where the value for a given year along the population curve (in green) or the relative price index curve (in red) indicates the percentage change over the previous year's value.

Returning to Graphs 1, 2, and 3, one can see that, beginning with a 1979 effective date, the proposed constitutional amendment would result in tax ceilings represented by the green curve. The 1980 ceiling is equivalent to the 1978 ceiling multiplied by the cumulative multiplier computed between 1978 and 1980. Tax ceilings within Phase 2 are equal to the previous fiscal year's tax ceiling multiplied by the population multiplier and the RPI multiplier (computed in the following way: one-half the percentage change from the previous fiscal year value for RPI to the present fiscal year value for RPI is added to 1.0). In Phase 3, tax ceilings for a given fiscal year are computed as the product of the previous year's tax ceiling times the population/RPI combined multiplier calculated from the previous year to the present year.

Paragraphs (e), (f), and (g) under sec. 16 of the proposed constitutional amendment provide that, by means of the referendum or the initiative, voters of the state or a political subdivision can elect to alter the base upon which the current fiscal year's tax ceiling is computed. The red curves on Graphs 1, 2, and 3 represent such changes in the tax ceiling, and show the effect of these changes relative to the unaltered limited tax projection (in green).

Ambiguities in the Amendment Language

The above analysis and the enclosed graphs represent our interpretation of the intent of the proposed constitutional amendment. Some language within the resolution is subject to quite different interpretations than those described in our analysis. Listed below are brief explanations of these ambiguities:

1. Sec. 16, paragraph (b) states that the tax revenue ceiling for the fiscal year following the effective date of this section

shall be equal to the amount collected for fiscal 1978 "plus a change to reflect both" percentage changes in population and the cost of living index. The key concern here is the word "reflect". Although we have interpreted this language in the manner described earlier in this memorandum, it should be noted that almost any mathematical function of population and cost of living would, in some manner, "reflect" a change in these two parameters.

2. Sec. 16, paragraph (c)(2) of the proposed amendment contains the language "between the two fiscal years". It is unclear precisely which two fiscal years are intended for the computation since paragraph (c) speaks of the "next six fiscal years", of which only two are of concern in a single tax ceiling calculation.

3. Sec. 16, paragraph (d)(2), referring to the cost of living index, uses the language: "as that index is defined by law". Of course the cost of living index is not presently defined by law and would therefore require further legislation.

4. Sec. 16, paragraph (e) of the proposed amendment states that "the proposition submitted to the voters shall specify the estimated per capita costs of the proposed increase or decrease". It is unclear as to exactly what per capita costs would be incurred in a voter approved alteration of the tax ceiling. Moreover, it would seem that a lowering of the tax ceiling would result in a per capita savings rather than a per capita cost.

5. Sec. 16, paragraph (h) prescribes the manner in which the state or a political subdivision shall deal with revenue collected in excess of the computed tax ceiling. When the excess revenue exceeds the ceiling by six percent or less, this paragraph requires that "the tax collection limitations established in this section for the next fiscal year shall be decreased by the amount of the excess collections". A decrease in the tax collection limitation can be interpreted literally to mean that the tax ceiling would be raised, which we assume is the opposite of the intent of this language. Furthermore, if the tax ceiling is lowered for the next fiscal year to account for excess tax collections for the present year, subsequent tax ceiling computations under paragraphs (c) and (d) of this section would be based on this lowered ceiling for subsequent fiscal years. In other words, for every fiscal year in which tax collections exceed the computed tax ceiling by six percent or less, the tax ceiling in the following year would be lowered by the amount in excess. This lowered tax ceiling would be perpetuated indefinitely through the application of provisions in paragraphs (c) and (d).

We trust that our interpretation of the intent of this proposed constitutional amendment is accurate. Please call on us if you wish to discuss in further detail the noted ambiguities.

Tap Prop File

STATE OF ALASKA
THE LEGISLATURE

POUCH V - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

March 20, 1979

SUBJECT: Constitutional amendment limiting tax collection
(Work Order No. 6642)

TO: Representative Ray McCalfe

FROM: John B. Chenoweth, Legislative Counsel

I have had an opportunity to review briefly Alexander Hoke's comments under "ambiguities in language" commencing at the bottom of page 2 of his March 8 memorandum to you, in response to which I would suggest:

(1) The population/cost-of-living index multiplier appears to have been applied in manner consistent with what I understand to have been your intent. We can, of course, be quite specific as to how that multiplier is to be computed and applied, but specificity, as you know, secures certainty of application at the expense of public comprehension. You have previously given fairly explicit instructions on this point;

(2) The reference to "between the two fiscal years" describes the change between succeeding fiscal years which is, in turn, the measure of the time frame in which the allowable alteration of tax levy is to be computed. The reference to "six fiscal years" denotes the number of years in which only one-half of the cost-of-living index may be considered in computation of the applicable multiplier. There should be no other relationship between these factors, and I see little reason to be confused on the point;

(3) Because the manner of computing a cost-of-living index and applying it may vary across a period of years (different components being made a part of the formula), the legislature should have authority to define and maintain an applicable indicator;

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2004 HSA TAX PROPOSITION

2004

Representative Ray Metcalfe
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(4) As there may be a savings in the event of a decrease in the proposed allowable rate of levy, the phrase ought, more properly, to read "estimated per capita costs or savings" or "estimated per capita effect";

(5) The objection here is based on the notion that we are dealing with tax collection limitations and that a tax collection limitation "decrease" in fact authorizes an increase in actual collection. To correct the possibility of misinterpretation, may I suggest that, at page 3, line 17, "decreased" be replaced by "adjusted to decrease allowable tax revenues." In any event, the adoption of the mechanism for implementing the section is left to the legislature.

JBC:nem



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November 14, 1978

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RESULTS ON TAX AND SPENDING LIMITS

SUMMARY

Voters in eleven states passed significant tax reform or limit measures. In two states, Idaho and Nevada, voters passed Proposition 13-type limits on property taxes. Alabama voters okayed a property tax classification scheme, as did Massachusetts voters. (Both proposals came about as a response to court rulings.) In Hawaii and Texas, limits linking state spending to state economic growth passed with wide margins. Arizona voters approved a spending lid of seven percent of aggregate personal income. Michigan voters narrowly approved only one of three tax reduction measures, the so-called Headlee amendment, which limits state revenue (as opposed to spending).

In related tax reform measures, voters in three states said "yes". Missouri voters authorized property tax rate rollbacks; North Dakota individual income taxes have been reduced and South Dakota law will now require a 2/3 vote of the legislature to increase existing taxes. And voters in Illinois advised their representatives that they favored tax and spending lids.

The tax revolt did suffer some setbacks, however. Oregon voters rejected two measures; 52% of the voters said "no" to Oregon's Proposition 13, and 57% voted against Proposition 11, a state spending lid and property tax reduction measure. Colorado voters turned down a constitutional limit which would have linked spending to population and the Consumer Price Index. In Nebraska, a five percent constitutional lid on local spending was approved. (It should be noted that Colorado and Nebraska already have statutory limits in place and the Oregon constitution already limits local spending)

State-by-State Results

Alabama—A referendum to increase the number of property tax classifications and to limit the property tax within those classifications, in response to court-ordered reappraisal. APPROVED 55-45

Arizona—Referendum (constitutional) which limits state spending to seven percent of aggregate personal income. APPROVED MORE THAN 3-1

Arkansas--Initiative to eliminate three percent sales tax on food, drugs.
DEFERRED 60-40

Colorado--Initiative to limit state and local per capita government spending to increases in population and the consumer price index.
DEFEATED 59-41

Hawaii--Constitutional amendment limiting state spending to economic growth.
APPROVED 2-1

Idaho--Initiative (statutory) limits property tax to 1 percent "actual market value" and requires two-thirds legislative vote to change taxes.
APPROVED 58.4% to 41.6%

Illinois--Advisory, non-binding question asking whether there should be spending limits on state and local government. Sponsored by Governor Thompson. APPROVED more than 4-1.

Massachusetts--Constitutional amendment to establish property tax classification scheme with separate assessment rates for varying categories of property. This was in response to a 1974 court ruling ordering all property to be assessed at the market value, contrary to established practices of taxing residential property at a lower rate than commercial property. APPROVED 2-1

An advisory, non-binding question in most state senatorial districts calling for tax and spending limits on local government. Jon Posner reports that it passed, but AP in Boston did not cover it and Daniel O'Sullivan's office reports that results may take as long as a week to compile.

Michigan--Headlee amendment to limit state tax revenues to personal income.
APPROVED 51.5% to 48.5%. Tisch amendment, to cut property taxes.
DEFEATED 60-40.

Voucher amendment to phase out property tax in financing schools and replace with state voucher for either private or public schools.
DEFEATED 70-30.

Missouri--Referendum to amend constitution allowing legislature to roll back mill levies in event of state-wide reappraisal. APPROVAL 2-1

Nebraska--Initiative to limit local government spending increases to 5 percent.
DEFEATED 54-44 percent.

Nevada--Initiative to limit property taxes to one percent of "full cash value," must be approved again by voters in 1980 before going into effect.
APPROVED 3-1.

North Dakota--Initiative to reduce personal income taxes by reported 37 percent, increase the number of personal tax brackets, and increase the corporate income tax. APPROVED 2-1

Oregon--Initiative to limit property taxes to 1.5 percent of 1975 "fair market value." DEFEATED 52-48 percent.

Legislative referendum calling for limit on state spending and state aid for local property tax reductions. DEFEATED 57-43.

South Carolina--Referendum to constitutionally establish a five percent state reserve fund. Early results indicated that it would be DEFEATED.

South Dakota--Referendum requiring two-thirds vote by legislature or by public to raise taxes; imposition of new taxes requires simple majority. APPROVED 52-48 percent.

Texas--Referendum, omnibus tax package, linking state spending to growth in the economy, truth-in-taxation provision, and various property tax reduction provisions. APPROVED 85-15 percent.

West Virginia--An amendment to exclude business inventories from the property tax. DEFEATED 3-1.

The Message of Proposition 13

Seymour Martin Lipset and Earl Raab

THE Jarvis-Gann Constitutional Amendment, limiting property taxes in California, has touched off speculation about a conservative backlash and the ascendance of a New Right in America. But analysis suggests that the trend exemplified by the "taxpayers' revolt" confounds the traditional political designations.

In 1946, according to Gallup, Americans who wanted taxes cut outnumbered those who did not by only four percentage points (48-44). By 1963, the gap was 44 percentage points (63-19). In 1969, 54 per cent of Americans told the Harris survey that they had "reached the breaking point" with respect to the amount of taxes they paid; that figure was up to 66 per cent by 1978.

Those who are unhappy use a simple consumer's measure: in so many words, only 23 per cent of the people queried by the Harris poll in 1971 thought they were getting their "money's worth from tax dollars." In this sentiment no more than two or three percentage points separated whites from blacks, Democrats from Republicans, or one income group from another. All felt put upon. In that same year, about 7 out of 10 told Harris that the time was coming when they "would sympathize with a taxpayers' revolt," involving a refusal to pay taxes—again with little difference in view related to whether they were white or black, and whether their income was around \$5,000 or over \$15,000.

The pressure has increased along with inflation. About one out of three Americans ranked inflation as their chief worry in 1977; in 1978, two out of three Americans did so. The "money's worth" was diminishing rapidly. In response, public officials uniformly promised tax reduction, but they did not deliver. Then the California property tax

provided the dramatic breakthrough. California real-estate inflation had been brutal, often triple-digit over a few years' span. It was common for people who had bought a modest home for \$20,000 to find themselves paying taxes ten years later on a home assessed at \$90,000. No one was surprised to learn that the home of a Los Angeles man had been reappraised to \$60,000 in 1977, and reappraised again in 1978 to \$104,000, with a jump in taxes from a little over \$2,000 to a little over \$3,500. It became a hardship for many people to live in their own homes, and obviously there was no point in selling for the profit to buy other inflated houses at proportionally higher interest rates.

While these and other taxes were rising so much faster than income, the number of state and city employees was also increasing faster than the population. In the period 1970-75, the number of state and local employees rose by 21 per cent, while the state's population grew by only 6 per cent.

But the tipping point in the California situation was a sizable tax-generated surplus that public officials in Sacramento continued to sit on despite the growing tax lament from the public. Inflation pushes many taxpayers into higher brackets in all graduated-income-tax systems as their dollar earnings (although not their real earnings) go up. Under the Reagan administration, the California income tax had been made even more progressive than before, producing a visible and well-publicized \$5.7 billion surplus by 1978. This was available for distribution, or to serve as the basis of a tax cut. But instead of proposing such remedies, Reagan's successor, Governor Jerry Brown, apparently preferred to hoard the surplus in order, according to some, to use it to advantage in his reelection year. As State Treasurer Jesse Unruh has pointed out, this enormous surplus constituted a standing public invitation to Proposition 13, the Jarvis-Gann Amendment. For this reason, Unruh has called Brown "the father of Proposition 13," although the Governor opposed the measure—with somewhat waning vigor as the polls showed increasing support for it. The polls were accurate: Proposition 13—which rolled back property taxes to 1 per cent of market value as of 1975, prohibited local tax

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from rising more than 2 per cent a year, and put other checks on tax-raising—passed by nearly a two-to-one margin.

But while the surplus may have been idiosyncratic to California, it was, even for Californians, only the final straw. They were obviously using the occasion to express themselves on the matter of tax burdens in general. And indeed, this is how their vote was taken, by politicians in California and everywhere else, as well as by the American public. After the California vote, a New York *Times*/CBS *News* poll found that the whole country was jubilant. Again by a two-to-one margin (51-24), Americans said that they supported a similar measure for their own jurisdictions.

But if California's Proposition 13 was the messenger, what really was the message? To what extent do the taxpayers just want to keep their money, as against seeking their money's worth? What services are they willing to give up? What do they expect from government?

One stream of opinion on the subject was articulated by Senator George McGovern when he said that Californians had acted on a "degrading hedonism that tells them to ask what they can take from the needy." He also saw "undertones of racism" in Proposition 13. According to others who share this view, Proposition 13 is an expression of "mean-spiritedness" and the harbinger of the conservative and/or racist backlash which has allegedly been around the corner for the past dozen years.

There is no doubt that self-interest (which, however, is not necessarily the same thing as mean-spiritedness) was a factor in the Proposition 13 vote. A Los Angeles *Times*/CBS *News* election-day poll of those who voted revealed that 72 per cent of homeowners (who stood to gain) had opted for the measure as against 47 per cent of the renters (who had nothing to gain), while only 44 per cent of those with public employees in their family said they had backed the measure, as compared to 65 per cent of the total population.

What is noteworthy, however, is how many voters with an apparent interest in the defeat of Proposition 13 nevertheless went for it: 44 per cent of families of public employees, 47 per cent of renters, and 42 per cent of blacks. In these categories, the majority who voted opposed Proposition 13; but in every economic category, it was the other way around. Thus the measure was supported by 57 per cent of those with incomes under \$8,000; 66 per cent of those in the \$8-15,000 bracket; 67 per cent of those in the \$15-25,000 class; and 61 per cent of those with incomes above \$25,000.

A similarly mixed picture appears when we look at the vote in terms of ideological categories. As might have been expected, 82 per cent of self-designated "conservatives" voted for the measure.

Yet here too what is noteworthy is the large number of self-described "moderates" (63 per cent) and "liberals" (45 per cent) who voted for it.

Clearly, then, the victory of Proposition 13 represents something more complex than a triumph of selfishness and/or old-line conservatism. In trying to understand what that something is, we might begin by noting that the evidence from a variety of opinion surveys reveals that a growing number of Americans, when asked to describe themselves politically, say that they are conservatives. In 1964, according to the New York *Times*/CBS poll, the ratio of self-described conservatives to self-described liberals was fairly even (39-27); today, the gap has widened considerably (42-23).

But what do people mean when they call themselves conservatives? Evidently it has to do with distaste for a growing, interfering, and cumbersome government. Thus in 1964, according to the Gallup poll, Americans were almost evenly split (42-39) on the issue of whether "the government has gone too far in regulating business and interfering with the free-enterprise system." By 1978, when the New York *Times*/CBS poll repeated the question, Americans had come to agree with the statement by a margin of 58-31 per cent. Not surprisingly, self-described conservatives now endorse this statement overwhelmingly (67-26); what is surprising is the fact that even "liberals" divide in favor of it by 45-35 per cent.

The percentage of people who think that "government is spending too much" has also risen steadily since 1973. But "too much" is a famous term of relativity. It may be considered too much with respect to the income of the citizenry; but it may also be considered too much with respect to the quality of the product. This is the "money's-worth" question. And the overwhelming tide of opinion, especially "conservative" opinion, identifies this government deficiency as "waste." In 1958, only 42 per cent of those polled told Gallup interviewers that "the government wastes a lot of the tax money"; by 1978, 78 per cent of Americans thought so (New York *Times*/CBS *News*). A vast majority of blacks also agrees with this view.

"Waste in government" was the key phrase in the Proposition 13 campaign. Mervin Field of the California poll reports that the main comment made by proponents of Proposition 13, other than "Taxes are too high," was "The time has come to cut government costs, waste, and inefficiency." Field noted that prior to election day, the California public believed that a cut of 10 per cent in tax revenues could be accomplished without any decline in state and local government services. And three-quarters of Californians in favor of the Proposition, in the Los Angeles *Times*/CBS *News* election-day poll, said that they did not think public services would be reduced by Proposition 13. After the California vote, a vast majority of Americans nationally (89-5 per cent) interpreted

it as "a strong protest that people running government will have to respond by trimming a lot of waste from government spending" (Harris/ABC).

DOES there begin to appear an anomaly in the position of those who supported Proposition 13? After all, it was reliably estimated that \$7 billion in revenue would be lost to the state as a result of the measure. Surely two out of three Californians did not believe that paper clips and bureaucratic perquisites could account for that much fat. And indeed, three weeks after the election, a majority of the supporters of Proposition 13 told Los Angeles *Times* interviewers that they still favored the amendment, even though they now recognized that there would have to be some cuts in services. Was, then, the cry against "waste in government" merely a cover-up for "hedonistic" and "mean-spirited" impulses to cut services for the needy? The evidence indicates that the answer to this question is no, and that the cry against government is genuine.

In all surveys, the percentage of people who say that they trust or have confidence in the government has dropped steadily. In one recurrent poll (the University of Michigan's Survey Research Center) the percentage trusting the government dropped from 78 in 1964 to 33 in 1976. More and more Americans think that the people running the government "don't know what they're doing."

But more significant in refuting the interpretation of Proposition 13 as pure "hedonism" is the fact that the desire for government to intervene in beneficent ways has not diminished. The New York *Times*/CBS poll reports that in 1960 63 per cent of Americans agreed that "the government in Washington ought to see to it that everybody who wants to work has a job." This year, 74 per cent of the people in general—and 70 per cent of those who describe themselves as "conservative"—approved that mandate for government. In 1960, about 64 per cent of the people endorsed the proposal that "the government ought to help people to get doctors and hospital care at low cost." This year, 81 per cent of those interviewed by the New York *Times*/CBS poll agreed. In the fall of 1976, the University of Michigan's Survey Research Center asked a national sample whether they thought "government should spend less even if it means cutting back on health and education." Only 21 per cent favored spending less under such circumstances while 70 per cent opposed the cut. In the same year, 67 per cent of those polled by Gallup thought that government help for the elderly should be increased, while only 3 per cent said it should be reduced; 51 per cent thought that there should be more government support for health care and only 13 per cent said there should be less; 44 per cent felt there should be more government intervention on behalf of the unemployed, as compared to 19 per

cent who believed there should be less. There was no significant difference between the attitudes of professional and business people and manual laborers, or among the various income classifications.

This common support of beneficent government intervention, substantiated by survey after survey, cannot be written off by saying that people are only interested in maintaining social programs of direct benefit to them. No doubt a certain amount of "there-but-for-the-grace-of-God-go-I" sentiment has always sustained liberal social programs; but the figures do not confirm the charge that it is narrow self-interest which motivates the well-to-do and the ideologically conservative to favor government help for the aged and the needy. Rather, Americans seem to have developed an irreversible commitment to basic government welfare programs, as they did, finally, to social security. It is now as natural to them as getting up in the morning.

THERE seems to be one nagging exception to this generalization which itself throws light on the attitudinal sets in the country. The word "welfare" constantly draws antipathy from the American public. When asked by the Los Angeles *Times*/CBS poll which services they would least like to see reduced, if services had to be reduced, 75 per cent of Californians who voted on June 6 named police protection, while only 11 per cent said welfare programs. (Actually, if this was an index of "mean-spiritedness," it did not differentiate sharply between those who had supported Proposition 13 and those who had opposed it: about 9 per cent of the former and 14 per cent of the latter listed welfare as the leading candidate for a cut.) The California (Field) poll also found 62 per cent choosing "welfare and public-assistance programs" as the prime target for a cutback, as compared to the 6-8 per cent who favored cuts in fire and police departments.

This attitude toward "welfare" is by no means new. In 1935, in one of the first surveys Gallup ever took, 60 per cent of the respondents said that the government was expending too much money for "relief" (the contemporary term for what later came to be called welfare) while only 9 per cent replied that the government was spending too little. The majority of Americans continued to show disdain for "relief" all during the Depression. But the same polls which produced these results revealed a considerable majority in favor of the government's providing jobs for the unemployed, and for requiring those on relief to accept such jobs.

This general response pattern has remained substantially unchanged over the years. In a 1970 Harris poll, Americans approved (46-34) the proposition that welfare should be abolished, and that welfare recipients be made to go to work. But the same respondents overwhelmingly supported (56-

23) the idea that government programs should be increased to help the poor. Again, in a 1976 survey, Harris found that 62 per cent favored (and only 23 per cent opposed) "a major cutback in federal spending." However, confronted with a list of specifics, substantial majorities of the same respondents *rejected* cutbacks in spending for education, health, help for the unemployed, equal opportunity for minorities, environmental protection, and product safety. It was only on welfare that a majority (56-35) favored a cutback.

The juxtaposition of these two answers—cut welfare, increase help for the poor—poses a puzzle which turns up again and again. Thus in 1977, the white population was evenly split (39-39) on whether welfare programs should be greatly decreased, but three-quarters of them said that the government should spend money to provide job incentives for the poor (Roper). In 1977, the American public approved by 80-13 per cent the idea that all able-bodied people should be removed from the welfare rolls, but also stated by a similar majority that the government should provide public-service jobs, with tax money, for those who could not find jobs in private industry. And by about the same margin (78-15), the American public agreed that its tax money should continue to be expended on the aged, blind, disabled, and one-parent families with children under the age of seven (Roper). There was no significant difference in the answers to these questions by self-styled conservatives and self-styled liberals.

The numbers may be subject to various degrees of distortion, but the answer to the puzzle is clear. Americans—especially that growing contingent of self-identified "conservative" Americans—are willing to pay taxes to assist the needy, but they are not satisfied with the way that portion of their tax money is being spent.

There are three strikes against "welfare." It still durably connotes "relief," "dole," something for nothing, economic waste. It is connected to the sometimes exaggerated, sometimes prejudiced sense of how many able-bodied people are on the rolls, or how many prefer not to work. As a program it seems to epitomize bureaucratic government at the worst: inefficient, ornately overlaid, corrupt, unfathomable, feckless.

But helping the poor by providing jobs is another matter entirely. Thus in 1972 Gallup asked: Suppose it would cost the government less money to give poor people cash payments than to have government train them, find jobs for them, and, if necessary, provide care for their children while they work? About 81 per cent responded that they would prefer the more costly program; only 9 per cent said they would favor the less expensive one.

The message, then, is: help the poor but get rid of "welfare." That "liberal" message is consistent with the nature of our new self-styled "conservative."

THIS hybrid political animal has, of course, been spotted before. In 1967, for example, Hadley Cantril and Lloyd Free found that many Americans were "ideological conservatives"—that is, anti-statist in their political beliefs—and "operational liberals;" in the sense that they supported government action to create jobs. The number of such people is growing. More precisely, ideological conservatism has been growing as a partner to a continually dominant operational liberalism. This orientation is often described as neoconservatism, but it might just as accurately be called neoliberalism. The former designation emphasizes the belief that expansion of government services at the current welfare-state level should, in lawyer's language, be suspect—subject to proof that a real problem cannot be dealt with in another fashion. The latter term emphasizes the continuing acceptance of collective responsibility to provide for the impoverished and the disadvantaged.

But if this hybrid phenomenon is the most dynamic force in the American political culture today, it also poses a dilemma—perhaps the new American dilemma, which, like Gunnar Myrdal's old one, also encompasses a contradiction between practice and ideology, this time in the arena of government intervention. Is it finally possible to hold down the monster state while dealing with the sheer bulk of services of every kind our society seems increasingly to need?

The "tax revolt" is perched at the edge of this huge question, whose answer will probably evolve rather than be calculated. But the tax revolt raises a more practical and immediate question as well: will the politicians quickly enough recognize and accommodate to the growing neoliberal (or, if one prefers, neoconservative) mood, or will they misread it, one way or another, according to their predilections?

If characterizing the tax revolt epitomized by Proposition 13 as "mean-spiritedness," or "hedonism," or "racism" is to misread it on the one side, to interpret it as the sign of a swing to old-line conservative or right-wing Republicanism is to misread it equally on the other. For not only did California Democrats give Proposition 13 a landslide vote of support, 57 per cent to 43, but California Republicans chose the moderate Evelle Younger as their gubernatorial candidate over the more conservative Ed Davis.

Nationally, too, the same pattern is evident. The growth of tax-revolt sentiment has been accompanied by a parallel growth of identification not with the Republicans but with the Democratic party (Democrats now outnumber Republicans by 45 per cent to about 20 per cent in the polls). In practical terms, both Gallup and the New York Times/CBS polls estimate that the overwhelming Democratic majority in Congress will be renewed this November, even though the out-party usually

makes a comeback in congressional contests held in non-presidential election years. In addition, the Democratic party—the party which has stood for expanding social services—has gained overwhelming control of government from the county courthouses to the state and national legislatures, and from governorships to the Presidency, during a period when the proportion of self-identified conservatives and anti-tax sentiment have been increasing steadily.

Nor are the elements of a classic right-wing extremist movement present in Proposition 13. Howard Jarvis, who has been plumping for this kind of tax measure for over ten years, suddenly found himself at the head of a parade he did not assemble. He may be a culture hero at this point, but he is not a political leader. Extra-partisan movements, whether rightist or leftist, usually make headway when they espouse a cause which is not embraced by one of the major coalition parties. Such movements have always been done in by the fact that one of the major parties, following the logic of its coalitional nature, took over their cause in a more moderate form. That seems to have happened already in California. It remains to be seen, however, if the politicians understand exactly what it is they have embraced.

The strong support of Proposition 13 by Demo-

crats, in California and around the nation, provides the clue. As the survey data show, these Democrats have not abandoned their desire for a socially protective government. (On the contrary, most Republicans have tended to join them in that desire.) But the Democrats increasingly consider themselves "conservative" in their queasiness about the way government is growing and acting.

If, then, the public mood today is against enlarging the power, scope, and size of government in order to solve social problems, as advocated by George McGovern, Edward Kennedy, or the Americans for Democratic Action, it is also against returning to the laissez-faire small-government philosophy proposed by Ronald Reagan, Milton Friedman, or the American Conservative Union. Reagan, however, appears to be shifting: in a post-Proposition 13 speech he challenged his image as a "right-wing person" by pointing out that as governor he had made the California income tax more "progressive" and had increased welfare grants "by 43 per cent for the truly needy." Evidently he at least understands what analysis of the tax revolt tells us—that the predominant public mood is not "right-wing" but the neoliberal (or neoconservative) impulse to combine support of collective social responsibilities with a suspicion of growing government power.

THE CRISIS OF THE PUBLIC ECONOMY—1978

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Tax Revolt

The 1 1/2 per cent property tax limitation initiative that will be on Oregon's November 1978 general election ballot (barring the possibility of a successful legal challenge) is a part of a nationwide pattern. At the present writing (July 1978), it appears that tax or expenditure limitation proposals will be on the election ballots in at least half the states this year.

Proposition 13, which passed in California June 6, mandated a \$7 billion cut in property taxes, equal to approximately 25 per cent of the revenue raised from their own resources (i.e., exclusive of federal aid) by California's state and local governments. Oregon's "Measure 6" initiative would result in about \$375 million property tax reduction, which is in the range of 15 to 20 per cent of revenues raised from state and local resources in Oregon. The Oregon and California measures contain two-thirds voting requirements, which presumably will make it difficult to raise replacement sources of revenue. Michigan, Illinois and Massachusetts are large states where similar efforts are underway.

While the initial impact of many of the tax limitation measures would be on local property taxes, the finances of the various levels of government have become very much interdependent in recent decades; repercussions at the state and federal levels are certain.

A major tax reduction measure has in fact been proposed at the federal level, and has gathered considerable support. The Kemp-Roth proposal (HR 8333 and S. 1860) would reduce federal income taxes by 30 per cent over a three year period. Such a tax reduction is equivalent to about 20 per cent of federal expenditures.

Measures of this magnitude cannot be classified as incremental reforms to improve tax equity or governmental efficiency. Their adoption would signal a major policy shift in the United States public sector as significant as those which occurred in the 1930's and the mid-1960's. The issue these measures pose is the fundamental one of what the functions of government in the United States ought to be.

A very rough estimate, the only kind it is possible to make at this time, is that the set of tax limitation measures would have the effect of reducing overall government spending by about 15 per cent. Some categories of expenditures seem more likely to survive this kind of reduction than others.

For example, national defense and social security, two categories that account for almost one-third of public spending in the U.S., do not seem to be targets of the tax limitation movement. Social security is not only a popular social program, but has an earmarked source of finance. So does most highway construction and maintenance. Following the passage of Proposition 13 in California, police and fire services were given a high priority for retention by the Governor and the legislature.

The largest remaining categories of expenditure are education, health and welfare. These seem likely to be the focal point of the coming national debate. One possible outcome could be a significant further shift in the financing of these types of expenditure to the federal level. But many other outcomes are possible, including a sharp roll-back in spending in these areas at all levels of government. The precise outcome will be worked out in a great many popular elections and legislative bodies, and cannot be predicted by mortal social scientists. "God knows," said a spokesman for the U.S. Advisory Commission on Intergovernmental Relations after the passage of Proposition 13, "how this will play out."

This paper reviews the broad trends in governmental expenditures and their composition during the past two decades. A general understanding of these trends seems an essential first step in appraising the present set of policy alternatives. Income-conditioned social welfare expenditures will be given a bit more detailed attention in a later section of this paper, since they seem likely to play an important part in the national debate. The final section of the paper briefly considers some policy alternatives to the tax limitation movement.

The Federal Budget 1955 to the Present

From 1955 to 1977, federal, state and local expenditures rose from 25 per cent of gross national product (GNP) to 33 per cent.¹ Government revenues (mainly taxes) rose in that same period from 25 per cent of GNP to 32 per cent. When international comparisons are made of the size of the government sector in industrially developed countries, the United States still ranks toward the lower end of the range.²

Federal expenditures as a per cent of GNP rose from 18 per cent in 1955 to 22 per cent in 1977. About half of this four point rise is attributable to higher unemployment levels in 1977 than in 1955. When allowance is made for this, "baseline federal expenditures" as a per cent of "non-recession GNP" rose only from 18.2 to 20.1 per cent.³ Federal grants-in-aid to state and local governments were a major part of the increase in federal spending, increasing from 0.8 per cent of GNP in 1955 to 3.5 per cent in 1977. Grants-in-aid now constitute about 16 per cent of the federal budget.

Federal expenditures are heavily concentrated in a few categories. In the proposed 1979 budget of \$500 billion, four categories account for 75 per cent of all expenditures: income security \$160 billion; national defense \$118 billion; health and medical care programs \$50 billion; and interest payments \$49 billion.

★ It is striking that purchases of goods and services (including federal payrolls) account for only 34 per cent of federal expenditures. Almost two-thirds of the federal budget is accounted for by transfer payments to individuals (social security and veterans' benefits, welfare, unemployment compensation, etc.); grants-in-aid to state and local governments; and interest payments to holders of federal securities. Two-thirds of the purchases of goods and services are for national defense. This means that only 12 per cent of the federal budget goes for federal civilian payrolls and the direct provision of nondefense services (cabinet departments, regulatory agencies, Supreme Court, and so forth). The direct provision of nondefense services is much more a function of the state and local levels of government.⁴

The changing composition of federal budget expenditures for 1955-1977 shows that a considerable shift in national priorities occurred in that period. In 1955, national defense spending was 11.2 per cent of GNP and two-thirds of the federal budget. In 1977, national defense was 5.4 per cent of GNP and a fourth of the budget. Domestic (nondefense) federal expenditures rose in 1955-1977 from 7 per cent of GNP to 14.7 per cent. This is a fairly dramatic increase, and we should examine its components.

In a recent publication, Charles Schultze allocates the 7.7 point rise in domestic expenditures as a per cent of GNP among major expenditure categories.⁵ Fifty-three per cent of the 7.7 point increase (4.1 per cent of GNP) is accounted for by the category "Retirement, Disability, and Unemployment Programs," which rose from 2.8 per cent of GNP in 1955 to 6.9 per cent in 1977. This category accounts for fully half the rise since 1955 in government expenditures at all levels as a per cent of GNP. By far the largest portion of this category is social security benefits, including Medicare. (The category also includes railroad and federal employe pensions.) The rise reflects the development of social security (and similar public retirement programs) to full-fledged operation with almost universal coverage. There has been expansion in both beneficiaries and benefit levels, including provisions tying benefits to cost-of-living increases. Together with the growing importance of private pension plans, the social consequences have been a greater degree of independence for senior citizens, reflected in the increased numbers of them living as independent family units, and a sharp drop in the incidence of poverty in this age group.

Schultze's second category is "Low-Income Assistance Programs," principally Aid to Families with Dependent Children, Supplemental Security Income, Food Stamps, and Medicaid, a set of programs frequently classified

as "welfare." This category rose from 0.5 per cent of GNP in 1955 to 1.5 per cent in 1977, and accounted for 13 per cent of the 7.7 point rise in federal domestic expenditures as a per cent of GNP.

A third category, "Social Investment and Services," accounted for 19 per cent of the increase, rising from 0.6 to 2.1 per cent of GNP. These are mainly education, health manpower training, and community development programs. About half of this category (one per cent of GNP) is directed toward the low-income population, but in the form of social investment rather than direct income assistance. About a fourth of the category represents veterans' health and educational programs.

The category "Physical Investment and Subsidies" accounted for a modest 6 per cent of the increase, rising from 1.6 to 2.1 per cent of GNP. There was, however, a shift in the composition of this expenditure category from emphasis on highway construction, the space program, agricultural subsidies, and water resource projects in the 1950's toward energy, environmental, and mass transit expenditures in the 1970's.

Interest payments on the national debt and general revenue sharing each accounted for a small proportion of the total increase.

A few comments looking to the future will conclude this discussion of the federal budget. The 1955-1977 decline in defense spending as a share of both GNP and the federal budget obviously created a margin or "leeway" for an expansion of domestic federal spending in that period. This source for funding new domestic programs will apparently not be available over the next several years, since defense spending is projected to be maintained at about the same level of GNP.

Secondly, the federal budget is now increasing more slowly. The administration's proposed 1979 budget is a lower per cent of GNP (22 per cent) than in 1978. The administration has announced a target of reducing the federal budget to 21 per cent of GNP by 1981.

Even within the 21 per cent target, projections by the Brookings Institution suggest that some new federal programs (catastrophic national health insurance and comprehensive welfare reform) could probably be financed by 1981, along with income tax reduction to compensate for the effects of inflation on the bracket structure. The prospects are, however, strongly dependent on avoiding a serious recession over the next few years.⁶

State-Local Spending

State and local expenditures combined (\$265 billion in 1977) are roughly two-thirds of the federal expenditure total, but have risen much faster than federal expenditures since 1955. State-local expenditures, just as the federal budget, reflect a high concentration in a small number of categories. Education alone accounts for 37 per cent of state-local spending. Education, welfare and highways account for 60 per cent. Adding health and hospitals, police, fire, and the correctional system gets us up to 75 per cent. Sanitation and public employee pensions are additional important categories. But closing museums, parks and zoos would have little financial impact in a crisis!

State and local government expenditures rose from 9.2 per cent of GNP in 1955 to 15.3 per cent in 1974. Since federal grants expanded rapidly, the part financed from state and local resources rose from 8.3 per cent of GNP to 12.2 per cent.

Federal aid played a dual role in this period. It helped ease the fiscal problems of state and local governments, but partly offset this by inducing them to undertake programs Congress deemed in the national interest, and that many decentralized governments would probably not have undertaken alone.

State and local government employment expanded during this period from 4.7 million in 1955 to 12.5 million in 1977. (Full-time equivalent state and local employment is, however, about 10.5 million.) About half of these state-local employees are in education. Federal civilian employment, 1955-1977, increased only from 2.2 to 2.7 million, with all the increase occurring by 1969.

The expansion of state and local government reflected the major demographic and economic changes occurring in the United States following World War II. The demographic pressures on state and local governments stemmed from the high overall rate of population growth, the changing age composition of the population, and its geographic redistribution. The postwar "baby boom" increased the number of school children from 34 million in 1955 to 50 million in 1974. College enrollments rose even more rapidly. The over-65 group rose sharply as a per cent of the population, contributing to higher health and welfare expenditures.

The years following World War II saw a massive exodus from the nation's farms and rural areas and an accelerated geographic concentration of the population in metropolitan areas. Urban expenditures and tax rates are inevitably higher than those in rural areas, and higher in large metropolitan areas than in smaller cities. For many central cities, the net result of in-migration of a low-income, low-skill population, and the loss of population and industry to the suburbs was an intensification of their financial problems. The shift from rail to truck

transportation for industrial and commercial products, along with the increase in number of private automobiles and the greater mobility of Americans produced big increases in highway spending.

It may be perceived that the description of the previous two paragraphs is an especially good fit to the state of California, which experienced all the above symptoms—rapid population growth, metropolitan concentration, core city decline, and vast highway construction in an aggravated way, along with some special problems such as water investments—and it is the California "tax revolt" that has attracted the greatest national attention.

Several studies have attempted to allocate the increase in state-local expenditures over this period among three generating factors: (1) workload increase; (2) a relative price effect; and (3) increase in scope and quality of services. According to these studies, about 20 per cent of the 1955-1972 expenditure increase was associated with increased workloads; about 50 per cent with increased relative prices of state and local services, principally payroll costs; and roughly one-third with "scope and quality."

Examples of "workload" increase would be a rise in the number of school age children, or in the number of persons with incomes below the poverty line. An increase in the proportion of secondary school graduates going on to college would, however, be counted as an increase in the "scope" of educational programs, as would an increase in per capita transfer payments or services provided low-income people. The "relative price effect" measures the fact that over the past two decades the prices (costs) of state and local government services have risen much faster than the general price level.

The strength of the relative price effect as a factor causing increases in state-local spending reflects the labor intensiveness of state-local services; the rapid expansion in demand for government workers in the past two decades; and the fact that in the mid-1950's, public employe compensation was below "parity" with the average earnings of all workers. State-local employe earnings were 107 per cent of average earnings in 1929, 116 per cent in 1939, 92.5 per cent in 1955, and 104 per cent in 1973.

One-third of the 1955-1972 increase in state-local expenditures was allocated by the studies to the "scope and quality" factor. This indicates, very roughly, the extent to which the rise in expenditures was a matter of voter preference for a higher level of services as compared with increases which simply resulted from changing demographic and economic forces. This rise in "scope and quality" of services is consistent with the theory (sometimes called "Wagner's Law") that public expenditures are in general income-elastic, i.e., that demand for them tends to rise more than proportionally with private incomes.

While this three-category breakdown is useful in analyzing the causes of rising state-local expenditures through the mid-1970's, it fails to capture one important aspect of that rise—the redistribution of population from smaller, lower-tax communities to larger and more congested higher-tax jurisdictions, an important feature of post-World War II America. The geographic effect is subsumed under the "price effect" and "scope and quality" measures. That is, public employe wages are higher in metropolitan than in nonmetropolitan areas, and so is the "scope" of public services typically demanded and provided in congested areas.

In the immediate post-World War II period, the revenue systems of state and local governments were woefully inadequate to meet these rising pressures. A major fiscal development of the past two to three decades has been a significant broadening of tax bases at the state level, involving widespread adoption and/or expansion of broad-based income and sales taxes. State governments now finance about a third of local government expenditures compared with 21 per cent in 1940 and 25 per cent in 1960. This is, of course, an average for the nation. Local governments have not reduced to any significant extent their reliance on the local property tax as the predominant source (still over 80 per cent) of local tax revenue.

In summary, the major forces in expansion of the public sector since the mid-1950's have been: (1) the major expansion in social security, and similar publicly financed retirement programs, including their medical and disability components; (2) the pressures of population growth and urbanization on traditional areas of state-local government responsibility; and (3) the expansion of income maintenance and social service programs primarily directed to the lower one-fourth of U.S. income earners. The third factor has been of a lower order of magnitude than the first two.

A Downturn in the "Spending Cycle?"

We now come to what is perhaps a paradox of the "tax revolt." The demographic and economic pressures that I have described have significantly lessened in the later 1970's, to some extent even been reversed. Overall population growth has slowed down; the birth rate has decreased steadily since 1955; and in the 1970's, the population growth rate of nonmetropolitan areas has exceeded that of metropolitan areas.⁸ The demand for some major categories of public employes, notably in education, is no longer rising rapidly; and public employe salaries have caught up to a position close to their pre-depression "parity" level.⁹

State and local expenditures were 15.3 per cent of GNP in 1973. A study by Emil Sunley, Jr., estimates that the 1973 level of services could be

provided in 1981 (i.e., with no change in "scope and quality" of services) with 12.9 per cent of GNP.¹⁰ The 1973 state-local tax rates would, however, provide revenue amounting to 14.2 per cent of GNP. Thus, by 1981, lessened workload and relative price pressures would provide a "margin" of 1.3 per cent of GNP for either further increase in the "scope and quality" of programs or significant tax reductions, or a combination of the two.

The famous "Wagner's Law," formulated by a European economist in the 19th century, predicts a long-term rise in the relative size of the government sector due to the income-elasticity of public services. Wagner's Law, however, may be applicable to a particular historical period, but not valid for all time. Recent experience in the United States suggests to me that public expenditures, or the pressures that influence them, are subject to long cyclical swings. The demographic and economic pressures I've described resulted in a strong cyclical upswing in the post-World War II period until about 1973, which was probably prolonged by the 1974-75 recession. We are now in a downswing of this long cycle. Essentially, what this means is that at least through the mid-1980's, "workload" and "relative price" pressures should cause the size of the government sector to decrease rather than increase relative to GNP, at least to the extent that major recessions and wars can be avoided. Political decisions concerning the "scope and quality" of government programs are a less predictable element.

There is some evidence to support this theory that the peak in a "long cycle" was reached in the mid-1970's. Public expenditures as a per cent of GNP were 35 per cent in 1975 and 33 per cent in 1977; though revenues as a per cent of GNP rose from 31 to 32 per cent in those years. Part of these changes are just the normal consequences of recovery from a severe recession. More convincing is the growth of state-local government surpluses from \$6 billion in 1975 to \$32 billion late in 1977. About \$5 billion of this was the now famous California state surplus! The Tax Foundation's March 1978 issue of Tax Review asserts:

With state treasuries enriched by record surpluses in 1976 and 1977, and with a generally favorable budget outlook, many state legislatures are in the unusual position of trying to decide how to give money back to the taxpayers, or at least how to lighten future tax burdens . . . on balance, if this year's tax proposals were approved, state-level taxes would be \$90 million a year less than under present conditions.¹¹

Growth in state-local employment has been the most spectacular aspect of growth in government during the past two decades. From 1955 to 1970,

state-local government employment increased at a very steady 5 per cent a year. From 1970 to 1975, the growth rate was 4 per cent a year. From April 1975 to April 1978, the growth rate has been only 2 1/2 per cent a year. State-local government employment grew more rapidly than private sector services employment from 1955 to 1965, and at the same rate as services employment from 1965 to 1975. But in the last three years, state-local government employment has grown at only half the rate of private sector services employment, and below the growth rate of total employment. Federal civilian employment actually peaked in 1969, and has been virtually unchanged through the 1970's.

Prospects for the burdened taxpayer were thus improving prior to the 1978 tax revolt. But this does not imply that reductions in taxes of the magnitude mandated by the California and Oregon ballot measures can be achieved without significant curtailment in government programs. And the improved general fiscal prospects of state and local governments are not evenly distributed; many central cities, in particular, continue to face financial difficulty.

War on Poverty or War on the Poor?

Some observers have suggested the recent tax revolt is a kind of counter-revolution by the U.S. middle class against excessive governmental expenditures on the poor. This interpretation is no doubt a considerable oversimplification. The news media have, however, presented a number of recent interviews with "typical taxpayers" who complain that too much of their tax revenue is being spent on "others"; and income redistributive public expenditures have undoubtedly increased in the past two decades. It may be useful, therefore, to try to estimate what proportion of government funds is channeled into programs of primary benefit to the nation's lowest income earners.

A "War on Poverty" was declared in the United States in 1964. There have been two main lines of attack. The first has been through human resource investment programs involving the delivery of services: for example, Head Start, Title I of the Elementary and Secondary Education Act, job training programs, community action agencies, and neighborhood health centers. The most significant recent development in this type of program has been the rapid growth of employment-creation programs under the various titles of the Comprehensive Employment and Training Act of 1973 (CETA), which have created over one million job slots and involve a national expenditure of about \$11 billion annually.

The second line of attack has been through expansion of cash and in-kind income maintenance payments, such as Aid to Families with Dependent Children, food stamps, medicaid, housing allowances, and Supplemental Security

Income (SSI). The first type of program is designed to help the poor, in the long run, to earn their way out of poverty. The second group of programs recognizes that many categories of poor people—the aged, disabled, female-headed families with small children—would have difficulty earning their way out of poverty through the labor market.

This is not the place to attempt a detailed evaluation of our anti-poverty programs.¹² However, there has been a substantial reduction in the incidence of poverty in the United States since 1964. Only part of this can be attributed to the general growth of the U.S. economy.¹³ Part of the reduction in poverty should be credited to federal anti-poverty programs, especially the set of cash and in-kind income maintenance programs.

Measured in terms of cash income, the incidence of poverty in the United States declined from 19 per cent in 1964 to 11 per cent in 1976. But when the cash value of in-kind benefits (food stamps, health benefits, housing allowances) is counted, the incidence of poverty declines to the 5 to 7 per cent range.¹⁴ The greatest improvement has been among the elderly, whose poverty incidence is now below 5 per cent. In addition to gains in income, anti-poverty programs may have enhanced the welfare of lower-income citizens in such areas as healthcare and political participation.¹⁵

How much of our federal, state and local expenditure goes to programs targeted on the low-income population? A reasonably precise estimate can be made for the year 1972, using data published in Appendix A of Plotnick and Skidmore's Progress Against Poverty: A Review of the 1964-74 Decade.¹⁶ My estimate involved adding the expenditures on all programs that yielded a high incidence of benefits (over 45 per cent) to the poverty population. Veterans' benefits and programs such as social security were not counted, even though many recipients would have been below poverty-line incomes without these benefits. Social security coverage is almost universal, and not income-conditioned. Similarly, veterans are represented in all income groups. I counted as "anti-poverty programs" all public assistance, nutrition, welfare services, vocational rehabilitation, and manpower training expenditures, most housing and health expenditures, and a major part of federal aid to education. This came to \$41 billion in federal, state and local expenditures, 11 per cent of all public spending, and 3.5 per cent of 1972 GNP.

The percentage of public spending on anti-poverty programs may have risen slightly since 1972, mainly due to higher expenditures on food stamps and CETA programs. I made a necessarily cruder estimate (since detailed data are lacking) of anti-poverty program expenditures in relation to total public spending for 1977. This yielded a figure of approximately 12 per cent. It would be a reasonable estimate that about 12 per cent of our public spending is for programs of primary benefit to

America's lowest income citizens. The share of gross national product involved is in the 3 to 4 per cent range.¹⁷

In the first section of this paper I made an admittedly heroic estimate that the set of tax limitation and reduction measures now being proposed at the federal and state level, including the Kemp-Roth proposal, would, if adopted, require about a 15 per cent cut in overall government expenditures. Even if it were desired, this could not be accomplished simply by eliminating anti-poverty programs. In any event, a politically realistic scenario of total elimination of the anti-poverty programs is hard to imagine!

Clearly, the 88 per cent of programs that are of "general benefit" are also in jeopardy. Considering the discussion of priority programs and tax earmarking practices in the first section of this paper, the most vulnerable expenditures appear to be public education, which accounts for over a third of state-local expenditures, and the entire range of urban services, possibly excepting protective services such as police and fire.

The Moderate Alternative—Too Little, Too Late?

A good many recent opinion polls indicate that large segments of the public do not wish services cut, but think taxes are too high. This may be in part a chronic feature of the human condition which is beyond solution. But in part it reflects a strong belief that our public economy can be made to work better. Three ways to "make the system work better" are (1) improvements in labor productivity, (2) better program design, and (3) improvements in tax equity.¹⁸ There is no shortage of ideas on how to accomplish these objectives—there is a very large professional and trade journal literature on all three topics, for example.

As a technical problem, improving labor productivity may be the most difficult of the three. The 1972 Census of Governments counted 78,218 local governments in the United States, in addition to 50 state governments and the federal government. Improving productivity in a geographically diffuse "industry" with many small scale units is inherently more difficult than in, say, an industry with its employment concentrated in a few large capital-intensive plants in Pittsburgh or Detroit. Labor productivity in the private sector is thought to be doing well if it increases three per cent a year; in fact, it has increased only 20 per cent in the past ten years. Labor productivity also increases more through many small improvements in management practices and equipment, than in dramatic surges.¹⁹

These considerations may help to illustrate the very questionable validity of an argument that seems to crop up frequently in discussions of

tax limitation proposals such as California's Proposition 13. This is the notion that 10, 15 or 20 per cent can be cut from government budgets without reducing services, for example, by dismissing some proportion of "middle-management bureaucrats." If it is argued that a 20 per cent cut could be made without service reductions, that implies an instantaneous improvement in labor productivity of a magnitude that requires ten years to be accomplished, on average, in the private sector.²⁰

Improving public sector labor productivity should be, however, a major and important objective of public policy. The science of public management has not been standing still in the past decade. The Congressional Budget Act of 1974 gave Congress a better overall grip on the federal budget. The new managerial techniques of PPB and ZBB, though overrated in the initial wave of enthusiasm, should result in more rational and systematic approaches to public budgeting and management. A number of states have undertaken civil service reforms similar to those now being considered at the federal level. A federal agency with the rather curious title of National Center for Productivity and Quality of Working Life holds some promise for the coordination and spread of management improvement efforts among state and local governments.

Achieving better design of government programs, so that they accomplish their stated or implied objectives more effectively, may be relatively more of a political problem than a technical problem at this stage of our history. At any rate, the past decade has seen intense study of methods of improving program design both of anti-poverty and of many other governmental programs, creating a large backlog of proposals not yet enacted into legislation. The point is perhaps illustrated by the decade-long struggle in the Congress to achieve comprehensive reform of the welfare system. In this as in other areas of policy, there are problems of attracting public attention, forming effective political coalitions to support reform, combating particularistic interest group pressures, and evidently a problem of a heavy "workload" in the Congress.

Additional examples of governmental programs that could be designed more effectively, and with cost savings, are regulatory agency policies, the federal civilian and military retirement system, benefit-cost evaluation of water resource projects, and greater employment of women in the armed forces.

Greater use could be made of efficiency-based pricing and incentive mechanisms in the design of government programs.²¹ Some useful ideas have even been developed about how to attack the seemingly inexorable rise in medical costs.²²

There is no accepted scientific criterion of tax equity. Nevertheless, many economists have for two decades supported a comprehensive reform and simplification of the federal income tax which would eliminate many "tax expenditures" and lower the structure of rates, and have perceived such a reform as an improvement in both equity and economic efficiency.

At the state level, income-conditioned circuit-breaker property tax measures similar to the system adopted in Oregon might be considered more equitable alternatives to the type of property tax reduction passed in California.

I have tried to show there is considerable potential for improvement in public sector productivity, in the design of government programs, and in the equity of our tax system. The public economy can be made to work better.²³ By contrast with the drastic surgery of the tax limitation proposals, these improvements require a longer run, more persistent and more incremental effort on many fronts. Few of the specific policy suggestions mentioned above promise dramatic or early gains. Even so, they are in my opinion much the preferable alternative.

Conclusions

The main purpose of this paper has been to provide some factual background and analysis of trends in government spending in the United States during the past two to three decades; and to examine briefly some of the forces that will influence trends in government budgets in the next decade or so. It is hoped this information will be helpful in evaluating the probable consequences of widespread adoption of the set of federal and state tax limitation and tax reduction measures generated by the 1978 "tax revolt."

It is a conclusion of the paper that adoption of these tax limitation measures would require major shifts in established national goals, probably including a substantially reduced commitment to anti-poverty programs and to public education. Additional obvious consequences would be diminished local tax bases, and diminished local ability to finance urban services in general.

As a general policy alternative, it is suggested that more vigorous efforts to improve state-local government labor productivity, and to improve the design of government programs (especially at the federal level), are a preferable way to constrain the growth of government budgets in the decade ahead. The potential also still exists for improvements in tax equity at the federal and state levels.

Footnotes

1. An alternative measure of the size of government in the United States is government purchases of goods and services as a per cent of GNP. This was 19 per cent in 1955 and 21 per cent in 1977, meaning that government "commands" about one-fifth of productive output in the U.S. economy. The difference between the 21 per cent figure and 33 per cent is transfer payments, which have risen sharply in recent decades.
2. The major exception is Japan, where taxes are about 21 per cent of GNP. Japan is the only developed industrial country with a non-Western social history. An unusual amount of "social security" and social services appear to be provided by the Japanese business sector, especially large business. The major reason for larger public expenditures and taxes in Western European countries than in the United States appears to be the provision of most health expenditures, and sometimes housing, through the public rather than the private sector.
3. Charles L. Schultze, "Federal Spending: Past, Present and Future," chapter 8 of Henry Owen and Charles L. Schultze (eds.), Setting National Priorities: The Next Ten Years (Washington, D.C.: The Brookings Institution, 1976), p. 331.
4. Government influences economic activity in the United States through its regulation of the private sector as well as through spending and taxing. In recent years economists and other social scientists have conducted a searching critique of government regulatory policies (cf., for example, Regulating Business: The Search for an Optimum [San Francisco: Institute for Contemporary Studies, 1978]).

Murray Weidenbaum of Washington University recently estimated that government regulation imposes costs of almost \$100 billion on the private sector. However, the budgetary cost of all the federal regulatory agencies is only about \$3 billion. It should be recognized that much government regulation is designed to internalize costs (environmental, safety, discrimination, etc.) that would otherwise be imposed by private firms on employees, consumers, or the general public.

5. Schultze, "Federal Spending." Schultze's analysis of the increase in expenditures, 1955-1977, is carried on in terms of "baseline federal expenditures as a percent of non-recession GNP," which involves some nonmajor adjustments to actual expenditures and actual GNP to compensate for changing unemployment levels.

6. Joseph A. Pechman, "The Budget Outlook," chapter 10 of Joseph A. Pechman (ed.), Setting National Priorities: The 1979 Budget (Washington, D.C.: The Brookings Institution, 1978). Financing of new programs is possible by 1981, even with a declining ratio of federal expenditures to GNP, because a growing economy yields a higher absolute level of real GNP and of tax revenues—the so called "growth dividend."
7. Emil M. Sunley, Jr., "State and Local Governments," chapter 9 of Owen and Schultze (eds.), Setting National Priorities (1976); and also "General Revenue Sharing," chapter 6 of Setting National Priorities: The 1972 Budget (Washington, D.C.: The Brookings Institution, 1971), especially pp. 136-43.
8. While slower overall population growth, fewer children, and less congested population patterns are factors favorable to lower expenditures and tax levels, there is a partially offsetting influence: Some smaller communities are now experiencing exceptionally high growth rates, and their demands for public service expansion will tend to increase their tax rates. Rapid population growth tends to push up tax rates wherever it takes place.
9. The 1939 ratio of state-local employe earnings to all workers' earnings of 116 per cent can probably be considered an abnormality of the Great Depression.
10. Sunley, "State and Local Governments," pp. 407-08.
11. Tax Review, XXXIX, No. 3 (March 1978). Some part of the state-local surpluses represent public employe pension funds. The entire \$32 billion should not be considered "available" for tax reductions.
12. For a comprehensive review and evaluation of the anti-poverty programs developed in the past two decades, see Robert H. Haveman (ed.), A Decade of Federal Antipoverty Programs: Achievements, Failures, and Lessons (New York: Academic Press, 1977). See also the entire Special Issue of The Public Interest ("The Great Society: Lessons for the Future"), No. 34, Winter 1974.
13. The general growth of the U.S. economy had some impact in reducing the incidence of poverty in the 1960's, but much less, and at times a negative effect, in the recession-prone 1970's. Cf. Robert D. Plotnick and Felicity Skidmore, Progress Against Poverty: A Review of the 1964-1974 Decade (New York: Academic Press, 1975), chapters 5 and 7.
14. See for example, Haveman, A Decade of Antipoverty Programs, pp. 8-11; and George J. Carcagno and Walter S. Corson, "Welfare Reform," chapter 8 of The 1978 Budget: Setting National Priorities (Washington,

D.C.: The Brookings Institution, 1977), pp. 254-55. The "official" Social Security Administration definition of poverty is admittedly somewhat arbitrary, but I know of no better index. Any discussion of the incidence of poverty should also keep in mind that there is substantial annual turnover in the population below the poverty line, as the family circumstances and employment situations of families change.

15. For example, Karen Davis, "Policy Developments in Health Care for Low-Income Families," in Haveman, A Decade of Antipoverty Programs, reports a significant (though far from complete) narrowing of the gap during the past decade between quality of health care received by the poor and the aged and that received by higher-income persons, and an improvement in infant mortality rates attributable to public programs.
16. Plotnick and Skidmore, Progress Against Poverty, pp. 212-18.
17. Other measures of the impact of the fiscal system on low-income persons are of course possible. It is important to be precise about the question you are asking. Felicity Skidmore, in Progress Against Poverty, estimates that federal, state and local programs in 1972 yielded almost \$79 billion in benefits to the "pre-transfer poor," that is, to persons who would have been below the poverty line except for transfer payments. That estimate, however, includes about \$30 billion in social security and public employe retirement benefits, and the cost of all public education provided children from poor families (\$9 billion). For reasons stated in the text, I think my calculation is the appropriate one in the context of the present paper. In a slightly different context, Musgrave and Musgrave calculated (for 1968) that families with incomes under \$4,000 paid 28.5 per cent of their income in taxes, but received benefits from government services exceeding 100 per cent of their pre-tax and transfer income (Public Finance in Theory and Practice [McGraw-Hill, second edition, 1976], chapter 16).
18. In my perception, the Oregon and California tax limitation measures are lacking in mechanisms for achieving any of these objectives, and in addition restrict voter choice at the local level. For an evaluation of tax limitation measures on economic efficiency grounds see Helen F. Ladd, "An Economic Evaluation of State Limitations on Local Taxing and Spending Powers," National Tax Journal, XXXI, No. 1, March 1978, pp. 1-18.
19. Geographic diversity notwithstanding, the potential for productivity improvement is greater in state and local government with its 12 million workers than in the federal government with less than 3 million. In addition, a study by the Committee for Economic Development estimates that labor productivity in the federal government rose over the past twenty years, while probably declining in the

state-local sector. The study recommends federal technical assistance to the state-local sector in improving its management methods, as well as technical assistance from local business communities (Committee for Economic Development, Improving Productivity in State and Local Government, 1976, pp. 38 and 75-76). It should perhaps occasion no surprise that a sector which has experienced very rapid increases in employment should have greater problems with productivity than a sector with more stable employment, though this may not be the popular view of where the greatest "bureaucratic fat" is to be found. However, since most new social programs have been designed at the federal level, the opportunities for increased efficiency in program design, as contrasted with day-to-day management operations, are probably greater at the federal level.

20. The argument also implies a judgment: not merely that 20 per cent "waste" or slack exists in the public sector, but that the top bureaucratic managers (1) know exactly where the "waste" is and (2) have ignored it until compelled to eliminate it by a reduction in funds. This supposes a degree of bureaucratic knavery that, at least as a general rule, strains credibility!
21. This is a point stressed repeatedly by "conservative" and "liberal" economists alike during the past decade of public policy critiques. To quote Robert H. Haveman:

The . . . strategy of seeking to accomplish equity goals indirectly through inefficient subsidy and rulemaking measures has contributed to the proliferation of ineffective policy and to a growing skepticism toward government In transportation policy, air and water pollution control policy, energy policy, higher education policy, and natural resources policy, to mention only the primary cases, ineffective strategies involving public rulemaking or public subsidies have dominated efficiency-based measures often involving the use of publicly set fees and charges. Rejection of such efficiency-based strategies is often based in part on their presumed, though often insubstantial, adverse effect on the poor. (A Decade of Federal Antipoverty Programs, p. 13.)

Many examples could be cited of cases where the domination of "efficiency-based" by "equity" strategies causes upward pressure on government budgets. If increases in the minimum wage were held back for younger workers, less public funds might need to be spent on direct job creation efforts. The complex system of price controls on some energy products may result in the government having to include in its energy research and development budget funds that would otherwise be expended on research in the private sector.

A policy of "low tuition for all," with no income test, requires larger government budgets for higher education. But there is a policy dilemma here, too, since many "efficiency-based strategies" may be no more politically popular than high taxes!

22. For example in Louise Russell, "Medical Care Costs," chapter 6 of Carcagno and Corson, The 1978 Budget.
23. This is of course an optimistic view. I have to recognize that some academic and other writers have come to believe in recent years that "public sector failure" is such a pervasive and endemic phenomenon in Western societies that a very drastic curtailment in governmental programs and objectives is now called for. But I retain the view that Western societies, through government, have been trying to do essentially the right things in recent decades, even though with less than optimal efficiency.

DRAFT for distribution to a meeting at The Center for the
Study of Democratic Institutions on August 24, 1978

TAX LIMITATION: PROPOSITION 13
AND ITS ALTERNATIVES

by Mason Gaffney

What is the "message of Prop. 13?" Everyone is invoking it this summer to fill his sails, but what was really blowing in the wind?

Howard Jarvis had been fighting property taxation for a score of years with minimal success. Philip Watson, until recently more prominent, led two property tax limitation initiatives to defeat. All these prior efforts were tax shifts, not tax limitations. Prop. 13 answers the same description in fact because, although it limits property taxes severely, it places only frail and specious limitations on state sales and especially income taxes. California's graduated income tax rate structure is not indexed so that it automatically takes a bigger share each year with inflation. But, those are only facts, and this is California. The image of Prop. 13 was that of overall tax limitation, and there may lie the difference.

This time around Howard Jarvis allied with a band of ideologues, represented by Paul Gann, who favor overall tax limitation. He seems to have taken them into camp. Professor Arthur Laffer supported Prop. 13 with these words, "I feel equivalent reductions in either income or sales taxes would be markedly preferable." "...An optimal tax structure for California should most likely include higher taxes on property than on income or sales. To me, the need for income and sales tax relief is of higher economic priority than property tax relief." (Source: "Revitalizing California's Economy." Paid for by the United Organization of Taxpayers Inc., 6431 West 5th Street, Los Angeles, California 90048, Howard Jarvis, State Chairman) Milton Friedman, editorializing in Newsweek, said, "The property tax is far from the worst tax."

Howard Jarvis himself in his many public statements conspicuously avoided much discussing Prop. 13 itself. His primary attack was against waste in government. He attacked symbolic and perhaps mythical waste: long black limousines, Congressman's salaries, teachers' meetings and coffee breaks. I never heard him criticize any specific program (except the racially symbolic issues of busing and abortion). Thus he managed to work the act of the legendary congressman who stayed in office for twenty-five years by never voting in favor of a tax bill, or against any appropriation.

In this he was aided, of course, by the enormous State surplus which the Governor had unwisely accumulated and, for his own reasons concealed; but which Mr. Jarvis, to his credit, divined. This let Jarvis play Santa Claus, promising the voters a free lunch: reduced taxes without reduced services. New York City politicians had done the same thing by going into debt, and the logical difference between going into debt and using up a surplus is not mathematically very significant. Still, it was enough to win the backing of many good Chicago School economists whose shibboleth is TANSTAAFL (There ain't no such thing as a free lunch). That is why the "message of Prop. 13" is so different from the text, so confused and ambiguous. Prop. 13 was sold by talking about other issues and making promises that have not or won't or can't come true. Here is a short list of Mr. Jarvis' firm affirmations.

- Public Schools have the first call on State revenues. It turned out to be the police and fire departments.

- Reduced taxes would be passed through in lower rents. It is to laugh -- it hurts too much to cry.

- Building and business would boom. This belief seems to have overstated the level of property tax rates in the State and also to ignore the existence of several public service bottlenecks as, for example, sewer capacity. It ignored the impact of reduced property tax revenues on the exclusionary motives of local zoning boards.

- Housing was to become cheaper.

- Everything was to become cheaper because property taxes were believed to be borne 100% by consumers. "Not one nickel," said Mr. Jarvis, "is paid by the owner of business property."

- Howard Jarvis would begin a new initiative against sales and income taxation. Now he is going national instead while Paul Gann carries this burden. His national crusade is against capital gains taxes, and property taxes in other states.

- The power of State politicians and bureaucrats would be reduced. In fact, of course, it is increased because of increased State subventions to local government with many strings attached.

- People who bought real estate between 1975-1976 and 1978-1979 would have their assessments rolled back to 1975-1976.

- It would not be a tax shift but a tax reduction. In fact, the unindexed income tax keeps rising automatically with inflation with no legislation required. In addition, there has been a large increase in municipal service charges.

I conclude from all this that shifting the tax burden from property to other tax bases is not by itself a viable issue. It has a definite constituency, of whom Professor Neil Jacoby seems to be a type, but in order to go over the top it had to be diluted and disguised. Philip Watson, who lost when he did not disguise this proposal, calls Howard Jarvis a "demagogue." It seems to be a tribute from the purist who lost to the opportunist who won.

Looking at the whole nation, the California phenomenon has been seriously overpublicized, partly because it is California and partly because Howard Jarvis is typo-genic, like Huey Long. But, in other states we see more balanced tax limitation proposals and legislation, as in Tennessee and Colorado whose spending limitations are by no means rifled against the property tax or against local government. Another special factor in California is the high percentage of retirees. Yet, even Florida, another haven of geriatric ghettos, has not thus far, lined up the Jarvis camp.

One theory is that California's legislature was derelict in failing to provide timely and adequate property tax relief along more selective and

defensible lines. That may be, but let us survey the adjustments that California had already made.

a. California had increased other taxes a great deal, notably the graduated income tax. In the last 8 years the percentage of state and local revenues secured from taxes on property had dropped from 38% down to 34%. If we go farther back this merely continued what has been a secular trend dating from the nineteenth century when property taxes comprised some 90% of the total. Furthermore, there is no a priori reason why property tax "relief" should be welcome when the price has to be income tax aggravation.

b. The property tax rate in California is only moderate by national standards. It stands at around 2%, give or take some margin of error. That is below Massachusetts and New Jersey and Wisconsin for example. It is higher than Alabama and Georgia. It is pretty close to the national mean. But, 2% is simply the official statistic. My personal observation as a buyer of income properties in and around Riverside, California, is that the actual rate is nearer 1%. Only in some areas has the assessor brought values up-to-date. Most real estate has been un reassessed in this rising market and, therefore, taxed at substantially less than 2% of current market value.

c. The Reagan-Moietti bill placed a 6% annual limitation on increases of school levies.

d. The property tax rate is virtually frozen for purposes other than schools (although assessed values are not).

e. A two-thirds majority is required to approve general obligation bonds.

f. There is an owner exemption of \$7,000.00 on the market value of homesteads.

g. There is a circuit breaker for old folks over 62.

h. There is a deferment option for the elderly, bearing only 7% interest (which is about the annual rate of inflation). In California, as also in Oregon and British Columbia, hardly anyone takes advantage of this deferment option. This fact, it seems to me, rather calls the bluff of those who so freely allege that the woods are full of widows with insoluble cash flow problems who are losing their houses to the sheriff and whose heirs presumptive will not help keep the property which they are to inherit.

i. There are several laws granting preferential assessment to alleged farmland, timber land, golf courses, and so on.

j. Personal property is half exempt and was scheduled to become completely so, subject to the defeat of Prop. 13.

Along the line of modern amendments to the property tax, about all that California lacked was a circuit breaker for those under 62. One could argue the position, as the California Tax Reform Association does, that a general circuit breaker would have made all the difference. But, one could equally argue that there were already too many loopholes and preferences so that homeowners were rebelling against paying the freight for timber owners, farmers, land speculators, the Irvine Estate, lessees on federal lands, and many others.

In spite of California's moderate property tax rate, the share of California revenues from property is above the national averages. What accounts for this anomaly? It is that the value of property per capita in California is way above the national average. The high price of California residences is well known and, of course, its current skyrocketing increase is a modern legend. But, owner-occupied homes constitute only about one-third of the property tax base in California. One could not establish an argument that California homeowners were carrying the rest of the state, not at least by means of property tax payment (homeowners pay much higher shares of the state income and sales taxes than they do of the property tax).

In spite of all that, it is still possible that for unworthy rhetorical purposes and emotional reasons the property tax might fare better politically with a low preferential rate for homes as under Minnesota's classified tax; or with generous homestead exemptions as in some southeastern states. That would, however, be an exercise in the politics of symbolism, deception and imagery. The factual economic grounds are not convincing.

What, then, is the way to go for men and women of good will who see some merit in having property contribute to public revenues? I have a number of suggestions.

a. First, we should stop maligning the property tax. We have the curious spectacle of George McGovern, Jerry Wurf, Senator Petris of California and his California Tax Reform Association, and others along the ADA position who tell us the property tax is a bad, regressive tax and then react with dismay when the voters throw the tax out under right-wing leadership. I find their position so hard to follow I am tempted to suspect it is they who are confused. Or, perhaps they never really meant we should lower property taxes; perhaps they really meant we should raise income taxes. But now the voters are in a mood to lower any tax whose support slackens, the ADA troopers had better get their act together and look for the good in the property tax if they really want to save it, and the social welfare it helps finance.

b. We need to marshal the arguments in favor of the property tax, something that hardly anyone has done for years. Here are a few.

1. We hear a lot these days about cutting fat out of the public sector, but there is fat in the private sector too. "Fat" I interpret to mean paying someone for doing nothing, or nothing useful. Most economists agree that paying people for holding title to land is a nonfunctional income, since the land was created by nature, secured by the nation's armed forces, improved by public spending, and enhanced by the progress of society. "Economic rent" is the economist's term, but in Jarvis-talk we may call it the fat of the land or

"land-fat." It has also been called unearned increment, unjust enrichment, and other unflattering names. Howard Jarvis has said that the policeman or fireman who risks his life protecting the property of others has his "nose in the public trough," but it has seemed to generations of economists that the owner whose land rises in value because public spending builds an eight-lane freeway from, let us say, Anaheim to Riverside, and carries water from the Feather River to San Diego, is the first in the trough, although the nineteenth century English economists who worked this out were more decorous and said things like "landlords grow rich in their sleep" (J. S. Mill), or the value of land is a "public value" (Alfred Marshall) because the public, not the owner, gives it value.

Some 43% of the value of taxable real estate in California is land value. When we lower the property tax we are not only untaxing buildings, but also land-fat.

Professor Neil Jacoby, in an article circulated by the Jarvis committee, says that most economists feel the property tax is overworked and as his authority cites an article by Dick Netzer. Here is Netzer's conclusion: "...my ideal system of local finance would comprise user charges and land value taxation, period." (Dick Netzer, "Is There Too Much Reliance on the Local Property Tax?" in George Peterson (ed.) PROPERTY TAX REFORM (Washington: The Urban Inst., and The Lincoln Inst., 1973)). I will later agree with Netzer (and, I presume, Jacoby) that this could be a viable way to lower property taxes -- that is, instead of reducing the rate, exempt the buildings.

2. The ownership of property is highly concentrated, much more so than the receipt of income. Economists in recent years are increasingly saying that the property tax is after all progressive because the base is so concentrated, and because so little of it can be shifted. Only this message has yet to reach many traditional political action groups who continue to repeat the old refrains. As to this, two remedies are in order. One is to collect and publish data on the concentration of ownership of real estate. The facts are simply overwhelming

and need only to be disseminated. The second remedy is to note how strikingly little of the Proposition 13 dividend is being passed on to renters. This corroborates the belief of economists that the property tax mainly rests on the property owner where it originally falls.

3. A high percentage of the property tax base consists of land. In California, as mentioned, it is about 43%. There is a common belief that the land percentage is higher in rural areas but I do not believe the facts support this. In British Columbia I had an opportunity to run an analysis of the entire provincial property tax roll which happened all to be on tape and in one place. The land percentage was well over 50% in Vancouver and ever so much lower in the smaller, rural municipalities and regional districts as they call them up there. The land share in each local district was higher in "commerce" than "farming"; and higher in large farms than small.

The whole farm-city antithesis is a red herring. Rural land and urban land are both heterogeneous and the differences within these classes are much greater than the differences between them. The point is that in farming as in every other industry some people grabbed off the best resources and others are stuck with the leavings. The property tax on land operates to even things out.

4. A high percentage of real property is owned from out of state and even out of the country. The percentage is much higher than you probably think. It is not just the Arabs of Beverly Hills and the Japanese Banks. It is corporate-held property which comprises almost half the real estate tax base. If we assume that California's share of the stockholders equals California's share of the national population, then 90% of this property is absentee owned, and the percentage may be higher because many of these, after all, are multi-national corporations with multi-national ownership.

The "No on 13" leadership failed to capitalize on this point. Governor Brown was the leader -- (remember?) -- and he talked about "business" securing the lion's share of benefits, but most voters are not so dumb as just to be against "business" indiscriminately. It depends on whose business, and what business.

Professor Don Shoup has remarked that the ideal taxpayer is, from the politician's viewpoint, a nonvoting alien living overseas. But no one seems to have seized on the fact that half the taxable property in California is owned by people not voting in the state. Senator Russell Long has suggested the following principle of taxation, "Don't tax you, don't tax me, tax that man behind the tree." Property tax advocates have done well in the past and should do well again in the future when they make their slogan, "Don't tax you, don't tax me, tax that unregistered absentee. Don't tax your voters, they'll retaliate; tax those stiffies from out of state." Now chauvinism and localism can be ugly and counterproductive as we know, but here is one instance where they may be harnessed to help create a more healthy society. The purpose of democracy is to represent the electorate and not the absentee who stands between the resident and the resources of his homeland.

The Legislative Analyst, Mr. Hamm, estimates that over 50% of the value of taxable property in California is absentee owned. This is such a bold, bare enormous fact it is hard to believe the voters of any state will long resist the urge to levy taxes on all this foreign wealth. They may be put off by the argument that they need to attract outside capital, but that carries no weight against the large percentage of this property which is land value.

Some half of any reduction in California property taxes leaks out of state to outstate owners. This is not the only leakage, either. Net federal income tax payments will rise by \$1.5 billion, until other deductible taxes rise to replace lost property taxes. Matching grants from the federal government will decline, as will maintenance-of-effort grants. So great is the complexity of federal programs that no man dares estimate the amount of loss, but it will be substantial. Sales of local general obligation bonds have stopped and will stay stopped. When revenue bonds are sold instead, the interest rates are higher. Fire insurance rates must rise. And private spending substituted for public spending will have a higher propensity to import.

This substantial leakage of economic base will result in multiple declines in state income. In the short run this has been forestalled by distribution

of the state's surplus. In the long run Jarvisites have promised an inflow of investment attracted by the drop in property tax rate. I do not foresee this myself for at least two reasons. One is that California's property tax rate has not been high enough so that even the substantial cut of Prop. 13 will make much difference to incentives. Furthermore, the structure of Prop. 13 is such that the major cuts go to property already here. New investment, on the other hand, is to be assessed at its current value and to pay the maximum in property taxes. To attract new investment California would have to assess land higher and new improvements lower. Prop. 13 does the opposite. It is not designed to attract new investors, but to cut a melon for the old.

My second reason is that there are many infrastructure bottlenecks. This is ironic since California is badly oversupplied with some kinds of extravagant public works. Yet, in some jurisdictions sewer capacity is limiting. In others, new schools are required. Prop. 13 has utterly destroyed the general obligation bonding capacity of local governments in California. Even where local governments could eke out their operating costs through user charges and various state and federal grants, there will remain a bottleneck in financing capital outlays. New districts cannot have any tax base because it is all claimed up. It is an ill wind that blows no good and this may encourage better infilling of existing patchwork developments. However, reduced land taxes on speculative holdout landowners means that this process must necessarily be slow and painful to those who must buy the land.

On balance, then, it seems that California will suffer a substantial decline in its economic base which, in a few years, will either cause the state to sink into an Alabama-like desuetude, or else repeal Prop. 13.

5. Property income generally puts the receiver on a higher plane of welfare than the same income from wages or salaries because the property owner doesn't have to work for it. And yet, property income is virtually exempt from the sales tax. There is no sales tax on rentals and certainly none on the imputed income of owner-occupied real estate. As to income taxation, walk into any real

estate office with some spare cash and you will be advised that you need a good tax shelter, there is nothing like real estate income property which remains one of the great income tax loopholes. The property tax is all we have that moves in on this unpreempted tax base.

6. Property, particularly land, has been bought and sold for years on the understanding that it was encumbered with peculiar social obligations. These are part of our social contract in effect. They compensate those who have been left out. Black activists have laid great stress in recent years on the importance of getting a few people into medical and other professional schools. Does it not make more sense that the landless black people should have through the property tax the benefit of some equity in the nation's land from which their ancestors were excluded while others were cornering the supply?

A popular theme these last few years is that property owners should pay only for services to property, narrowly construed. But who, then, is to pay for welfare -- the cripples? And, who is to pay for schooling -- the children? Who should sacrifice for the blacks -- Alan Bakke? Who should finance our national defense -- unpaid conscripts? The whole concept that one privileged group of takers can exempt itself from the giving obligations of life rather denies that we are a society at all.

7. Howard Jarvis was fond of referring to the "dictator countries." Heavy property taxation leads us right into their pattern, he alleged. No one at all familiar with conditions in Guatemala, Nicaragua, Colombia, Peru, or Ecuador would give any credence to this peculiar reversal of truth. The fact is these countries have been dominated for centuries by oligarchies whose primary motive is to prevent any substantial taxation of their property. Indeed, to predict the long term effects of Prop. 13 we could do no better than study these "dictator countries," which have had Prop. 13 for most of their history.

Jarvis also stressed the importance of saving America from the "English disease," which he associated with high property taxes. Again, the association

was made without observing the actual situation. England has no property tax at all as we know it, but a system called "rates" which is based on imputed rental value of improved land and exempts vacant land altogether. There is an "English disease" all right, but it consists of extremely high income tax rates on wages and salaries. Property in England is treated more deferentially than in most other leading countries of the world, both under "rates" and the English income tax.[†]

8. We can ask that a single standard be applied to owners troubled by higher taxes and tenants troubled by higher rents. When widow A is in tax trouble it is time to turn on Hearts and Flowers, forebode darkly, curse oppressive government, and demand tax relief. When widow B has trouble with escalating rents, that touches a different button. You have to be realistic about welfare bums who play on your sympathy so they can tie up valuable property. You have to pay the bank, after all. A man will grit his teeth and do what he must: garnishee her welfare check. If it's too little, give notice. Finally, you could call the Sheriff. Go to the beach until it's over -- that's what we pay taxes for. Welfare is their problem.

Anyway, widow B is not being forced out of her own house, like widow A and so many like her. Jarvis said that taxes are forcing three million Californians from their homes this year. But in truth, evictions are frequent; Sheriff's sales are rare. Those who do sell "because of taxes" (they say) and all their other circumstances usually cash out handsomely which is, after all, why their taxes had gone up.

And yet, rather than needle people for hypocrisy we might better seize upon the kernel of truth in the puritan ethic underlying the double standard and turn it to a constructive end, a theme which I develop presently.

[†]Jarvis's new national campaign is to make the U.S. income tax more like the English one by exempting capital gains. The dedication to unearned increment and concentrated wealth remains his trademark. If this be "populism," Wm. Jennings Bryan was a hard-money atheist. This is imported English disease, only lacking the redeeming graces of noblesse oblige.

c. Historical experience with assessment freezes such as proposed in Prop. 13 shows them to be a can of worms, just as bad as rent control. In the case of Prop. 13 it is worse because it now seems we will get both, the freeze having created a new demand for rent control. About 10 years ago, W.A.C. Bennett, the British Columbia Premier, slapped a 5% ceiling on annual increments to property assessments. In just a few years, this produced such glaring inequities and anomalies that British Columbia only last year moved manfully out from under it and went back to current market valuation. The experience and its failure is there for all to see. It is probable that in California under Prop. 13 in 10 years homeowners who now pay one third of the property tax will pay two thirds, owing to the higher turnover of owner-occupied homes than corporate lands. It is inevitable that the assessed value of land will fall relative to buildings because buildings must be replaced every few decades whereas land never must, or can be.

Then there is the fruit tree anomaly. Under Prop. 13, a tree can only be assessed at its value when planted, with a 2% annual increment. The value of a seed thrown in the ground or even a sapling planted from nursery stock is so small compared with the mature tree that this is virtual exemption. This anomaly rather graphically illustrates how Prop. 13 automatically favors any appreciating property over depreciating property. The greatest gain here goes, of course, to appreciating land.

The technical complications are endless; uniformity will be the victim. Property is to be reassessed when transferred. What happens if I own a one quarter undivided interest in real estate and sell it? What if I incorporate my real estate and sell shares to avoid being reassessed? You may be sure the lawyers are preparing many loopholes. Let us get the word to all the defenders of the market mechanism, the believers in neutrality and uniformity in taxation, many of whom were so prominent in support of Prop. 13. Is this the kind of tax system that free enterprisers believe will create an efficient allocation of resources? They owe us more consistency with their ideals and professions; or else the candor to say their allegiance is to wealth first, and efficiency when convenient.

d. Experience would suggest that property tax defenders had best promote stability of land values. In the 1930's we had property tax revolts because the value of property dropped so low. In 1978 we had a revolt because property values rose so high. For decades people put off tax reform saying it is all right to tax away the unearned increment of those who have owned property whose value rose, but it is wrong to raise taxes on people who have just bought at a high price. But then, when prices actually rose the winning theme was just the opposite. People whose property rose through no "fault" of their own should not be burdened with increased taxes. Many Californians like myself have made more money in the last two years from the increased value of their homes than they have working for a living. And yet, most of them turned angrily against the incumbents for a small increase in taxes that was asked in return. It reminds one of the sergeant's lament in the Second World War: "The trouble with youse guys, you never had it so good before."

What can a legislature do to stabilize soaring land values today? It can avoid policies which lock up valuable land in cold storage, policies like the Coastal Zone Commission Act, the Williamson Act, and the California Timber Preserve Zone Act (the last, little known, bases timber land assessments on their low use value growing timber rather than on their market value, often based on demand for recreation.) It can distribute state subventions in proportion to population strictly, thus discouraging exclusionary zoning policies. The social costs of these policies are high and there is no gratitude from the beneficiaries, the owners of enhanced land values. So avoid them.

e. Legislators should take pains to explain to their constituents how the property tax system works. As California moved towards partial compliance with the Serrano decision, something called "slippage" came into school finance as a partial move towards power equalization. It meant that in some school districts, as assessed values and taxes rose for schools, the voters could not see any comparable improvement in their schools because part of the added taxes were going elsewhere. This, in turn, made local school administrators look bad

and thrust on them the burden of explaining the system to a skeptical public. The California legislators, meanwhile, were too clubby, talking to each other. State officials developed an inside language of acronyms, abbreviations, and recondite terms. Voter alienation was the inevitable outcome.

f. Build no surpluses. Surpluses attract raiders and raiders are likely to be organized landowners. "Property never sleeps," said the jurist Blackstone, "one eye is always open." Even though the surplus was built up by taxing income, Howard Jarvis made it seem the most righteous thing in the world that it should be distributed to property owners. He was geared up for this because his landlord patrons kept him in the field constantly.

There, then, is a list of lessons that property tax supporters may learn from California's self-inflicted wound. But there is, I believe, an even deeper lesson to learn which is that there actually are some warts on the property tax, and we might make an even stronger case by reforming it in a constructive way. The property tax does penalize people for creating and importing capital. It does penalize people for improving their homes. It does slow down urban renewal. It does bias landowners against improving land to its highest and best use. But all these and other faults may be corrected simply by modifying the property tax base to exclude improvements and include only land value. Economists of many generations beginning before and with Adam Smith and continuing to the present, have preached on the advantages of land as a tax base. Let us enumerate a few.

A tax on land values is the only tax known to man which is both progressive and favorable to incentives. One can only wax lyrical about a tax that combines these two properties, because the conflict between progressivity and incentives has baffled tax practitioners for centuries to this day.

A land tax is progressive because the ownership of the base is highly concentrated, much more so than income and even more so than the ownership of machines and improvements; and, the tax on land values cannot be shifted to the consumer. The tax stimulates effort and investment because it is a fixed charge

based merely on the passage of time. It does not rise when people work harder or invest money in improvements. Think about this. It is truly remarkable. With the land tax, there is no conflict but only harmony between progressivity in taxation and incentives to work and invest. It solves in one stroke one of the central divisive conflicts of all time.

It does that because it cuts only the fat, not the muscle. It takes from the taxpayer only economic rent, only the income he gets for doing nothing. If people could grasp this one overriding idea then the whole sterile, counter-productive, endless impasse between conservatives who favor incentives and liberals who favor welfare would be resolved in a trice, and we could get on to higher things.

The property tax levied on land values makes the landowner compensate the landless for their exclusion in three ways. First, the landowner supports government. Second, he has to use his land to produce goods and services for consumers. And, third, he has to offer jobs to workers to use his land. This combination seems hard on the property owner but, on the other hand, exempting improvements satisfies the need to reward people for saving and accumulating capital. Liberals may scoff at the latter, thus alienating potential friends. But this is both a cultural need and an economic need. It is a cultural need because of the puritan ethic. The elderly homeowner with a cash flow problem is seen as a sympathetic figure rather than a welfare bum because the possession of capital is the evidence of a good, responsible life. The person once had the self-denial to consume less than his income. It is an economic need because creating capital is functional, unlike collecting economic rent or land-fat.

The list of economists who see merit in this approach is several pages long. There is an extensive literature which I commend to your study with one warning that, whereas some of the later 19th century literature is Messianic, the modern scholastic style overreacts and is too timid or pedestrian sufficiently to signalize the remarkable qualities of a tax which is both progressive and favorable to incentives.

Let us, rather, look at some objections. A frequent one is that changing the tax system this way constitutes too great a shock or shift. In the present context, forget it. Prop. 13 constitutes a much more massive redistribution of wealth and the voters faced with this choice simply said "Whoopie!" The electorate is asking for big changes so let's not pretend that this is a barrier.

People have objected that exempting buildings would reduce the tax base. Again, in today's context, forget it. People are asking that the tax base be reduced. Public bodies may take comfort in the fact that the tax reduction caused by exempting buildings is much less than might at first appear because the exemption of buildings from tax is capitalized into higher land values. And there is no economic limit on how high the land tax rate may go, once the public accepts the system.

People have objected that it is too late to shift to the taxation of land values because people have bought at high prices and society owes them a return on this investment. In today's context, forget it. For one thing, we are talking here about exempting buildings not necessarily about increasing land taxes (although I personally favor that). For another thing, Prop. 13 was justified not for the sake of those who bought at high prices, but the reverse. It is deliberately rigged to impose higher assessments on recent purchasers than on ancient possessors. The voters did not require better treatment for recent buyers.

For yet another thing, most owners of unimproved land whose taxes would not fall, and might rise, can do something about it by subdividing or improving their land, without any resulting rise of taxes.

People used to object, and some still do, that farmers might be penalized. While in some rural states farmer power will not let us forget this, the argument has little real force. The main answer is to collect and acquaint oneself with the facts about ratios of land to improvements for various classes of property.

Both urban land and farmland are heterogeneous. As to land/capital ratios, the differences within these classes are much greater than the differences between them. Again, the farmland owner is quite likely to live in the city, and the banker or matinee idol is quite likely to own several farms, so the idea that we have a class of citizens called "farmers" who require special treatment is obsolete. The latest USDA estimate shows that "farmers" are now reporting nearly half again as much nonfarm income as farm income.

In my analysis of British Columbia assessed values I find that the ratio of land to building values is much higher in Vancouver than anywhere else in the province, and quite low in the rural areas. Within the Vancouver regional district the ratio of land to building is much higher for commercial land than for farmland. The ancient antipathy of "farmers" to land taxes is based on empty rhetoric, misinformation and confusion, not on fact.

A more substantial objection is that new developments may cost cities more to serve than they return in taxes. The property tax on buildings is viewed by many as a kind of user charge to compensate for the loads which new residents place on community services and facilities. To the extent that this approach has merit, however, a tax on the value of buildings is only the crudest surrogate for a user charge. Many fiscal deficit generators get in under this radar. Old decaying houses are the most obvious example. As to trailers and tract homes, one reason they may generate fiscal deficits is that the lucky landowner is allowed to walk off with most of the potential surplus in the absence of adequate land taxation. But, more generally there is a large and rapidly growing problem of local awareness of its fiscal bookkeeping, a problem which in my opinion can only be met by distributing state revenues on a per capita basis, regardless of the mode of property taxation.

Summing up, Walter Rybeck has sagely suggested that we distinguish two functions of business: wealth-creating and resource-holding. A good tax system will not make people pay for creating wealth but simply for holding resources.

Most taxes wait on a "taxable event" -- they shoot anything that moves, while sparing those who just sit still on their resources. If we really want to revive the work ethic and put the United States back on its feet we had better take steps to change the effect of taxes on incentives. Legislatures have gotten in the habit of acting as though persons with energy and talent and character for self-denial should be punished, as if for some prenatal crime against humanity. We cannot study the tax laws without inferring that Congress regards giving and receiving employment to be some kind of social evil, like liquor and tobacco, to be taxed and discouraged by all means not inconsistent with the rights of property. Little wonder the natives are getting restless. But if, instead, we learn to tax people for holding resources rather than creating wealth and serving each other's needs, we will make a giant step towards creating a good and healthy society.

D. INITIATIVE PETITIONS

Headlee

INITIATIVE PETITION AMENDMENT TO THE CONSTITUTION

PROPOSED CONSTITUTIONAL AMENDMENT ADDING SECTIONS 25, 26, 27, 28, 29, 30, 31, 32, 33, & 34 TO ARTICLE IX AND AMENDING SECTION 6 OF ARTICLE IX

Article IX of the Michigan Constitution is hereby amended by adding Sections 25, 26, 27, 28, 29, 30, 31, 32, 33, & 34, and by amending Section 6, such additions and amendments to read as follows:

Sec. 25. Property taxes and other local taxes and state taxation and spending may not be increased above the limitations specified herein without direct voter approval. The state is prohibited from requiring any new or expanded activities by local governments without full state financing, from reducing the proportion of state spending in the favor of local governments, or from shifting the tax burden to local government. A provision for emergency conditions is established and the repayment of voter approved bonded indebtedness is guaranteed. Implementation of this section is specified in Sections 26 through 34, inclusive, of this Article.

Sec. 26. There is hereby established a limit on the total amount of taxes which may be imposed by the legislature in any fiscal year on the taxpayers of this state. This limit shall not be changed without approval of the majority of the qualified electors voting thereon, as provided for in Article 12 of the Constitution. Effective with fiscal year 1979-1980, and for each fiscal year thereafter, the legislature shall not impose taxes of any kind which, together with all other revenues of the state, federal aid excluded, exceed the revenue limit established in this section. The revenue limit shall be equal to the product of the ratio of Total State Revenue in fiscal year 1978-1979 divided by the Personal Income of Michigan in calendar year 1977 multiplied by the Personal Income of Michigan in either the prior calendar year or the average of Personal Income of Michigan in the previous three calendar years, whichever is greater.

For any fiscal year in the event that Total State Revenue exceed the revenue limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual return filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund.

The revenue limitation established in this section shall not apply to taxes imposed for the payment of principal and interest on bonds, approved by the voters and authorized under Section 15 of this Article, and loans to school districts authorized under Section 16 of this Article.

If responsibility for funding a program or programs is transferred from one level of government to another, as a consequence of constitutional amendment, the state revenue and spending limit may be adjusted to accommodate such change, provided that the total revenue authorized for collection by both state and local governments does not exceed that amount which would have been authorized without such change.

Sec. 27. The revenue limit of Section 26 of this Article may be exceeded only if all the following conditions are met: (1) The petition requests the legislature to declare an emergency; (2) the request is specific as to the nature of the emergency, the dollar amount of the emergency, and the method by which the emergency will be funded; and (3) the legislature thereafter declares an emergency in accordance with the specifics of the governor's request by a two-thirds vote of the members elected to and serving in each house. The emergency must be declared in accordance with this section prior to incurring any of the expenses which constitute the emergency request. The revenue limit may be exceeded only during the fiscal year for which the emergency is declared. In no event shall any part of the amount representing a refund under Section 26 of this Article be the subject of an emergency request.

Sec. 28. No expansion of state government shall be incurred in any fiscal year which exceed the sum of the revenue limit established in Sections 26 and 27 of this Article plus federal aid and any surplus from a previous fiscal year.

Sec. 29. The state is hereby prohibited from reducing the state financed proportion of the necessary costs of any existing activity or service required of units of Local Government by state law. A new activity or service or an increase in the level of any activity or service beyond that required by existing law shall not be required by the legislature or any state agency of units of Local Government, unless a state appropriation is made and disbursed to pay the unit of Local Government for any necessary increased costs. The provision of this section shall not apply to costs incurred pursuant to Article VI, Section 18.

Sec. 30. The proportion of total state spending paid to all units of Local Government, taken as a group, shall not be reduced below that proportion in effect in fiscal year 1978-79.

Sec. 31. Units of Local Government are hereby prohibited from levying any tax not authorized by law or charter when this section is ratified or from increasing the rate of an existing tax above that rate authorized by law or charter when this section is ratified, without the approval of a majority of the qualified electors of that unit of Local Government voting thereon. If the definition of the base of an existing tax is broadened, the maximum authorized rate of taxation on the new base in each unit of Local Government shall be reduced to yield the same estimated gross revenue as on the prior base. If the assessed valuation of property as finally equalized, excluding the value of new construction and improvements, increases by a larger percentage than the increase in the General Price Level from the previous year, the maximum authorized rate applied hereto in each unit of Local Government shall be reduced to yield the same gross revenue from existing property, adjusted for changes in the General Price Level, as would have been collected at the existing authorized rate on the prior assessed value.

The limitations of this section shall not apply to taxes imposed for the payment of principal and interest on bonds or other evidence of indebtedness or for the payment of assessments on contract obligations in anticipation of which bonds are issued which were authorized prior to the effective date of this amendment.

Sec. 32. Any taxpayer of the state shall have standing to bring suit in the Michigan State Court of Appeals to enforce the provisions of Sections 25 through 31, inclusive, of this Article and, if the suit is sustained, shall receive from the applicable unit of government his costs incurred in maintaining such suit.

Sec. 33. Definitions. The definitions of this section shall apply to Section 25 through 32 of Article IX, inclusive.

"Total State Revenue" includes all general and special revenues, excluding federal aid, as defined in the budget message of the governor for fiscal year 1978-1979. Total State Revenue shall include the amount of any credits based on actual tax liabilities or the unpaid tax components of rental payments, but shall exclude the amount of any credits not related to actual tax liabilities. "Personal Income of Michigan" is the total income received by persons in Michigan from all sources, as defined and officially reported by the United States Department of Commerce or its successor agency. "Local Government" means any political subdivision of the state, including, but not restricted to, school districts, cities, villages, townships, charter townships, counties, charter counties, authorities created by the state, and authorities created by other units of local government. "General Price Level" means the Consumer Price Index for the United States as defined and officially reported by the United States Department of Labor or its successor agency.

Sec. 34. The Legislature shall implement the provision of Sections 25 through 33, inclusive, of this Article.

Section 6. (New language capitalized) Except as otherwise provided in this constitution, the total amount of general ad valorem taxes imposed upon real and tangible personal property for all purposes in any one year shall not exceed 15 mills on each dollar of the assessed valuation of property as finally equalized. Under procedures provided by law, which shall guarantee the right of initiative, separate tax limitations for any county and for the township and for school districts therein, the aggregate of which shall not exceed 18 mills on each dollar of such valuation, may be adopted and thereafter altered by the vote of a majority of the qualified electors of such county voting thereon, in lieu of the limitation heretofore established. These limitations may be increased to an aggregate of not to exceed 30 mills on each dollar of valuation, for a period of not to exceed 20 years at any one time, if approved by a majority of the electors, qualified under Section 6 of Article II of the constitution, voting on the question.

The foregoing limitations shall not apply to taxes imposed for the payment of principal and interest on bonds or other evidence of indebtedness or for the payment of assessments on contract obligations in anticipation of which bonds are issued, which taxes may be imposed without limitation as to rate or amount; or to taxes imposed for any other purpose by the city, village, charter township, charter township, charter authority or other authority, the tax limitations of which are provided by charter or by general law.

In any school district which extends into two or more counties, property taxes at the highest rate available in the county which contains the greatest part of the area of the district may be imposed and collected for school purposes throughout the district.

PROVISIONS OF EXISTING CONSTITUTION ALTERED OR ABROGATED BY THIS AMENDMENT IF ADOPTED - ARTICLE IX, SECTION 6 -

Section 6. Except as otherwise provided in this constitution, the total amount of general ad valorem taxes imposed upon real and tangible personal property for all purposes in any one year shall not exceed 15 mills on each dollar of the assessed valuation of property as finally equalized. Under procedures provided by law, which shall guarantee the right of initiative, separate tax limitations for any county and for the township and for school districts therein, the aggregate of which shall not exceed 18 mills on each dollar of such valuation, may be adopted and thereafter altered by the vote of a majority of the qualified electors of such county voting thereon, in lieu of the limitation heretofore established. These limitations may be increased to an aggregate of not to exceed 30 mills on each dollar of valuation, for a period of not to exceed 20 years at any one time, if approved by a majority of the electors, qualified under Section 6 of Article II of the constitution, voting on the question.

The foregoing limitations shall not apply to taxes imposed for the payment of principal and interest on bonds or other evidence of indebtedness or for the payment of assessments on contract obligations in anticipation of which bonds are issued, which taxes may be imposed without limitation as to rate or amount; or to taxes imposed for any other purpose by the city, village, charter township, charter township, charter authority or other authority, the tax limitations of which are provided by charter or by general law.

In any school district which extends into two or more counties, property taxes at the highest rate available in the county which contains the greatest part of the area of the district may be imposed and collected for school purposes throughout the district.

(NOTE: THIS ARTICLE WILL APPEAR IN THE FIRST ISSUE OF NCSL'S BIMONTHLY FISCAL LETTER, A NEWSLETTER DEVOTED TO FINANCE AND TAX ISSUES CONFRONTING STATE LEGISLATURES. THE NEWSLETTER WILL BE MAILED TO LEGISLATORS AND STAFF WHO WORK IN THE FINANCE AREA.)

THE TAX REVOLT AND THE VOTING BOOTH:

1978 BALLOT MEASURES

In November, at least 16 states will have ballot proposals related to state and local tax revenues and spending. In ten of these states, voters will consider broad-based tax or spending limits, such as Proposition 13 or Tennessee's constitutional spending limit. (See chart) The success or failure of proposals like these may indicate the staying power of the tax revolt, and perhaps provide a preview of the role it will play on 1979 state legislative agendas.

It seems probable that several of the proposals will be approved by the voters in November. In Michigan, for example, an early September poll indicated 41 percent approved a Proposition-13 style proposal, while 44 percent supported a tax revenue limitation. In Colorado, a late September poll for The Denver Post indicated that 49 percent approved a constitutional amendment proposal which would link state and local government per capita spending increases to the growth in population and the rise in the national Consumer Price Index. In both states, sizeable undecided blocks of voters apparently hold the key to passage or defeat of the proposals. Though the outcome in these two states is by no means certain as in other states, it appears to indicate substantial public support documented in national surveys for limiting and cutting taxes.

Ballot proposals in ten of the states follow two basic patterns. Proposition 13-type limits on property tax liability are on the ballots in Idaho (one percent statutory limit), Michigan (Tisch Amendment which halves property taxes and limits assessment increases), Nevada (one percent constitutional limit which has to be passed by voters in two succeeding elections) and Oregon (one and a half percent constitutional limit). Alabama voters will consider a constitutional referendum which not only increases the number of property classes, but also limits property taxes liabilities within each classification.

Voters in seven states will consider constitutional measures which limit overall state spending or taxing power. Of course, the central difference among the proposals is whether they limit spending, as do

the measures proposed in Arizona, Colorado, Hawaii, Nebraska, Oregon (referendum), and Texas (state spending), or whether they limit the amount of taxes to be levied, as in Idaho, Michigan (both Headlee and Tisch proposals), Nevada, Oregon (both referendum, which reduces property taxes, and initiative) and Texas (limit on local property tax; prohibition of income taxes). But on a more technical level, the major similarities or differences among these proposals center on three issues: the basis of the limit; the means by which the limit can be exceeded or taxes can be changed, usually extraordinary majorities); and, the treatment of local government in terms of extending the limit and/or providing payment for state-mandated programs.

BASIS OF LIMIT

State personal income forms the basis of the state spending limits in Arizona (state spending is limited to seven percent of aggregate personal income), the state taxing limit in Michigan (the "Headlee amendment," which limits revenues to the ratio of total revenue to personal income is multiplied by the previous year's aggregate personal income), and the Oregon spending limit (the growth in state spending "shall be no greater" than the rate of growth in Oregon personal income). New Jersey's 1976 statutory limit on spending is tied to the percentage annual increase in total state personal income.

In Texas and Nebraska a flat percentage limit, like Colorado's 1977 statutory seven percent spending lid, will be considered. Nebraska's proposed five percent limit applies to local government spending only. The Texas referendum calls for a maximum ten percent increase in state appropriations from biennium to biennium, and places a five percent ceiling on local property taxes (as opposed to spending).

Colorado voters, as mentioned, will consider a constitutional limit which calibrates increases in per capita state and local spending to the increase in the Consumer Price Index over the previous year and growth in population. Finally, the Hawaii Constitutional Convention has placed a measure on the November ballot which, like Tennessee's 1978 constitutional amendment, limits the growth in state spending to the "estimated rate of growth in the state economy, as determined by law." (In Tennessee, this is formulated by an econometric model which determines the growth in total state personal income).

REQUIREMENTS FOR EXCEEDING

LIMITS OR CHANGING TAXES

In Arizona, Colorado, Hawaii and Texas proposed spending limits can be exceeded by a 2/3 vote of the members of each legislative house. The

Michigan "Headlee amendment" revenue limit can also be exceeded by a 2/3 vote of the legislators, at the governor's request to declare an emergency. Nebraska local spending could be increased with a majority vote by "qualified voters voting," by a 4/5 vote of the legislature, or by an increase in population over five percent.

In Idaho, Nevada and Oregon the property tax limit proposals contain requirements for a 2/3 vote of the legislature to enact new taxes or change existing ones. The Oregon referendum (as opposed to its initiated Proposition 13 proposal) requires that any increase of more than five percent in a particular tax source receive a 2/3 favorable vote.

LIMITS AND LOCAL GOVERNMENT

Of the seven states with overall tax or spending limit proposals, only two measures in Arizona and Hawaii apply limits to the state level only. Nebraska, Colorado, Texas and Michigan apply fairly strict limits on local governments. The Nebraska limit, as noted, applies only to local government. The Colorado measure applies the same CPI and population limit to both state and local spending, whereas the Michigan Headlee amendment limits increases in local property taxes to changes in "General Price Level" only. Finally, as noted, the Texas proposal limits local property taxes to all five percent increases. The Oregon referendum essentially leaves the determination of local tax liability to the voters, where the responsibility already lies.

The issue of state mandates, or, more generally, state reimbursements to local governments, is becoming increasingly important as local revenues are limited. Three of these seven proposals—the Michigan Headlee amendment, Hawaii's ballot measure and Colorado's—contain provisions whereby the state pays for any increased costs incurred by programs it transfers to or mandates on local government. The Oregon referendum contains perhaps the most straight forward program of state aid to local government. Under it, the state reimburses local governments for citizen property tax reductions of up to \$1500 per taxpayer.

OTHER BALLOT PROPOSALS

Voters in six other states will consider related proposals. In Illinois and in most state senatorial districts in Massachusetts, voters can register their support of spending limits by voting for advisory, non-building proposals. Arkansas and North Dakota voters will consider

reforms in state-generated taxes, removing food from the sales tax in Arkansas and reducing income taxes in North Dakota. Missouri voters can enable the legislature to adopt property tax roll-backs. Finally, South Dakota voters will decide whether a tax change or increase will require a 2/3 vote of the legislature.

Copies of ballot measures from Arizona, Colorado, Hawaii, Michigan, Nebraska, Oregon and Texas are available in the NCSL Denver office, attn: W. Austermann.

STATE ACTIVITY: TAX AND SPENDING LIMITS AND RELATED MEASURES

September 1978

November, 1978 Ballot Proposal*		Concrete indication that Legislatures will consider significant tax reform proposals in 1979 session.†
ALABAMA	●	Referendum to increase number of property tax classifications, prohibits property tax from exceeding variable percentage of fair market value
ALASKA		NTLC† reports activity; 3 cities have local initiative campaigns for tax limits
ARIZONA	●	Referendum-constitutional amendment calling for 7% limit of state personal income on state spending bid
ARKANSAS	●	Initiative to eliminate sales tax on food
CALIFORNIA		In addition to Proposition 13, California Legislature passed a one-time tax credit for state income taxes and instituted indexation of income tax brackets and personal exemption
COLORADO	●	Initiated constitutional amendment to limit state spending to the growth of the Consumer Price Index
CONNECTICUT		NTCL pushing TEL†† Constitutional Amendment for legislature to refer to voters
DELAWARE		Legislature limited appropriations to 98% of anticipated revenues, Governor supporting constitution amendment requiring 3/5 vote of legislature to increase taxes
FLORIDA		Interim committee studying various options, 1979 legislative action a good possibility
GEORGIA		Observers predict legislative action on TEL in 1979 session. Several cities instituting a 1% sales tax as a property tax relief measure
HAWAII	●	Constitutional Convention will refer TEL almost identical to Tennessee amendment on November ballot, except that it required a 1/2 vote to exceed limit
IDAHO	●	Statutory initiative which, like Proposition 13, limits property taxes to 1% actual market value and calls for 2/3 legislative vote to change taxes
ILLINOIS	●	Advisory, non-binding ballot measures asking whether there should be spending limits
INDIANA		No activity predicted until legislative session, at which time current property tax limits expire
IOWA		Strict local limits already in place. Constitutional TEL would require approval of 2 consecutive legislative sessions
KANSAS		No initiative process. Citizen advisory committee is studying issue. Possibility of local sales tax to reduce property tax burden
KENTUCKY		No action until legislature convenes in 1980. Various gubernatorial candidates are supporting limits, but no evidence of unified activity
LOUISIANA		No activity currently. In 1974, revised constitution adopted which exempts first \$50,000 of assessed residence value from property tax. Legislature recently rejected indexation
MAINE		Legislature referred nothing to November ballot during Sept. 1978 special session. Constitutional vs. statutory limit was at issue. Probable session activity
MARYLAND		Citizen petitions being circulated to pressure legislature to adopt TEL
MASSACHUSETTS		TEL constitutional amendment passed by 1978 Legislature. Must be passed again to go on 1980 ballot. Advisory initiative in most state Senatorial districts, calling for TEL. Citizen petition drive for 2 1/2% limit on property taxes
MICHIGAN	●	3 constitutional initiatives have qualified for the ballot. Headlee Amendment ties state spending to growth in personal income. Ties property tax limit halves property taxes and limits assessment increases. Voucher education proposal also on ballot. Headlee and Ties amendments facing court challenges
MINNESOTA		Business drive to reduce taxes. Legislature will consider sales tax replacement for property taxes
MISSISSIPPI		No activity reported. According to CAPE, pending school funding case could affect tax structure
MISSOURI	●	Referendum to amend constitution to authorize legislative roll-back of mill levies in response to inflated assessments
MONTANA		Call for special session on this issue (made by 4 votes. 1979 session activity predicted)
NEBRASKA	●	5% limit on local government spending

November, 1978 Ballot Proposal*		Concrete indication that Legislatures will consider significant tax reform proposals in 1979 session.†
NEVADA	●	Constitutional initiative to limit property taxes to 1% of full cash value. Must be passed by voters in 2 succeeding elections, therefore, couldn't go into effect until 1980
NEW HAMPSHIRE		Soeaker has established Task Force, consisting of 5 key chairmen, to study tax and spending limits
NEW JERSEY		1976 Statutory spending limit continued by 1978 General Assembly. Spending tied to growth in aggregate personal income
NEW MEXICO		No activity reported. In 1979 session, legislature enacted 10% lid on property tax assessment increases. Legislature may consider indexation
NEW YORK		Limitation, curtailing state spending to 8% aggregate personal income, introduced in legislature
NORTH CAROLINA		No activity reported until 1979 Legislative Session
NORTH DAKOTA	●	Statutory initiative to reduce individual income tax rates, increase number of income tax brackets, and to increase corporate income tax rates
OHIO		No action until 1979 ballot
OKLAHOMA		No activity reported. Measure to repeal all direct taxation was disqualified on technical grounds
OREGON	●	Two ballot proposals: Initiated constitution amendment limiting property taxes to 1% of 1975 fair market value. Legislature referred measure which calls for a TEL and residential property tax reductions of up to \$1500 with state reimbursing local governments
PENNSYLVANIA		Move to establish initiative process. Group also pushing Proposition 12 - a Jarvis-like limit which must be passed in 2 sessions of the legislature to appear on ballot
RHODE ISLAND		No activity anticipated until legislative session, during which tax relief measures and Proposition 13 proposal will be considered
SOUTH CAROLINA		Legislature will consider proposal to allow initiatives and measure to limit income taxes
SOUTH DAKOTA	●	Referendum to require 2/3 vote by Legislature or people to increase taxes
TENNESSEE		Constitutional amendment passed in March, 1978 to limit spending to "growth in state economy, the measure of which to be established by Legislature. 1979 Legislature will probably use some measure of personal income
TEXAS	●	Referendum measure to limit state appropriations, reduce property taxes and prohibit income taxes
UTAH		Referendum petition to 1979 Legislature to remove sales tax on food. Substantial legislator interest in statutory TELS. Prop-13 type initiative gathered enough signatures; did not qualify because of technicality
VERMONT		No activity reported. Because of no initiative provision, none likely until 1979 Legislative session
VIRGINIA		Group pushing to have Legislature consider limitation on taxes as percentage of personal income. Prefiled bills on tax and budget reform
WASHINGTON		Petition to 1979 Legislature calling for TEL. Through procedure, measure goes on ballot even if legislature votes against it
WEST VIRGINIA		1932 tax limit still in force. Will have ballot proposal changing voter percentage level to pass bonds. No indication of tax revolt here
WISCONSIN		1978 Tax Reform Commission evaluating current tax mix and burden. Considering measures such as indexation, etc.
WYOMING		Prefiled bills to remove sales tax on food and to enact TEL. Governor proposing referendum to reduce property taxes by 33%, making up lost revenue through 5% severance tax increase

*This includes all tax-related measures. General limitation proposals will appear on ballots in Arizona, Colorado, Hawaii, Michigan, Nebraska (local spending), Nevada, Oregon, and Texas.

†This column refers to those states in which definite activity is indicated, either through citizen petition, prefiled bills, gubernatorial action, etc. It is by no means meant to be comprehensive.

NTLC: National Tax Limitation Committee

TEL: Tax Expenditure Limit, usually calibrating state spending to some measure of state economic growth

Source: NCSL staff compilation and update based on recent surveys done by the Coalition of American Public Employees (CAPE) and the Educational Commission of the States (CES)

Enrolled

House Joint Resolution 84

Sponsored by COMMITTEE ON PROPERTY TAX RELIEF AND
EXPENDITURE LIMITATION

Be It Resolved by the Legislative Assembly of the State of Oregon:

Paragraph 1. The Constitution of the State of Oregon is amended by creating a new Article to be known as Article IXa and to read:

ARTICLE IXa

SECTION 1. For each fiscal year beginning on and after July 1, 1979, the Legislative Assembly shall provide for the payment of one-half of the ad valorem property taxes imposed upon each owner-occupied principal residence from the personal income tax receipts of the state. However, the amount of taxes paid for each residence shall not exceed \$1,500 for 1979-1980. For each year thereafter, the Legislative Assembly may increase the maximum amount of taxes payable.

SECTION 2. The Legislative Assembly shall provide for refunds by the state from personal income tax receipts to renters of that portion of rent paid for property taxes on principal residences estimated to provide individual relief equivalent to that provided homeowners by section 1 of this Article.

SECTION 3. (1) Each biennium, growth of state governmental operating expenses for general governmental purposes shall be no greater than the rate of growth of personal income in Oregon in the two preceding calendar years. However, for the 1979-1981 biennium the base to which the rate of growth applies shall equal 95 percent of state governmental operating expenses in the 1977-1979 biennium. Payments under sections 1 and 2 of this Article, debt service and expenditures reimbursed by local governments shall not be considered operating expenses.

(2) After July 1, 1979, whenever the balance in revenues available for state governmental operating expenses at the end of a biennium exceeds the amounts appropriated for such expenses for that biennium by two percent or more, the total amount of the excess shall be distributed to personal income taxpayers proportionately to each taxpayer's personal income tax liability.

SECTION 4. (1) The enactment of any tax measure that increases state revenues from a tax category by more than five percent of the state revenues from that category in the preceding biennium shall require the affirmative vote of two-thirds of the members of each house of the Legislative Assembly.

(2) This section shall not apply to any measure referred to the people by the Legislative Assembly.

SECTION 5. (1) No school or other local government expenditures for governmental operating purposes derived from ad valorem property tax revenues shall increase in any year at an annual rate in excess of the rate of increase within the school or local government in population served adjusted by price changes but the limitation shall not be less than the tax base authorized under section 11, Article XI of this Constitution. Expenditures for capital construction, expenditures for the payment of

bond principal and interest and expenditures for the payment of contractual obligations where the obligations were incurred and their payment out of ad valorem property tax revenues was approved by the voters prior to December 31, 1978, shall not be construed as governmental operating expenses.

(2) The limitation imposed by this section may be exceeded by the school or local government voters. No portion of any additional property tax levied as a result of such vote shall be paid by the Legislative Assembly under sections 1 and 2 of this Article. The amount of any additional expenditures over the limitation authorized by the voters shall be excluded in determining the amount of permitted expenditures in the subsequent year. If an election is required to exceed the tax base in order to reach the expenditure limitation, the ballot used at the election to exceed the base shall bear substantially the following statement: "If this measure is approved, 50 percent of the taxes on each owner-occupied residence up to \$1,500 will be paid by the state and comparable tax relief will be given to renters." The ballot used at the election to exceed the expenditure limitation described in this section shall bear the statement: "If this measure is approved, \$_____ of the taxes levied will be financed completely by local property taxpayers without any state payment under Article IXa of this Constitution."

(3) No portion of either the taxes levied serially for capital construction approved by the voters after December 31, 1978, or the taxes levied for the payment of bond principal and interest on bonds approved by the voters after December 31, 1978, shall be paid by the Legislative Assembly under sections 1 and 2 of this Article.

(4) No local government shall declare an emergency in any measure regulating taxation or exemption.

SECTION 6. (1) The assessed value of property in Oregon shall be that assessed value determined as of January 1, 1979. New property, newly constructed property or additions to existing property shall be assessed at values as if the property were first placed on the assessment and tax roll as of January 1, 1979. The 1979 Legislative Assembly shall review, study and revise as necessary the statutes and practices affecting the apportionment of ad valorem taxes among the taxable properties.

(2) This section shall expire and stand repealed on December 31, 1980.

SECTION 7. The Legislative Assembly shall enact legislation to carry out the provisions of this Article.

SECTION 8. If this ballot measure and Ballot Measure No. 6 are both approved, the ballot measure receiving the greater number of affirmative votes shall become part of this Constitution and the other ballot measure is repealed. This section shall expire and stand repealed on January 1, 1979.

Paragraph 2. The amendment proposed by this resolution shall be submitted to the people for their approval or rejection at the next regular general election held throughout this state.

AMENDED IN ASSEMBLY FEBRUARY 28, 1978

AMENDED IN ASSEMBLY FEBRUARY 23, 1978

AMENDED IN ASSEMBLY FEBRUARY 16, 1978

AMENDED IN ASSEMBLY FEBRUARY 9, 1978

AMENDED IN SENATE JANUARY 25, 1978

AMENDED IN SENATE JANUARY 17, 1978

AMENDED IN SENATE JANUARY 10, 1978

AMENDED IN SENATE MAY 23, 1977

AMENDED IN SENATE MARCH 21, 1977

AMENDED IN SENATE MARCH 10, 1977

SENATE BILL

No. 1

Introduced by Senator Behr

(Principal coauthors: Senators Beverly, Gregorio, and
Rains)

(Senate coauthors: Senators Mills, Alquist, Cusamovich,
Marks, Robbins, Roberti, Ayala, Presley, and Sieroty)

(Assembly coauthors: Assemblymen Arnett, Greene, Hart,
Imbrecht, Keene, Levine, Rosenthal, Vincent Thomas,
Tucker, and Wornum)

December 6, 1976

An act to amend Section 27421 of the Government Code, to amend Sections ~~253.5~~, 2260, 2264, 2265, 2305, 2306, 2307, 2308, 2309, 2325, 2325.1, ~~2611.5~~, 11401, 11403, 17053.5, ~~17062.1~~, 17505, ~~20507~~, 20542, 20543, and 20544 of, to add Sections 37, 253.6, 401.6, 1603.5, 2187.5, ~~2231.1~~, 2261, 2263, ~~17062.2~~, ~~17062.1~~, ~~17062.5~~, ~~17062.2~~, ~~18162.7~~, ~~20505.1~~ and 20505.2 to, to add Article 10 (commencing with Section 2350) to Chapter 3 of Part 4 of Division 1 of, to add Division 3 (commencing with Section

50000) to, and to repeal Sections 2261, 2262, 2263, 2263.1, 2263.2, 2266, and 2267 of, the Revenue and Taxation Code, and to amend Sections 11008.4, 12400, and 14150 of the Welfare and Institutions Code, relating to taxation, ~~making an appropriation therefor~~, and declaring the urgency thereof, to take effect immediately.

LEGISLATIVE COUNSEL'S DIGEST

SB 1, as amended, Behr. Taxation.

Under existing law, all taxable property on the secured roll is subject to taxation at the same rate, while property on the unsecured roll is subject to taxation at the rate applied to the secured roll for the prior fiscal year, and the first \$7,000 of the full value of an owner-occupied dwelling is exempted from taxation.

This bill would provide for the taxation of owner-occupied dwellings at a different rate than other taxable property.

Existing law limits the maximum property tax rate which may be levied by local agencies.

This bill would revise the method of computing maximum property tax rates so that local agencies shall receive a specified amount of tax revenues, reduced by certain reduced costs of specified social service programs.

Existing law authorizes a \$37 credit against taxes due under the Personal Income Tax Law for qualified renters. If the amount of the credit exceeds income tax liability, the excess is paid to the claimant.

This bill would change the amount of the credit or payment to \$75, commencing with taxable years beginning on and after January 1, 1978.

Under existing law, payments of state funds are made to homeowners and renters 62 years of age or older on the basis of a percentage (determined by total household income) of property taxes paid by homeowners or the statutory property tax equivalent presumed to be paid by renters.

This bill would ~~extend such benefits to totally disabled persons; and~~ would revise the schedule of benefits payable to homeowners and renters.

~~Existing state law does not impose a tax on transfers of real property but authorizes counties and cities to impose such~~

taxes:

This bill would, with specified exceptions, impose a preference tax of 5%, or in the case of certain individuals who are 62 years of age or older, 2½%, commencing January 1, 1978, on the income derived from the transfer of certain owner-occupied dwellings, and certain income from the sale of non-owner-occupied dwellings, as defined by the bill.

Existing law does not limit the amount of revenues collected by the State of California.

This bill would set a state revenue limit which is increased annually by the percentage increase in California Personal Income multiplied by a revenue elasticity factor.

Under existing law, counties are required to pay a specified share of the costs of the Supplementary Program for the aged, blind and disabled and specified Medi-Cal programs.

This bill would alter counties' shares of such programs according to a formula.

The bill would also appropriate an unspecified amount to the Controller for allocation and disbursement to local agencies for costs incurred by them pursuant to this act, and would appropriate the sum of \$5,000,000 to the Controller for payments to local agencies for claims for additional reimbursement for state-mandated costs approved by the State Board of Control.

This bill would become operative only if Proposition 8 on the ballot for the June 6, 1978, election is approved by the voters and Proposition 13 on such ballot is rejected by the voters, or is declared unconstitutional by the courts.

The bill would take effect immediately as an urgency statute, but would specify various operative dates for its provisions.

Vote: 2/3. Appropriation: yes. no. Fiscal committee: yes. State-mandated local program: yes.

The people of the State of California do enact as follows:

- 1 SECTION 1. Section 27421 of the Government Code
- 2 is amended to read:
- 3 27421. The county assessor in each county who is
- 4 designated to perform the duty of assessing property for

1 a local taxing jurisdiction shall, upon request of the
2 governing body of such jurisdiction, excluding a school
3 district, furnish not later than May 15th of each year an
4 estimate of:

5 (a) The assessed value of owner-occupied dwellings, as
6 defined in Section 2261 of the Revenue and Taxation
7 Code, on the secured roll which will be common to both
8 the next succeeding fiscal year's secured roll and the
9 current roll, as defined by such section; and

10 (b) The assessed value of all property, other than
11 owner-occupied dwellings, on the secured roll which will
12 be common to both the next succeeding fiscal year's
13 secured roll and the current roll, as defined in such
14 Section 2261.

15 Such request shall be made on or before February 20th
16 of each year. The estimate required herein shall contain
17 estimates of the total of each of the items contained on
18 the assessment roll, including total assessment valuation of
19 all owner-occupied dwellings and total assessment valuation
20 of all properties, other than owner-occupied dwellings.

21 SEC. 2. Section 37 is added to the Revenue and
22 Taxation Code, to read:

23 37. Any reference to property tax rate used in this
24 code shall be deemed to refer, where applicable, to the
25 differential tax rates established by Chapter 3
26 (commencing with Section 2201) of Part 4 of Division 1.

27 SEC. 3. Section 253.5 of the Revenue and Taxation
28 Code is amended to read:

29 253.5. Any person who is the owner or assessee of
30 property to which the homeowners' property tax
31 exemption applies shall submit to the assessor an
32 affidavit, giving any information required by the board.
33 Such information shall include, but shall not be limited to,
34 the name and social security number of the person
35 claiming the exemption and the spouse of such person,
36 the address of the property, and a statement to the effect
37 that the claimant owned and occupied the property as his
38 principal place of residence on the lien date, or that he
39 owns and intends to occupy the property as his principal
40 place of residence on the next succeeding lien date. The

1 provisions of this paragraph are mandatory.

2 The homeowners' exemption, filed by the owner of a
3 dwelling as defined in Section 218, once granted for the
4 1974/75 fiscal year or any fiscal year thereafter, shall
5 remain in effect until such time as title to the property
6 changes, the owner does not occupy the home as his
7 principal place of residence on the lien date, or the
8 property is otherwise ineligible pursuant to the
9 provisions of Section 218.

10 If the exemption is lost by the owner of the property
11 for any reason, he shall file a new affidavit required by
12 this section in the same manner as a new owner shall file
13 one.

14 SEC. 4. Section 253.6 is added to the Revenue and
15 Taxation Code, to read:

16 253.6. Any person who is not receiving or is not
17 eligible for the homeowners' exemption who is the owner
18 of an owner-occupied dwelling may file with the assessor
19 an affidavit of eligibility for a separate valuation pursuant
20 to Section 401.6, giving any information required by the
21 board. Such information shall include, but not be limited
22 to, the name of the person making the claim, the address
23 of the property, and a statement to the effect that the
24 claimant owned and occupied the property as his or her
25 principal residence on the lien date.

26 The affidavit shall be filed with the assessor any time
27 convenient to the taxpayer during normal working hours
28 of the assessor, but no later than 5:00 p.m. on April 15
29 preceding the fiscal year for which the claim is first
30 effective.

31 The board shall prescribe the form of the affidavit.

32 SEC. 5. Section 401.6 is added to the Revenue and
33 Taxation Code, to read:

34 401.6. For each parcel of land for which the
35 homeowners' property tax exemption is claimed
36 pursuant to Section 218 or for which an affidavit of
37 eligibility under Section 253.6 has been filed, the assessor
38 shall assess the land and improvements on the entire
39 parcel of property and shall, if necessary, make a
40 determination of the value attributable to the residential

1 dwelling as defined in Section 20508 of this code, and a
2 separate determination of the value of the remainder of
3 the property.

4 The board shall prescribe rules and regulations to
5 govern assessors when making separate valuations of such
6 residential dwellings.

7 The assessor shall transmit the separate valuation or
8 valuations of the residential dwelling and of the
9 remainder of the property to the auditor, who shall enter
10 the description or descriptions and the valuation or
11 valuations of the parcel on the roll, and shall compute the
12 amount of tax due thereon.

13 SEC. 7. Section 1603.5 is added to the Revenue and
14 Taxation Code, to read:

15 1603.5. When an applicant requests a reduction in the
16 separate valuations made pursuant to Section 401.6,
17 whether the reduction is requested on grounds of
18 valuation of the entire parcel, on grounds of
19 misclassification of property attributable to the
20 residential dwelling, or for any other cause, the county
21 board shall make a determination of the full cash value of
22 the whole property and shall order a change in the
23 separate valuation or valuations only if the assessed value
24 of the whole requires equalization, or shall adjust the
25 separate valuations so that each is equalized and the
26 value of the whole property is accounted for.

27 The board shall be bound by the same principles of
28 separate valuation that are applicable to the assessor.

29 SEC. 8. Section 2187.5 is added to the Revenue and
30 Taxation Code, to read:

31 2187.5. Whenever separate valuations are made
32 pursuant to Section 401.6 the lien for unpaid taxes against
33 any one of the valuations shall be a lien against the entire
34 valuation of the property subject to separate valuation
35 which is under the same ownership.

36 SEC. 8.5. Section ~~2231.1~~ is added to the Revenue and
37 Taxation Code, to read:

38 ~~2231.1~~. There is hereby appropriated five million
39 dollars ~~(\$5,000,000)~~ to the Controller for payments to
40 local agencies for claims which have been approved by

1 the Board of Control pursuant to Article 3.5
2 ~~(commencing with Section 2250)~~ of Chapter 3 of Part 4
3 of Division 4 of this code.

4 SEC. 8.8. Section 2260 of the Revenue and Taxation
5 Code is amended to read:

6 2260. The maximum property tax rates for local
7 agencies shall be those established pursuant to the
8 provisions of this article or of Article 6, 7 or 8 of this
9 chapter (commencing with Section 2201) and shall
10 exclude the following from the determination thereof:

11 (1) any property tax rate levied pursuant to Article 5 of
12 this chapter; (2) any property tax rate levied pursuant to
13 a city charter procedure ordinance for the purpose of
14 paying principal and interest on assessment bonds or for
15 the purpose of paying annual costs of maintenance and
16 operation of improvements financed pursuant to city
17 charter procedure, when the levy is made in relation to
18 benefits derived and not in accordance with the last
19 equalized city or county assessment roll; and (3) any
20 property tax rate levied on behalf of a county
21 superintendent of schools.

22 SEC. 9. Section 2261 of the Revenue and Taxation
23 Code is repealed.

24 SEC. 10. Section 2261 is added to the Revenue and
25 Taxation Code, to read:

26 2261. (a) The maximum property tax rate which may
27 be levied by, or on behalf of, a local agency on
28 owner-occupied dwellings shall be a property tax rate
29 which, if applied to common dwellings on the current
30 fiscal year's secured roll would produce an amount of
31 property tax revenue equal to the amount which would
32 have been received in the prior fiscal year had the prior
33 year's secured tax rate for owner-occupied dwellings
34 been applied to the prior year's assessed value of common
35 dwellings adjusted by the percentage change in price
36 deflator.

37 A local agency may levy a property tax rate on
38 owner-occupied dwellings lower than the maximum rate
39 computed pursuant to this subdivision, but no lower than
40 a rate which would produce the same amount of property

1 tax revenue from common dwellings as was derived from
2 such dwellings in the prior year. If a local agency wishes
3 to levy a tax rate on owner-occupied dwellings lower than
4 that provided for in this subdivision, it must do so
5 pursuant to subdivision (d).

6 (b) The maximum property tax rate which may be
7 levied by, or on behalf of, a local agency on other
8 property shall be a property tax rate which, if applied to
9 all properties on the current fiscal year's secured roll
10 (including owner-occupied dwellings) which are
11 common properties, would produce an amount of
12 property tax revenue, when added to the revenue
13 produced by the unsecured roll, equal to the sum of (1)
14 the amount which would have been received in the prior
15 fiscal year had the prior year's secured tax rate for other
16 property been applied to the prior year's assessed
17 valuation of all common properties adjusted by the
18 percentage change in price deflator, plus (2) the revenue
19 received in the prior year from the unsecured roll
20 adjusted by the percentage change in price deflator.

21 (c) Whenever the tax rate computed under
22 subdivision (a) exceeds the tax rate computed under
23 subdivision (b), the tax rate computed under subdivision
24 (a) shall be reduced to equal the tax rate computed
25 under subdivision (b).

26 (d) A local agency may levy property tax rates lower
27 than the rates provided in subdivisions (a) or (c), and
28 (b), of this section, in which case the two tax rates shall
29 be below their respective rates established pursuant to
30 subdivisions (a) or (c), and (b), by the same percentage.

31 (e) If the total amount of property tax revenue which
32 would be produced for a local agency from levying the
33 maximum property tax rates pursuant to subdivisions (a)
34 and (b) on common dwellings, and other common
35 properties, when added to the revenue from the
36 unsecured roll, is less than the prior year's property tax
37 revenue from such properties and the unsecured roll
38 adjusted by the percentage change in price deflator, the
39 maximum tax rate computed pursuant to subdivision (b)
40 may be increased to produce, when added to the revenue

1 from the unsecured roll, no more than the amount of
2 property tax revenue received in the prior year from
3 common properties other than common dwellings, when
4 added to the revenue from the unsecured roll, adjusted
5 by the percentage change in price deflator. If the
6 maximum property tax rate computed pursuant to this
7 subdivision exceeds the prior year's secured tax rate on
8 other property, then such rate shall be reduced to the
9 prior year's secured tax rate on other property.

10 (f) If the maximum property tax rates computed
11 pursuant to subdivision (a) or (c), and (b) or (e) would
12 produce a total amount of property tax revenue for a local
13 agency from common dwellings, and other common
14 properties, when added to the amount of revenue from
15 the unsecured roll, which is less than the prior year's
16 revenue from such properties, including revenue from
17 the unsecured roll, adjusted by a percentage equal to the
18 percentage change in cost-of-living (as determined
19 pursuant to Section 22i2), the maximum tax rate
20 determined pursuant to subdivisions (a) or (c) may be
21 increased so that the total amount of property tax
22 revenue which would be produced from common
23 dwellings, and other common property, when added to
24 the amount of revenue from the unsecured roll, is equal
25 to the revenue received in the prior year from such
26 properties, including revenue from the unsecured roll,
27 adjusted by a percentage equal to the percentage change
28 in cost-of-living.

29 If the computations pursuant to this subdivision
30 produce a higher property tax rate on owner-occupied
31 dwellings than on other property, then the tax rate on
32 owner-occupied dwellings shall be reduced to a rate
33 equal to the rate computed for other property. Then the
34 local agency may increase both tax rates by an equal
35 number of cents per one hundred dollars (\$100) of
36 assessed valuation in order to derive the amount of
37 revenue authorized by this subdivision.

38 Before using this subdivision, a local agency shall first
39 compute its maximum tax rate on other property
40 pursuant to subdivision (e), if applicable.

1 (g) If there is a dissolution of a local agency and the
 2 services provided by such agency are assumed by another
 3 local agency, the local agency assuming the new
 4 responsibilities shall include in its prior year's revenue for
 5 the purposes of computing maximum tax rates pursuant
 6 to this section the revenue of the dissolved agency which
 7 was attributable to the performance of such assumed
 8 service by the dissolved agency in that year.

9 (h) The county auditor shall be responsible for
 10 computing maximum tax rates pursuant to this article
 11 and shall transmit such rates to the governing board of
 12 each local agency within 15 days of the completion of the
 13 local roll.

14 Final responsibility for setting such rates shall rest with
 15 the local agency.

16 (i) In computing tax rates pursuant to this section, a
 17 city which used the city assessment roll in 1977-78, may
 18 use either the city or county assessment roll applicable to
 19 that city in such year.

20 (j) As used in this section:

21 (1) "Property tax revenue" includes revenue received
 22 from state reimbursements for the homeowners'
 23 exemption, and excludes all revenues attributable to
 24 taxation of business inventories, including state
 25 reimbursements.

26 (2) "Owner-occupied dwelling" means a property
 27 which has qualified for a homeowner's exemption, or that
 28 portion thereof for which a separate assessment is made
 29 pursuant to subdivision (a) of Section 401.6, and for which
 30 a timely filing for such exemption, or the affidavit
 31 described in Section 253.6, has been made. *For the*
 32 *provisions of this chapter, for a "cooperative housing*
 33 *corporation" as defined in Section 17265, the ratio of*
 34 *owner-occupied units in the cooperative to the total*
 35 *number of units shall be determined. Such ratio shall be*
 36 *applied to the total assessed value of the cooperative, to*
 37 *determine the assessed value of the owner-occupied*
 38 *dwellings.*

39 (3) "Common to both the current and prior year's
 40 secured rolls":

1 (A) Means, for owner-occupied dwellings, property
 2 receiving the homeowners' exemption on both rolls;

3 (B) Means, for other property, those properties for
 4 which the improvement valuation has increased by less
 5 than 50 percent of the prior year's total improvement
 6 valuation. Personal property on the secured roll shall be
 7 considered common to both the current and prior year's
 8 secured rolls if the real property to which it is secured is
 9 common to the current and prior year's secured rolls;
 10 however, personal property of banks shall not be
 11 considered common to both the current and prior year's
 12 secured rolls;

13 (C) Excludes state-assessed property;

14 (D) Excludes property which was contained within the
 15 boundaries of the local agency for purposes of the current
 16 year's roll, but was not contained within the boundaries
 17 of the local agency for purposes of the prior year's roll,
 18 due to a change in the local agency's boundaries from the
 19 prior to the current year;

20 (E) Excludes the entire assessed valuation of a
 21 redevelopment agency pursuant to Article 6
 22 (commencing with Section 33670) of Chapter 6 of Part 1
 23 of Division 24 of the Health and Safety Code;

24 (F) Excludes those properties requiring two separate
 25 valuations pursuant to Section 401.6.

26 (4) (A) "Common dwellings" means owner-occupied
 27 dwellings common to both the current and prior years'
 28 secured rolls.

29 (B) "Common properties" means properties common
 30 to both the current and prior years' secured rolls.

31 (5) "Other property" means properties other than
 32 owner-occupied dwellings.

33 (6) "Prior year's secured tax rate" means:

34 (A) For 1978-79, the secured property tax rate actually
 35 levied pursuant to this article for 1977-78;

36 (B) For fiscal years after 1978-79, the maximum
 37 authorized secured tax rate computed pursuant to this
 38 article for the prior year.

39 (7) "Percentage change in the price deflator" means:

40 (A) For computation of maximum property tax rates

1 for fiscal years 1978-79 and 1979-80, a percentage equal
 2 to the percentage change from the first calendar quarter
 3 of the prior year to the first calendar quarter of the
 4 current year in the Gross National Product deflator for
 5 goods and services purchased by state and local
 6 government, as published by the United States
 7 Department of Commerce;

8 (B) For computation of maximum property tax rates
 9 for fiscal years after 1979-80, a percentage equal to the
 10 percentage change from the first calendar quarter of the
 11 prior year to the first calendar quarter of the current year
 12 in the California Local Agency Price Deflator, a
 13 statewide index which the California Department of
 14 Industrial Relations shall prepare for local agencies in
 15 California in a manner similar to that used by the United
 16 States Department of Commerce in preparing the Gross
 17 National Product deflator for goods and services
 18 purchased by state and local government, and shall make
 19 available to local agencies in May of each year. There
 20 shall be established in the Department of Industrial
 21 Relations a California Local Agency Price Deflator
 22 Advisory Commission, composed of a representative
 23 from the Assembly, or designee, as appointed by the
 24 Speaker, a representative of the Senate, or designee, as
 25 appointed by the Senate Rules Committee, the
 26 Legislative Analyst or his designee, the Director of
 27 Finance or his designee, League of California Cities,
 28 County Supervisors Association of California, and the
 29 California Special Districts Association. The Advisory
 30 Commission shall advise and assist the department in
 31 preparing the price deflator and shall report to the
 32 Legislature its independent evaluation of the
 33 department's progress no later than June 30, 1979, and of
 34 the department's final proposal.

35 (k) For the computation of maximum property tax
 36 rates for the 1978-79 fiscal year only, if the amount of
 37 property tax revenue received in 1977-78 by a local
 38 agency with respect to common properties (defined as in
 39 paragraph (4) of subdivision (j), but with "1977-78"
 40 substituted for "current", and "1976-77" substituted for

1 "prior year's"), when added to the amount of revenue
 2 produced in 1977-78 from the unsecured roll, is less than
 3 the amount of property tax revenue received in 1976-77
 4 by such agency with respect to such common property,
 5 when added to the amount of revenue produced in
 6 1976-77 from the unsecured roll, then the local agency
 7 may use alternate maximum property tax rates for
 8 1978-79 computed by making the following adjustments
 9 in the formula contained in this section:

10 In subdivisions (a) to (j), inclusive, except for
 11 subdivision (j) (7) (A) "prior year", "prior year's", "prior
 12 fiscal year" and "1977-78" shall each refer to the 1976-77
 13 fiscal year.

14 If the computations pursuant to this subdivision
 15 produce a higher tax rate for 1978-79 on other property
 16 than levied on other property in 1977-78, and a lower tax
 17 rate on owner-occupied dwellings for 1978-79 than levied
 18 on such property in 1977-78, then the rate for other
 19 property shall be reduced to a rate no higher than that
 20 levied in 1977-78.

21 SEC. 11. Section 2262 of the Revenue and Taxation
 22 Code is repealed.

23 SEC. 12. Section 2263 of the Revenue and Taxation
 24 Code is repealed.

25 SEC. 13. Section 2263 is added to the Revenue and
 26 Taxation Code, to read:

27 2263. For cities and special districts formed after July
 28 1, 1978, the maximum property tax rate for the first fiscal
 29 year in which a property tax is levied or could be levied,
 30 shall be the rate approved by the voters when the city or
 31 district was formed; provided, however, that the
 32 maximum property tax rate for a maintenance district
 33 formed pursuant to the Improvement Act of 1911
 34 (Division 7 (commencing with Section 5000) of the
 35 Streets and Highways Code) or the Municipal
 36 Improvement Act of 1913 (Division 12 (commencing
 37 with Section 10000) of the Streets and Highways Code),
 38 may be established prior to or concurrently with the
 39 formation of such district by any petition or by
 40 supplemental written consent executed by property

1 holders owning at least 60 percent of the land to be
 2 benefited. The procedures for such petition or
 3 supplemental written consent shall follow the procedures
 4 in the Special Assessment Investigation, Limitation and
 5 Majority Protest Act of 1931 (Division 4 (commencing
 6 with Section 2800) of the Streets and Highways Code).

7 SEC. 14. Section 2263.1 of the Revenue and Taxation
 8 Code is repealed.

9 SEC. 15. Section 2263.2 of the Revenue and Taxation
 10 Code is repealed.

11 SEC. 16. Section 2264 of the Revenue and Taxation
 12 Code is amended to read:

13 2264. In the event that a local agency elects to follow
 14 the provisions of Part 3.5 (commencing with Section
 15 2131) of this division, for levying a property tax rate in
 16 certain special districts, the maximum property tax rate
 17 for such districts shall be determined as provided in this
 18 section. For all purposes of this chapter, such maximum
 19 property tax rate shall be applied to the total assessed
 20 value within such district. In such situations the actual
 21 property tax rate for such a district shall be levied in each
 22 county in which the district is situated as provided in Part
 23 3.5 without regard to the limitation provided elsewhere
 24 in this article.

25 As used in this section, "total assessed value within the
 26 district" means all assessed value in each county in which
 27 the district is located which is subject to ad valorem
 28 property taxation by, or on behalf of, such district; plus
 29 the assessed value in each such county which is
 30 attributable to the homeowners' property tax exemption
 31 and which otherwise would have been subject to ad
 32 valorem property taxation by, or on behalf of, such
 33 district.

34 SEC. 17. Section 2265 of the Revenue and Taxation
 35 Code is amended to read:

36 2265. In lieu of the maximum property tax rates
 37 established by other provisions of this article, the voters
 38 of a local agency may establish a maximum property tax
 39 rate for such agency pursuant to the provisions of Article
 40 6 (commencing with Section 2285).

1 If voted maximum property tax rates are established
 2 for a local agency, the voted property tax rates shall both
 3 exceed the maximum property tax rates computed
 4 pursuant to Section 2261 by the same number of cents per
 5 one hundred dollars of assessed valuation.

6 After the first year in which any voted maximum rate
 7 established pursuant to this section is effective, the
 8 maximum property tax rates shall be established
 9 pursuant to Section 2261.

10 SEC. 18. Section 2266 of the Revenue and Taxation
 11 Code is repealed.

12 SEC. 19. Section 2267 of the Revenue and Taxation
 13 Code is repealed.

14 SEC. 20. Section 2305 of the Revenue and Taxation
 15 Code is amended to read:

16 2305. As used in this article "functional consolidation"
 17 means the transfer, from one local agency to another, of
 18 both of the following: (1) the responsibility for providing
 19 a program or a service to an area within the jurisdiction
 20 of the transferring agency and (2) the responsibility for
 21 levying a property tax rate or rates within such area to
 22 pay the cost of such service or program. Functional
 23 consolidation does not refer to any transfer of
 24 responsibility for providing a program or a service when
 25 such transfer occurs as a result of a "governmental
 26 reorganization" as such term is defined in Section 2295;
 27 in such event, the maximum property tax rates for any
 28 affected local agency shall be determined solely as
 29 provided in Article 7 (commencing with Section 2295) of
 30 this chapter.

31 SEC. 21. Section 2306 of the Revenue and Taxation
 32 Code is amended to read:

33 2306. Whenever a functional consolidation occurs, the
 34 maximum property tax rate or rates for any local agency
 35 affected by such functional consolidation shall be
 36 determined as provided in this article.

37 SEC. 22. Section 2307 of the Revenue and Taxation
 38 Code is amended to read:

39 2307. The local agency which transfers a program or
 40 service shall reduce its maximum property tax rate as

1 provided in this section. Such reduction shall be effective
2 beginning with the fiscal year after the transfer has
3 occurred.

4 (a) The local agency shall determine the actual cost of
5 providing the transferred program or service during the
6 last full fiscal year in which such function or service was
7 provided.

8 (b) The local agency shall determine the amount of the
9 costs determined pursuant to subdivision (a) which are
10 attributable to expenses for general administration and
11 capital outlay and which cannot be transferred to the
12 agency assuming the responsibility for providing the
13 program or service; provided that such amount shall not
14 exceed 10 percent of the amount determined pursuant to
15 subdivision (a).

16 (c) The local agency shall subtract the amount
17 determined pursuant to subdivision (b) from the amount
18 determined pursuant to subdivision (a).

19 (d) The local agency shall determine the property tax
20 rate which would have been required to produce the
21 amount determined pursuant to subdivision (c) during
22 the last full fiscal year in which the transferred program
23 or service was provided and shall reduce its maximum
24 property tax rate thereby. If a local agency has a property
25 tax rate for owner-occupied dwellings and a different rate
26 for other property, the amount calculated on each rate
27 shall maintain the same proportionate relationship
28 between the two rates.

29 SEC. 23. Section 2308 of the Revenue and Taxation
30 Code is amended to read:

31 2308. The maximum property tax rate for a local
32 agency assuming the responsibility for providing a
33 program or service and for levying a tax to pay the cost
34 thereof, as a result of a functional consolidation, shall be
35 the maximum property tax rate for such agency
36 established prior to the functional consolidation plus such
37 additional rate as may be necessary to pay the actual costs
38 of providing such program or service. If a local agency
39 has a property tax rate for owner-occupied dwellings and
40 a different rate for other property, the amount calculated

1 on each rate shall maintain the same proportionate
2 relationship between the two rates.

3 The Controller may audit any rate imposed under this
4 section and if he determines that the rate exceeds a rate
5 which would be necessary to pay the actual costs incurred
6 as a result of functional consolidation, he shall
7 immediately notify the local agency of such
8 determination and the local agency shall reduce its
9 property tax rate by an appropriate amount for the next
10 succeeding fiscal year. In the event that a local agency
11 fails to make such a reduction in its property tax rate, the
12 Controller shall request the Attorney General to bring an
13 action under Chapter 2 (commencing with Section 1084)
14 of Title 1 of Part 3 of the Code of Civil Procedure to force
15 a reduction in the rate.

16 SEC. 24. Section 2309 of the Revenue and Taxation
17 Code is amended to read:

18 2309. Any adjustment in the maximum property tax
19 rate or rates of a local agency made pursuant to Section
20 2308 shall only be made in the first full fiscal year after the
21 functional consolidation has occurred.

22 SEC. 25. Section 2325 of the Revenue and Taxation
23 Code is amended to read:

24 2325. Annually, no later than 15 days after the
25 property tax rate for a local agency has been fixed, each
26 local agency shall report to the Controller, on a form to
27 be specified by the Controller, the property tax rate
28 levied by, or on behalf of, the agency for the current fiscal
29 year. Such information shall show the amount of the rate,
30 if any, levied pursuant to Sections 2260, 2261, 2263, 2264,
31 2265, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278,
32 2279 and 2280. Such information shall also show any
33 property tax rate authorized or levied pursuant to the
34 provisions of Article 6 (commencing with Section 2285),
35 Article 7 (commencing with Section 2295), and Article 8
36 (commencing with Section 2305). Information with
37 respect to any rate levied pursuant to Section 2270 shall
38 also indicate the rate levied to pay interest and
39 redemption charges on bonded indebtedness, the rate
40 levied to pay the cost of retirement and pension benefits

1 and the rate levied to make payments to special funds as
 2 required by charter. The Controller shall, by regulation,
 3 require any tax rate exempt from rate limitations
 4 imposed by this chapter to be reported in the manner
 5 specified by this section.

6 SEC. 26. Section 2325.1 of the Revenue and Taxation
 7 Code is amended to read:

8 2325.1. In the event that the Controller determines
 9 that an error has occurred in establishing a property tax
 10 rate or rates levied pursuant to any provision of this
 11 chapter, he shall immediately notify the local agency of
 12 such error and the local agency shall reduce its property
 13 tax rate by an appropriate amount for the next
 14 succeeding fiscal year. In the event that a local agency
 15 fails to make such a reduction in its property tax rate, the
 16 Controller shall request the Attorney General to bring an
 17 action under Chapter 2 (commencing with Section 1084)
 18 of Title 1 of Part 3 of the Code of Civil Procedure to force
 19 a reduction in the rate.

20 SEC. 27. Article 10 (commencing with Section 2350)
 21 is added to Chapter 3 of Part 4 of Division 1 of the
 22 Revenue and Taxation Code, to read:

23
 24 Article 10. Tax Rate Reductions for Homeowners

25
 26 2350. Notwithstanding any other provisions of the
 27 law, for fiscal years 1978-79 and thereafter, with respect
 28 to owner-occupied dwellings as defined in Section 2261,
 29 the total levied county tax rate shall be reduced by:

30 (1) A tax rate computed by dividing the amount for the
 31 fiscal year determined under Section 12400 of the
 32 Welfare and Institutions Code by the total taxable
 33 assessed value for the county for the fiscal year, and
 34 multiplying the quotient by 100;

35 (2) A tax rate computed by dividing the amount
 36 determined for the fiscal year under Section 14150 of the
 37 Welfare and Institutions Code by the total taxable
 38 assessed value for the county for the fiscal year, and
 39 multiplying the quotient by 100; and

40 (3) A tax rate computed by dividing the county cost, as

1 estimated each year by the Department of Benefit
 2 Payments and supplied to each county auditor prior to
 3 August 1 of each fiscal year, and increased or decreased
 4 by any error in the prior year's estimate, of grants for
 5 AFDC and BHI, not including the offset for collections
 6 received from absent fathers, pursuant to Section 11457
 7 of the Welfare and Institutions Code, by the total taxable
 8 assessed value for the county for the fiscal year, and
 9 multiplying the quotient by 100.

10 2351. The amounts payable by each county pursuant
 11 to Section 12400 and Section 14150 of the Welfare and
 12 Institutions Code shall be reduced by the actual
 13 reductions in tax levy caused by the tax rate reductions
 14 provided in subparagraphs (1) and (2) of Section 2350.

15 The state's share of AFDC and BHI funding shall be
 16 increased by the amount of actual reduction in tax levy
 17 caused by the tax rate reduction provided in
 18 subparagraph (3) of Section 2350.

19 2352. As used in this article: "Taxable assessed value"
 20 means the assessed value of all property, including
 21 unsecured property, on the county roll, plus state
 22 assessed property, net of all exemptions except the
 23 homeowners' exemption and the business inventory
 24 exemption, and increased by the assessed value
 25 equivalent of the timber yield tax as determined for each
 26 county by the Board of Equalization.

27 ~~2352.~~ After county tax rates have been reduced
 28 pursuant to Section 2350, the remaining total of all ad
 29 valorem property tax rates levied on owner-occupied
 30 dwellings shall be reduced by thirty-five percent.

31 2353. For the provisions of this chapter, for a
 32 "cooperative housing corporation" as defined in Section
 33 17265, the ratio of owner-occupied units in the
 34 cooperative to the total number of units shall be
 35 determined. Such ratio shall be applied to the total
 36 assessed value of the cooperative. The special lower tax
 37 rates applied to owner-occupied dwellings shall only be
 38 applied to the assessed value of the cooperative
 39 attributable to owner-occupied units.

40 2354. If the reduction in the total ad valorem property

1 tax rate levied on owner-occupied dwellings due to
 2 application of Sections 2350 and 2353 is less than forty
 3 application of Section 2350 is less than thirty percent of
 4 the tax rate which would apply to owner-occupied
 5 dwellings before the application of Sections 2350 and
 6 ~~2353~~, Section 2350, then the total ad valorem property tax
 7 rate shall be further reduced by an amount which will
 8 result in a total tax rate reduction, due to application of
 9 this section and Sections 2350 and ~~2353~~, of forty Section
 10 2350, of thirty percent.

11 2355. The county auditor shall compute the total
 12 amount of revenue loss by each taxing agency due to the
 13 tax rate reductions provided in Sections ~~2353~~ and ~~2354~~;
 14 Section 2354 and shall file for reimbursement for this
 15 amount with the Controller no later than November 15
 16 of each year. The Controller shall transmit to each county
 17 auditor one-half of the total reimbursement amount no
 18 later than December 10 of each year, and the remaining
 19 reimbursement amount no later than April 10 of each
 20 year. The county auditor shall allocate the
 21 reimbursement amounts to local agencies as though the
 22 amounts had been paid by the taxpayers.

23 SEC. 29.5. Section 2611.5 of the Revenue and Taxation
 24 Code is amended to read:

25 2611.5. (a) The following information shall be
 26 included either in each county tax bill or in a separate
 27 statement accompanying the tax bill:

28 (1) The full value and the assessed value of locally
 29 assessed property; if in addition thereto a different
 30 assessment is required for irrigation district purposes
 31 pursuant to Section 26625.1 of the Water Code, the
 32 assessed value for such purpose.

33 (2) The assessment ratio used to determine the
 34 assessed value.

35 (3) The tax rates or the dollar amounts of taxes levied
 36 by each revenue district and taxing agency on the
 37 property covered by the tax bill. An asterisk, or other
 38 distinctive mark, shall appear before the names of all
 39 special districts for which the county board of supervisors
 40 serves as the governing body.

1 (4) In lieu of itemizing the information required by
 2 paragraph (3) of this subdivision, the tax rates or dollar
 3 amounts of taxes levied on the property covered by the
 4 bill for county and city purposes. The tax rates or dollar
 5 amounts of taxes levied on the property for other
 6 purposes shall be itemized. This option is available only
 7 if the information is included on the tax bill.

8 (b) With respect to any property for which the
 9 homeowners' property tax exemption is granted, the tax
 10 bill or accompanying statement shall include, in addition
 11 to the information required by subdivision (a), the
 12 following:

13 (1) The assessed value of the property;

14 (2) The amount of the homeowners' exemption;

15 (3) The total tax rate applicable on the property
 16 covered by the tax bill;

17 (4) The gross taxes prior to the application of the
 18 homeowners' exemption;

19 (5) The amount of tax reduction attributable to the
 20 homeowners' exemption; and

21 (6) The amount of tax reduction attributable to rate
 22 reductions pursuant to Article 10 (commencing with
 23 Section 2350) of Chapter 3 of Part 4 of Division 1 of the
 24 Revenue and Taxation Code; and

25 ~~(6)~~ (7) The total taxes due on the property covered by
 26 the tax bill.

27 (c) The information required by subdivision (b) for
 28 single-family homes shall be in the form of the following
 29 example:

30		
31	(1) Assessed value of the property	\$5,000
32		\$12,000
33	(2) Homeowners' exemption.....	\$1,750
34	(3) Total tax rate applicable to the property	\$10
35	(4) Gross taxes prior to the application of	
36	the homeowners' exemption	\$500
37		\$1,200
38	(5) Tax reduction attributable to the state-	
39	financed homeowners' property tax re-	
40	lief program	\$175

1	(6) Tax reduction attributable to state fi-	
2	nanced program of cutting tax rates by	
3	30%	\$307
4	(6) (7) Total taxes due	\$325
5		\$718

6
7 (d) In any year in which all of the assessments on the
8 local secured roll have been raised or lowered as a result
9 of a board order adopted pursuant to Section 18, Article
10 XIII of the California Constitution, the full value may be
11 omitted or, if shown, the tax bill shall include an
12 explanation of the inconsistency of that figure with the
13 equalized assessed value and the announced assessment
14 ratio. The explanation required by this subdivision may
15 be printed on an enclosure accompanying such bill.

16 SEC. 30. Section 11401 of the Revenue and Taxation
17 Code is amended to read:

18 11401. On or before October 1, the board shall levy
19 upon private cars assessed under this part, for each year,
20 a tax computed at the next preceding year's average rate
21 of general property taxation in the state and shall enter
22 the tax upon a record maintained by the board for that
23 purpose.

24 For taxes imposed on private cars on October 1, 1979,
25 and thereafter, the preceding year's average tax rate on
26 property other than owner-occupied dwellings shall be
27 used.

28 SEC. 31. Section 11403 of the Revenue and Taxation
29 Code is amended to read:

30 11403. The board shall compute the average rate of
31 general property taxation in the state by (a) adding the
32 county, city, school district, and other general taxes, but
33 not the special taxes on intangibles, aircraft, baled cotton
34 or any other property which is subject to a uniform
35 statewide tax rate, nor special assessments, and (b)
36 dividing the amount obtained by the total assessed
37 valuation in the state as shown by the county tax rolls for
38 the same year.

39 "Total assessed valuation," as used in this section, does
40 not include the assessments of property which is subject

1 to a uniform statewide tax rate.
2 "Special assessments," as used in this section, mean any
3 amount levied solely against real estate or real estate and
4 improvements.

5 For taxes imposed on private cars on October 1, 1979,
6 and thereafter, the computations shall use taxes on
7 property other than owner-occupied dwellings, rather
8 than general taxes and the total assessed value of
9 property other than owner-occupied dwellings, rather
10 than total assessed value.

11 SEC. 32. Section 17053.5 of the Revenue and Taxation
12 Code is amended to read:

13 17053.5. (a) For taxable years beginning after
14 December 31, 1975, in the case of qualified renters, there
15 shall be allowed credits against the tax computed under
16 this part, minus all other credits provided for in this part
17 except the credit provided in Section 18551.1 (relating to
18 withholding credit) and the credit provided in Section
19 17061 (relating to excess tax credit). The credit shall be
20 in the amount of seventy-five dollars (\$75).

21 Except as provided in subdivision (b) of this section a
22 husband and wife shall receive but one credit under this
23 section. If the husband and wife file separate returns, the
24 credit may be taken by either or equally divided between
25 them, except as follows:

26 (A) If one spouse was a resident for the entire taxable
27 year and the other spouse was a nonresident for part or
28 all of the taxable year, the resident spouse shall be
29 allowed the full credit.

30 (B) If both spouses were nonresidents for part of the
31 taxable year, the credit shall be divided equally between
32 them subject to the proration provided in subdivision (d)
33 of this section.

34 (b) In the case of a husband and wife, if each spouse
35 maintained a separate place of residence and resided in
36 this state during the entire taxable year, each spouse will
37 be allowed the full credit provided in subdivision (a).

38 (c) For purposes of this section, a "qualified renter"
39 means an individual who on March 1 of the taxable year—

40 (1) Was a resident of this state, as defined in Section

1 17014, and

2 (2) On such date rented and occupied premises in this
3 state which constitute his principal place of residence.

4 The term "qualified renter" does not include an
5 individual who on March 1 of the taxable year rented and
6 occupied premises which were exempt from property
7 taxes, except (A) those premises on which the owner
8 pays possessory interest taxes, or makes payments in lieu
9 of property taxes which are substantially equivalent to
10 property taxes paid on properties of comparable market
11 value, and except (B) that an individual, otherwise
12 qualified, shall be deemed a qualified renter if he is
13 required to pay property taxes on his possessory interest
14 in a residence that is otherwise tax exempt during the
15 taxable year.

16 The term "qualified renter" does not include an
17 individual whose principal place of residence is with any
18 other person who claimed such individual as a dependent
19 for income tax purposes.

20 The term "qualified renter" does not include an
21 individual who has been granted or whose spouse has
22 been granted the homeowners' property tax exemption
23 during the taxable year. This paragraph shall not apply in
24 the case of an individual whose spouse has been granted
25 the homeowners' property tax exemption if each spouse
26 maintained a separate residence for the entire taxable
27 year.

28 (d) Any individual who is a nonresident for any portion
29 of the taxable year shall claim the credits set forth in
30 subdivision (a) at the rate of one-twelfth of such credits
31 for each full month such individual resided within this
32 state during the taxable year.

33 (e) Every person claiming the credit provided in this
34 section shall, as part of such claim, and under penalty of
35 perjury, furnish such information as the Franchise Tax
36 Board prescribes on a form supplied by such board.

37 (f) The credit provided in this section shall be claimed
38 on returns in such form as the Franchise Tax Board may
39 from time to time prescribe, and shall be filed with the
40 Franchise Tax Board on the date prescribed by Section

1 18432.

2 (g) For the purposes of this section, the term
3 "premises" means a house or a dwelling unit used to
4 provide living accommodations in a building or structure
5 and the land incidental thereto, but does not include land
6 only, except in the case where the dwelling unit is a
7 mobilehome.

8 (h) In the case of qualified renters whose credits
9 provided in this section exceed their tax liability
10 computed under this part, minus all other credits
11 provided for in this part except the credits provided in
12 Section 18551.1 and Section 17061, the qualified renter
13 shall be allowed a credit to the extent of his tax liability
14 plus a refund in excess of that amount up to a combined
15 credit and refund equal to the credit otherwise provided
16 in this section.

17 SEC. 22. Section 17062.3 is added to the Revenue and
18 Taxation Code, to read:

19 17062.3. (a) Except as provided in subdivision (b), in
20 addition to the other taxes imposed by this part, there is
21 hereby imposed for each taxable year, a tax at a rate of
22 5 percent of the items of tax preference as defined in
23 Section 17062.2.

24 (b) With respect to owner/occupants who have lived in
25 the same residence for five years or longer, and who are
26 aged 62 or older, the tax imposed by subdivision (a) shall
27 be at a rate of 2½ percent. The subdivision shall not be
28 operative with respect to sales after July 1, 1983.

29 SEC. 22.5. Section 17062.4 is added to the Revenue
30 and Taxation Code, to read:

31 17062.4. The tax imposed by Section 17062.3 shall be
32 subject to prepayment by the taxpayer at the time of sale.
33 A document of transfer for single family homes, or other
34 homes receiving the homeowners' exemption, shall not
35 be accepted by a county recorder for filing or recording
36 unless a tax/paid certificate or a tax exemption certificate
37 has been received from the Franchise Tax Board.

38 SEC. 22.6. Section 17062.5 is added to the Revenue
39 and Taxation Code to read:

40 17062.5. The provisions of Sections 17062.2, 17062.4,

1 Section 20503.
 2 (b) For purposes of Chapter 2 (commencing with
 3 Section 20581), was a member of the household and who
 4 was 63 years of age or older on September 30 of the
 5 calendar year in which the fiscal year for which
 6 postponement is claimed commences, in order for the
 7 claimant to be eligible for postponement of taxes on both
 8 the first and second installment of taxes in the fiscal year
 9 for which postponement is claimed, or on January 31 of
 10 the fiscal year for which postponement is claimed, in
 11 order for the claimant to be eligible for postponement of
 12 taxes only on the second installment of taxes in such fiscal
 13 year; provided, for purposes of eligibility for
 14 postponement of taxes for the 1977/78 fiscal year, an
 15 individual must be 62 years of age or older on March 15,
 16 1978.

17 SEC. 38. Section 20505.1 is added to the Revenue and
 18 Taxation Code, to read:

19 20505.1. (a) For purposes of this part, a totally
 20 disabled person is a person who is unable to engage in any
 21 substantial gainful activity by reason of any medically
 22 determinable physical or mental impairment which can
 23 be expected to result in death or which has lasted or can
 24 be expected to last for a continuous period of not less than
 25 12 months.

26 (b) For purposes of this part, an individual shall be
 27 determined to be under a disability only if his physical or
 28 mental impairment or impairments are of such severity
 29 that he is not only unable to do his previous work but
 30 cannot, considering his age, education, and work
 31 experience, engage in any other kind of substantial
 32 gainful work which exists in the state economy,
 33 regardless of whether such work exists in the immediate
 34 area in which he lives, or whether a specific job vacancy
 35 exists for him, or whether he would be hired if he applied
 36 for work. For purposes of the preceding sentence (with
 37 respect to any individual), "work which exists in the state
 38 economy" means work which exists in significant
 39 numbers either in the region where such individual lives
 40 or in several regions of the state.

1 (c) For purposes of this part, a physical or mental
 2 impairment is an impairment that results from
 3 anatomical, physiological, or psychological abnormalities
 4 which are demonstrable by medically acceptable clinical
 5 and laboratory diagnostic techniques.

6 (d) For purposes of this part, any person receiving the
 7 disabled veterans property tax exemption pursuant to
 8 Section 205.5 shall be a totally disabled person.

9 (e) The Franchise Tax Board shall by regulations
 10 prescribe the criteria for determining when services
 11 performed or earnings derived from services
 12 demonstrate an individual's ability to engage in
 13 substantial gainful activity.

14 SEC. 39. Section 20505.2 is added to the Revenue and
 15 Taxation Code, to read:

16 20505.2. The unmarried surviving spouse of a
 17 "claimant," as defined in Section 20505, shall be eligible
 18 for assistance under this chapter, regardless of age;
 19 provided, that such unmarried surviving spouse
 20 maintains as his or her principal place of residence the
 21 same residential dwelling upon which assistance was last
 22 claimed by the claimant, except in such cases where the
 23 unmarried surviving spouse must move from or sell such
 24 dwelling pursuant to the order of a court, condemnation,
 25 or involuntary conversion.

26 SEC. 39.2. Section 20542 of the Revenue and Taxation
 27 Code is amended to read:

28 20542. (a) The Franchise Tax Board, pursuant to the
 29 provisions of Article 3 (commencing with Section 20561),
 30 of this chapter, shall provide assistance to the claimant
 31 based on the property tax accrued and paid by the
 32 claimant on the residential dwelling as provided in
 33 Section 20543 or the statutory property tax equivalent
 34 pursuant to Section 20544. No assistance shall be provided
 35 if the amount of the assistance claim is five dollars (\$5)
 36 or less.

37 (b) For purposes of allowing assistance provided for by
 38 this section:

39 (1) (A) Only one owner-claimant from one household
 40 each year shall be entitled to assistance under this

1 chapter. When two or more individuals of a household
2 are able to meet the qualifications for an owner-claimant,
3 they may determine who the owner-claimant shall be. If
4 they are unable to agree, the matter shall be referred to
5 the Franchise Tax Board and its decision shall be final.

6 (B) When two or more individuals pay rent for the
7 same premises and each individual meets the
8 qualifications for a renter-claimant, each qualified
9 individual shall be entitled to assistance under this part.

10 For the purposes of this subparagraph, a husband and
11 wife residing in the same premises shall be presumed to
12 be one renter.

13 (2) Except as provided in paragraph (3), the right to
14 file a claim shall be personal to the claimant and shall not
15 survive his death; however, when a claimant dies after
16 having filed a timely claim, the amount thereof may be
17 disbursed to the surviving spouse and, if no surviving
18 spouse, to any other member of the household who is a
19 qualified claimant. If there is no surviving spouse or
20 otherwise qualified claimant, the claim shall be disbursed
21 to any other member of the household. In the event two
22 or more individuals qualify for payment as either an
23 otherwise qualified claimant or a member of the
24 household, they may determine which of them will be
25 paid. If they are unable to agree, the matter shall be
26 referred to the Franchise Tax Board and its decision shall
27 be final.

28 (3) If, after January 1 of the property tax fiscal year for
29 which a claim may be filed, a claimant dies without filing
30 a timely claim, a claim on behalf of such claimant may be
31 filed by the surviving spouse within the filing period
32 prescribed in subdivision (a) or (b) of Section 20563.

33 SEC. 39.4. Section 20543 of the Revenue and Taxation
34 Code is amended to read:

35 20543. The amount of assistance for a claimant
36 owning his residential dwelling shall be based on
37 claimant's household income for the period set forth in
38 Section 20503. *In no event shall the amount of assistance*
39 *exceed fifteen hundred dollars (\$1,500).*

40 The percentage of assistance for which each claimant

1 owning his residential dwelling shall be eligible shall be
2 based on the following scale:

3 If the total household income	4 (as defined in this part) is not	5 more than:	6 The percentage used to	7 provide assistance is:
8	\$4,000.....	9	96%	
10	4,200.....	11	94	
12	4,400.....	13	92	
14	4,600.....	15	90	
16	4,800.....	17	88	
18	5,000.....	19	86	
20	5,200.....	21	84	
22	5,400.....	23	82	
24	5,600.....	25	80	
26	5,800.....	27	78	
28	6,000.....	29	76	
30	6,200.....	31	73	
32	6,400.....	33	70	
34	6,600.....	35	67	
36	6,800.....	37	64	
38	7,000.....	39	61	
40	7,200.....		58	
	7,400.....		55	
	7,600.....		52	
	7,800.....		49	
	8,000.....		46	
	8,200.....		43	
	8,400.....		40	
	8,600.....		38	
	8,800.....		36	
	9,000.....		34	
	9,200.....		32	
	9,400.....		30	
	9,600.....		28	
	9,800.....		26	
	10,000.....		24	
	10,500.....		22	
	11,000.....		20	
	11,500.....		18	
	12,000.....		15	

1	12,500.....	12
2	13,000.....	10

3
4 SEC. 40. Section 20544 of the Revenue and Taxation
5 Code is amended to read:

6 20544. The amount of assistance for a claimant
7 renting his residence shall be based on the claimant's
8 household income for the period set forth in Section
9 20503.

10 The percentage of assistance for which each claimant
11 renting his residence shall be eligible shall be based on
12 the following scale:

		The percentage of the
	If the total household	statutory property tax
	income (as defined in this	equivalent is:
	part) is not more than:	assistance is:
18	\$4,000	\$250 96%
19	4,200	250 94
20	4,400	250 92
21	4,600	250 90
22	4,800	250 88
23	5,000	250 86
24	5,200	250 84
25	5,400	250 82
26	5,600	250 80
27	5,800	250 78
28	6,000	250 76
29	6,200	250 73
30	6,400	250 70
31	6,600	250 67
32	6,800	250 64
33	7,000	250 61
34	7,200	250 58
35	7,400	250 55
36	7,600	250 52
37	7,800	250 49
38	8,000	250 46
39	8,200	250 43
40	8,400	250 40

1	8,600	250	38
2	8,800	250	36
3	9,000	250	34
4	9,200	250	32
5	9,400	250	30
6	9,600	250	28
7	9,800	250	26
8	10,000	250	24
9	10,500	250	22
10	11,000	250	20
11	11,500	250	18
12	12,000	250	15
13	12,500	250	12
14	13,000	250	10

15
16 SEC. 40.5. Division 3 (commencing with Section
17 50000) is added to the Revenue and Taxation Code, to
18 read:

19
20 DIVISION 3. STATE REVENUE LIMITS
21 PART 1. GENERAL PROVISIONS

22
23 50000. "State" shall mean State of California.
24 50001. "Current year revenue" for 1978-79 shall mean
25 all revenue from "major taxes and licenses" for 1978-79
26 as reported on Schedule 2 of the 1979-80 Governor's
27 Budget.

28 For years after 1978-79, "current year revenue" shall
29 mean maximum amount of revenue within the maximum
30 state revenue limit plus any additional revenue added in
31 the current year by this act, and added pursuant to any
32 legislation enacted in 1978 which reduces or repeals
33 business inventory tax.

34
35 PART 2. STATE REVENUE LIMIT
36 CHAPTER 1. MAXIMUM STATE REVENUE LIMIT

37
38 50010. For the 1979-80 fiscal year and each year
39 thereafter the maximum state revenue limit shall be the
40 amount of revenue equal to the current year revenue for

1 the prior fiscal year increased by a percentage equal to
2 the percentage increase in California personal income for
3 the calendar year beginning within the current fiscal
4 year, as estimated in the Governor's Budget, multiplied
5 by a 1.2 revenue elasticity factor.

7 CHAPTER 2. EXCESS REVENUES

9 50015. If, in the preparation of the budget or in the
10 May revenue revisions, the Governor projects that state
11 revenues will exceed the maximum state revenue limit,
12 the Governor in such budget shall identify the amount of
13 revenue in excess of the limit.

14 50016. There is hereby established in state
15 government the Excess Revenue Fund, in which the
16 Controller shall deposit any and all revenues above the
17 state revenue limit for any fiscal year.

18 50017. Revenues in excess of the maximum state
19 revenue limit may be used only upon the following
20 circumstances:

21 (a) Upon a separately recorded $\frac{2}{3}$ vote of both houses
22 of the Legislature, recorded in the journal, and concurred
23 in by the Governor, such vote to be accompanied by an
24 explanation of the reasons for the state retaining and
25 using such revenues rather than their being returned to
26 the taxpayers as provided in subsection (b).

27 (b) All revenues not appropriated pursuant to
28 subsection (a) shall be used exclusively for the following
29 purposes:

30 (1) To pay for "additional" property tax relief
31 programs funded by the state;

32 (2) To reduce state taxes below current statutory
33 levels;

34 (3) To maintain a "prudent" surplus not to exceed 3
35 percent of total revenues;

36 (e) For emergencies, if the Governor declares an
37 emergency and such emergency is concurred in by the
38 Legislature by Concurrent Resolution, or

39 (5) To fund a revenue sharing program with local
40 government.

1 SEC. 40.6. Section 11008.4 of the Welfare and
2 Institutions Code is amended to read:

3 11008.4. (a) Property taxes (1) as defined in Section
4 20584 of the Revenue and Taxation Code, which are
5 postponed by a person pursuant to Chapter 2 of Part 10.5
6 (commencing with Section 20581) of Division 2 of the
7 Revenue and Taxation Code, and (2) as defined in
8 Section 20511 and 20512 of the Revenue and Taxation
9 Code, on which a person is granted assistance pursuant to
10 Chapter 1 of Part 10.5 (commencing with Section 20501)
11 of Division 2 of the Revenue and Taxation Code, and (b)
12 renters credits as defined in Section 17053.5 of the
13 Revenue and Taxation Code, shall not be considered as
14 income or resources in determining the amount payable
15 to any person under Division 9 (commencing with
16 Section 10000) of the Welfare and Institutions Code.

17 This section shall not be construed to limit the
18 provisions of Section 11008 or 11008.1.

19 SEC. 41. Section 12400 of the Welfare and Institutions
20 Code is amended to read:

21 12400. (a) For the 1974-75 fiscal year, the county
22 share toward the cost of state supplementary aid
23 provided under this chapter shall be the amount
24 specified for the particular county in the following table:

25		
26	Alameda	\$7,025,338
27	Alpine	4,947
28	Amador	38,704
29	Butte	670,251
30	Calaveras.....	77,181
31	Colusa	49,813
32	Contra Costa	3,476,380
33	Del Norte	114,534
34	El Dorado.....	250,723
35	Fresno	2,904,906
36	Glenn.....	68,691
37	Humboldt	720,054
38	Imperial.....	470,331
39	Inyo	72,676
40	Kern.....	2,185,196

1	Kings	388,717
2	Lake	200,967
3	Lassen	74,308
4	Los Angeles	46,323,058
5	Madera	461,323
6	Marin	579,850
7	Mariposa	29,298
8	Mendocino	353,434
9	Merced	707,640
10	Modoc	43,587
11	Mono	12,975
12	Monterey	923,764
13	Napa.....	415,106
14	Nevada.....	179,187
15	Orange.....	3,060,075
16	Placer.....	367,389
17	Plumas	73,565
18	Riverside	2,669,507
19	Sacramento.....	4,872,097
20	San Benito	73,296
21	San Bernardino	3,090,547
22	San Diego	5,367,654
23	San Francisco.....	9,468,300
24	San Joaquin.....	2,617,685
25	San Luis Obispo	539,061
26	San Mateo.....	2,258,583
27	Santa Barbara	1,077,275
28	Santa Clara	4,656,892
29	Santa Cruz	755,346
30	Shasta	588,992
31	Sierra	9,556
32	Siskiyou	180,859
33	Solano	691,459
34	Sonoma	1,118,960
35	Stanislaus.....	1,523,171
36	Sutter	213,560
37	Tehama	179,320
38	Trinity	36,021
39	Tulare	1,606,935
40	Tuolumne	113,202

1	Ventura	1,182,797
2	Yolo	462,791
3	Yuba.....	316,161
4		
5		<hr/>
6		\$118,000,000

7 For the fiscal year 1973-74, each county's share shall be
8 45 percent of the amount specified in the above table for
9 the particular county. Beginning with the fiscal year
10 1975-76, the amount payable by each county in each
11 subsequent year shall be determined by multiplying the
12 1974-75 base-year amount by the ratio of the county's
13 modified assessed value in the subsequent year to the
14 county's modified assessed value in the base year.

15 (b) Beginning with the fiscal year 1978-79, the amount
16 payable by each county shall be determined by adjusting
17 the amount payable in the prior fiscal year by the lesser
18 of:

19 (1) The percentage change in price deflator, as defined
20 in Section 2261; or

21 (1) The percentage change from the prior fiscal year
22 to the current fiscal year in the amount of property tax
23 derived from tax rates levied pursuant to Article 4 of
24 Chapter 3 of Part 1 of Division 1 of the Revenue and
25 Taxation Code; or

26 (2) The percentage change in modified assessed value
27 from the prior fiscal year.

28 (c) The term "modified assessed value" for the current
29 year means the total of (1) the taxable assessed value of
30 state-assessed property and the exempt assessed value of
31 partially or totally exempt state-assessed property on
32 which tax losses are reimbursed by the state and (2) the
33 product of the sum of (i) the taxable assessed value of
34 county-assessed property, (ii) the exempt assessed value
35 of partially or totally exempt county-assessed property on
36 which tax losses are reimbursed by the state, and (iii) the
37 sum of assessed valuation equivalents of revenue amounts
38 certified pursuant to Section 27423 of the Government
39 Code and Section 38905 of the Revenue and Taxation
40 Code times the average of the factor certified for the

1 current year under Section 17261 of the Education Code
2 for the local roll of the county with the factors so certified
3 for the two immediately preceding years.

4 The term "modified assessed value" for the base year
5 means the total of (1) the taxable assessed value of
6 partially or totally exempt state-assessed property on
7 which tax losses are reimbursed by the state and (2) the
8 product of the sum of (i) the taxable assessed value of
9 county-assessed property, (ii) the exempt assessed value
10 of partially or totally exempt county-assessed property on
11 which tax losses are reimbursed by the state, and (iii) the
12 sum of assessed valuation equivalents of revenue amounts
13 certified pursuant to section 27423 of the Government
14 Code and Section 38905 of the Revenue and Taxation
15 Code times the factor certified for the base year under
16 Section 17261 of the Education Code for the local roll of
17 the county. The factor referred to herein is as corrected
18 pursuant to subdivision (b) of Section 1819 of the
19 Revenue and Taxation Code. The assessed valuation
20 equivalents of Section 27423 of the Government Code
21 and Section 38905 of the Revenue and Taxation Code
22 shall be derived by multiplying such amounts by a factor
23 of 100 and dividing the product by the county's secured
24 tax rate for the prior year.

25 For purposes of this subdivision commencing with the
26 1976-77 fiscal year, the term "taxable" assessed value of
27 county-assessed property shall not include any assessed
28 valuation upon which tax receipts are allocated to a
29 redevelopment agency pursuant to Article 6
30 (commencing with Section 33670) of Chapter 6 of
31 Division 24 of the Health and Safety Code.

32 The State Controller shall determine the amount
33 payable by each particular county in subsequent fiscal
34 years under this section.

35 (d) The counties' share toward the cost of care and
36 administration provided under this chapter shall be paid
37 to the state monthly.

38 SEC. 42. Section 14150 of the Welfare and Institutions
39 Code is amended to read:

40 14150. (a) For the 1971-72 fiscal year, the county

1 share toward the cost of care and administration
2 provided under this chapter shall be the amount
3 specified for the particular county in the following table:

4		
5	Alameda	\$11,832,000
6	Alpine	5,000
7	Amador	156,000
8	Butte	952,000
9	Calaveras.....	215,000
10	Colusa	142,000
11	Contra Costa	6,018,000
12	Del Norte	123,000
13	El Dorado.....	359,000
14	Fresno	6,873,000
15	Glenn.....	187,000
16	Humboldt	1,200,000
17	Imperial.....	430,000
18	Inyo	241,000
19	Kern.....	5,233,000
20	Kings	740,000
21	Lake	132,000
22	Lassen	124,000
23	Los Angeles	99,975,000
24	Madera	661,000
25	Marin	1,120,000
26	Mariposa	33,000
27	Mendocino	550,000
28	Merced	1,545,000
29	Modoc	120,000
30	Mono	31,000
31	Monterey	2,595,000
32	Napa.....	550,000
33	Nevada.....	425,000
34	Orange.....	10,395,000
35	Placer.....	913,000
36	Plumas	220,000
37	Riverside	5,160,000
38	Sacramento.....	8,627,000
39	San Benito	181,000
40	San Bernardino	6,462,000

1	San Diego	8,050,000
2	San Francisco.....	15,268,000
3	San Joaquin.....	7,390,000
4	San Luis Obispo	1,443,000
5	Santa Mateo.....	5,600,000
6	Santa Barbara	2,470,000
7	Santa Clara.....	9,400,000
8	Santa Cruz	1,335,000
9	Shasta.....	660,000
10	Sierra	13,000
11	Siskiyou	390,000
12	Solano	796,000
13	Sonoma	2,250,000
14	Stanislaus.....	2,630,000
15	Sutter	770,000
16	Tehama	290,000
17	Trinity	107,000
18	Tulare	2,845,000
19	Tuolumne	284,000
20	Ventura	2,776,000
21	Yolo	1,050,000
22	Yuba.....	750,000

23
 24 The amount payable by each county in each
 25 subsequent year beginning with the 1972-73 fiscal year
 26 shall be determined by multiplying the base-year amount
 27 by the ratio of the county's modified assessed value in the
 28 subsequent year to the county's modified assessed value
 29 in the base year.

30 Beginning with the 1978-79 fiscal year, the amount
 31 payable by each county shall be determined by adjusting
 32 the amount payable in the prior fiscal year by the lesser
 33 of:

34 ~~(1) The percentage change in price deflator, as defined~~
 35 ~~in Section 2261; or~~

36 (1) The percentage change from the prior fiscal year
 37 to the current fiscal year in the amount of property tax
 38 derived from tax rates levied pursuant to Article 4 of
 39 Chapter 3 of Part 1 of Division 1 of the Revenue and
 40 Taxation Code; or

1 (2) The percentage change in modified assessed value
 2 from the prior fiscal year.

3 (b) The term "modified assessed value" for the current
 4 year means the total of (a) the taxable assessed value of
 5 state-assessed property and the exempt assessed value of
 6 partially or totally exempt state-assessed property on
 7 which tax losses are reimbursed by the state and (b) the
 8 product of the sum of (1) the taxable assessed value of
 9 county-assessed property, (2) the exempt assessed value
 10 of partially or totally exempt county-assessed property on
 11 which tax losses are reimbursed by the state, and (3) the
 12 sum of the assessed valuation equivalents of revenue
 13 amounts certified pursuant to Section 27423 of the
 14 Government Code and Section 38905 of the Revenue and
 15 Taxation Code times the average of the factor certified
 16 for the current year under Section 17261 of the Education
 17 Code for the local roll of the county with the factors so
 18 certified for the two immediately preceding years.

19 The term "modified assessed value" for the base year
 20 means the total of (1) the taxable assessed value of
 21 partially or totally exempt state-assessed property on
 22 which tax losses are reimbursed by the state and (2) the
 23 product of the sum of (i) the taxable assessed value of
 24 county-assessed property, (ii) the exempt assessed value
 25 of partially or totally exempt county-assessed property on
 26 which tax losses are reimbursed by the state, and (iii) the
 27 sum of assessed valuation equivalents of revenue amounts
 28 certified pursuant to Section 27423 of the Government
 29 Code and Section 38905 of the Revenue and Taxation
 30 Code times the factor certified for the base year under
 31 Section 17261 of the Education Code for the local roll of
 32 the county. The factor referred to herein is as corrected
 33 pursuant to subdivision (b) of Section 1819 of the
 34 Revenue and Taxation Code. The assessed valuation
 35 equivalent of Section 27423 of the Government Code
 36 and Section 38905 of the Revenue and Taxation Code
 37 shall be derived by multiplying such amounts by a factor
 38 of 100 and dividing the product by the county's secured
 39 tax rate for the prior year.

40 For purposes of this subdivision commencing with the

1 1976-77 fiscal year, the term "taxable" assessed value of
 2 county-assessed property shall not include any assessed
 3 valuation upon which tax receipts are allocated to a
 4 redevelopment agency pursuant to Article 6
 5 (commencing with Section 33670) of Chapter 6 of
 6 Division 24 of the Health and Safety Code.

7 The State Controller shall determine the amount
 8 payable by each particular county in subsequent fiscal
 9 years under this section.

10 (c) The counties' share toward the cost of care and
 11 administration provided under this chapter shall be paid
 12 to the state monthly.

13 (d) Notwithstanding the provisions of Sections 5707,
 14 5709.5, 5710, and 5714, payment for the costs of health
 15 care services provided under Part 2 (commencing with
 16 Section 5600), Division 5, of this code, the Short-Doyle
 17 Act, shall be made in accordance with the provisions of
 18 this section.

19 (e) Notwithstanding the provisions of Section 7511,
 20 payment for the share of costs of health care services
 21 provided under Chapter 4 (commencing with Section
 22 7500), Division 7, of this code, shall be made in
 23 accordance with the provisions of this section.

24 SEC. 43. Assessors shall begin immediately to
 25 determine properties common to both current and prior
 26 rolls, as required by Section 10 of this act, and separation
 27 and identification of those properties which will be
 28 subject to tax as owner-occupied dwellings if Proposition
 29 8 on the ballot for the statewide election on June 6, 1978
 30 is approved by the voters. Assessors may submit claims to
 31 the Controller for reimbursement of costs mandated by
 32 this section, *which have been incurred prior to July 1,*
 33 *1978.*

34 SEC. 44. (a) It is the intent of the Legislature in
 35 enacting Section 2261 of the Revenue and Taxation Code
 36 that the provisions of such section are compatible with
 37 the provisions of Section 9.5 of Article XIII of the State
 38 Constitution, as added by Proposition 8 on the ballot for
 39 the statewide election on June 6, 1978. The Legislature
 40 intends that the provision of Section 9.5 requiring "in no

1 event may the tax rate levied on other property be
 2 increased as a result of lowering the tax rate on
 3 owner-occupied dwellings" is fulfilled by the provision of
 4 Section 2261, which prevents the tax rate on property
 5 other than owner-occupied dwellings from increasing
 6 over the prior year's tax rate for such property when the
 7 tax rate on owner-occupied dwellings is reduced below
 8 the tax rate on such dwellings for the prior year.

9 (b) It is the intent of the Legislature, in enacting
 10 Article 10 (commencing with Section 2350) of Chapter 3
 11 of Part 4 of Division 1 of the Revenue and Taxation Code,
 12 that the tax rate reductions for owner-occupied dwellings
 13 provided in that article comply with the provisions of
 14 Section 9.5 of Article XIII of the State Constitution, as
 15 added by Senate Constitutional Amendment No. 6 of the
 16 1977-78 Regular Session of the Legislature, because the
 17 state directly reimburses local governments for revenue
 18 losses resulting from that article, and no shift of tax
 19 burden to other property is involved or permitted.

20 ~~SEC. 45. The sum of dollars (\$) is~~
 21 ~~hereby appropriated from the General Fund to the State~~
 22 ~~Controller for allocation and disbursement to local~~
 23 ~~agencies pursuant to Section 2231 of the Revenue and~~
 24 ~~Taxation Code to reimburse such agencies for costs~~
 25 ~~incurred by them pursuant to this act.~~

26 SEC. 46. The provisions of this act shall have the
 27 following operative dates:

28 (a) Sections 1, 2, 3, 4, 5, 7 to 27, inclusive, 30 and 31 shall
 29 become operative beginning with the 1978-79 fiscal year,

30 (b) Section 32 shall become operative with respect to
 31 taxable years beginning on and after January 1, 1978;

32 (c) Sections ~~27, 28, 29 and 40~~ 39.2, 39.4 and 40 shall
 33 become operative beginning with claims for 1977-78
 34 property taxes;

35 (d) Sections 41 and 42 shall apply to county payments
 36 beginning in 1978-79.

37 (e) Section 40.5 shall be operative for the 1979-80 fiscal
 38 year and each year thereafter.

39 (f) Sections 32.5, 33, 33.5, 34 and 36 shall be operative
 40 with respect to sales after June 30, 1978.

1 SEC. 47. This act shall be repealed on June 7, 1978,
2 unless Proposition 8 on the ballot for the statewide
3 election on June 6, 1978 is approved by the voters and
4 Proposition 13 on the ballot for the statewide election on
5 June 6, 1978 is rejected by the voters, *or is declared*
6 *unconstitutional by the courts.*

7 SEC. 48. This act is an urgency statute necessary for
8 the immediate preservation of the public peace, health,
9 or safety within the meaning of Article IV of the
10 Constitution and shall go into immediate effect. The facts
11 constituting such necessity are:

12 In order that the provisions of this bill may be applied
13 in a manner consistent with the intent of the Legislature,
14 this act must go into effect immediately.

Introduced by Senator Smith

December 4, 1973

Senate Constitutional Amendment No. 1—A resolution to propose to the people of the State of California an amendment to the Constitution of the state, by adding Article XXIX thereto, relating to tax revenues.

LEGISLATIVE COUNSEL'S DIGEST

SCA 1, as introduced, Smith. Tax revenues.

Existing provisions of the California Constitution do not limit the total annual tax revenues of the state or local government.

This measure would prohibit the annual tax revenues of any governmental entity from exceeding the total tax revenues of such entity of government for the prior year by more than specified changes, with certain exceptions.

This measure would also require any governmental entity which receives total tax revenues in excess of its specified limits to return such excess as specified.

The measure would become effective commencing with the first day of the fiscal year immediately following its adoption.

Vote: $\frac{2}{3}$. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

1 *Resolved by the Senate, the Assembly concurring,* That
2 the Legislature of the State of California at its 1979-80
3 Regular Session commencing on the fourth day of
4 December, 1978, two-thirds of the members elected to
5 each of the two houses of the Legislature voting therefor,
6 hereby proposes to the people of the State of California
7 that the Constitution of the state be amended by adding
8 Article XXIX thereto, to read:

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ARTICLE XXIX
TAX REVENUE LIMITATIONS

SECTION 1. The total annual proceeds of taxes of the state and of each local government shall not exceed the tax limit of such entity of government for the prior year adjusted by a percentage equal to the percentage change in population and the average percentage change over the last previous three calendar years in the Gross National Product deflator for goods and services purchased by state and local government, as published by the United States Department of Commerce.

SEC. 2. If the proceeds of taxes received by any entity of government exceed that amount permitted by this article during any fiscal year, such entity shall, within the next two subsequent fiscal years, reduce its proceeds of taxes by an amount equal to such excess. Such reduction shall not, however, otherwise change the tax limit of such entity for that year or subsequent years.

SEC. 3. The tax limit for any fiscal year pursuant to Section 1 shall be adjusted as follows:

(a) In the event that the financial responsibility of providing services is transferred, in whole or in part, whether by annexation, incorporation, or otherwise, from one entity of government to another, then for the year in which such transfer becomes effective the tax limit of the transferee entity shall be increased by such reasonable amount as the said entities shall mutually agree and the tax limit of the transferor entity shall be decreased by the same amount.

(b) In the event that the financial responsibility of providing services is transferred, in whole or in part, from an entity of government to a private entity, or the financial source for the provision of services is transferred, in whole or in part, from other revenues of an entity of government, to regulatory licenses, user charges, or user fees, then for the year of such transfer the tax limit of such entity of government shall be decreased accordingly by such entity.

SEC. 4. The tax limit imposed on any entity of

1. government by this article may be changed with the assent of a majority of the qualified electors of such entity, voting upon such proposition at an election held for that purpose. The duration of any such change shall be specified in the proposition presented to the electors and shall not exceed the period so approved.

SEC. 5. Each entity of government may establish such contingency, emergency, unemployment, reserve, retirement, sinking, trust, or similar funds as it shall deem reasonable and proper.

SEC. 6. Nothing in this article shall be construed to impair the ability of the state or of any local government to meet its obligations with respect to existing or future bonded indebtedness.

SEC. 7. As used in this article, and except as otherwise expressly provided herein:

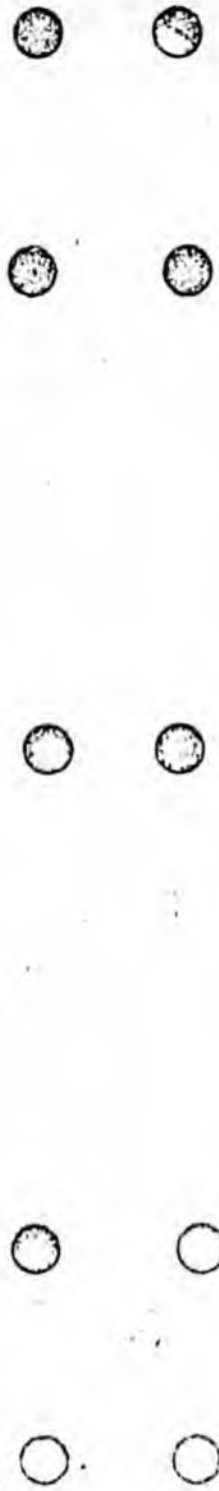
(a) "Proceeds of taxes" shall include, but not be restricted to, all tax revenues and the proceeds to an entity of government, from (i) regulatory licenses, user charges, and user fees to the extent that such proceeds exceed the costs reasonably borne by such entity in providing the regulation, product, or service, and (ii) the investment of tax revenues.

(b) "Local government" shall mean any city, county, city and county, school district, special district, authority, or other political subdivision of, or within, the state.

(c) "Debt service" shall mean appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund required in connection therewith, on indebtedness existing or legally authorized as of January 1, 1979, or on bonded indebtedness thereafter approved by a majority of the electors of the issuing entity voting upon such proposition at an election held for such purpose.

(d) The "tax limit" of each entity of government for fiscal year 1979-80 shall be the total of the proceeds of taxes of such entity for that fiscal year.

(e) Population of any entity of government, other than a school district, shall be determined by a method prescribed by the Legislature, provided that such



1 determination shall be revised, as necessary, to reflect the
2 periodic census conducted by the United States
3 Department of Commerce, or successor agency of the
4 United States Government. The population of any school
5 district shall be such school district's average daily
6 attendance as determined by a method prescribed by the
7 Legislature.

8 SEC. 8. "Proceeds of taxes" shall not, for purposes of
9 this article, include such proceeds to the extent that the
10 same are necessary for, and utilized for, the following
11 appropriations:

12 (a) Debt service.

13 (b) Appropriations required for purposes of
14 complying with mandates of the federal government
15 which, without discretion, require an expenditure for
16 additional services or which unavoidably make the
17 providing of existing services more costly.

18 (c) Appropriations of any special district which
19 existed on January 1, 1978, and which did not as of the
20 1977-78 fiscal year levy an ad valorem tax on property in
21 excess of 12½ cents per one hundred dollars (\$100) of
22 assessed value; or the appropriations of any special
23 district then existing or thereafter created by a vote of
24 the people, which is totally funded by other than the
25 proceeds of taxes.

26 SEC. 9. This article shall be effective commencing
27 with the first day of the fiscal year immediately following
28 its adoption.

Introduced by Senator Rains

December 5, 1978

Senate Constitutional Amendment No. 3—A resolution to propose to the people of the State of California an amendment to the Constitution of the state, by adding Article XVII thereto, relating to public funds.

LEGISLATIVE COUNSEL'S DIGEST

SCA 3, as introduced, Rains. Public funds.

(1) Existing provisions of the California Constitution do not limit the total annual appropriations of the state or by local government.

This measure would prohibit the annual appropriations of any governmental entity from exceeding the total appropriations of such entity of government for the prior year by more than the annual percentage change in the cost-of-living and population, with certain exceptions.

This measure would establish for this purpose a base year of 1979-80 and would require the Legislature to provide a method for estimating the actual population change for the state and each local government.

(2) Existing law does not limit the amount of reserves which may be accumulated by a government entity to meet emergency expenditures.

This measure would prohibit the accumulation of such reserves in an amount which exceeds 5% of the allowable annual appropriations of such entity.

(3) Existing statutory law mandates that the state shall reimburse local government for the cost of complying with a state-mandated local program, as defined.

This measure would establish a constitutional mandate that whenever the Legislature or any state agency mandates a new program or higher level of service on any local

government, it shall provide an appropriation to reimburse such local government for the costs of such program or increased level of service.

(4) The measure would become effective commencing with the 1980-81 fiscal year.

Vote: 2/3. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

1 *Resolved by the Senate, the Assembly concurring,* That
2 the Legislature of the State of California at its 1979-80
3 Regular Session commencing on the fourth day of
4 December, 1978, two-thirds of the members elected to
5 each of the two houses of the Legislature voting therefor,
6 hereby proposes to the people of the State of California
7 that the Constitution of the state be amended by adding
8 Article XVII thereto, to read:

9
10 ARTICLE XVII
11 EXPENDITURES

12
13 SECTION 1. The annual appropriations of the state
14 and of each local government shall not exceed the total
15 allowable appropriations of such entity or government for
16 the prior year by more than the annual percentage
17 changes in the cost-of-living and population. The
18 Legislature shall provide a method for determining the
19 change in the cost-of-living which shall reflect the actual
20 change in the cost of providing governmental services,
21 but in no case shall such change exceed the change in the
22 state's per capita personal income. The Legislature shall
23 provide a method for estimating the actual population
24 changes for the state and each local government;
25 however, the population of school districts shall be the
26 average daily attendance. The limitation on
27 appropriations contained in this article shall not apply to
28 funds received by the state from the federal government
29 or to funds received by local governments from either
30 the state or the federal government.

31 SEC. 2. The Legislature may exempt from the
32 limitations imposed by Section 1 any of the following,

1 provided that both the state and the local governments
2 shall be treated in substantially the same manner:

3 (a) Appropriations made upon the separately
4 recorded vote of two-thirds of the membership of the
5 governing body declaring an emergency. In no case shall
6 an emergency authorization exceed the period of time
7 between the declaration thereof and the next election in
8 the government entity for which the emergency
9 appropriation is authorized, nor shall an emergency
10 appropriation be considered an appropriation for
11 determining appropriations for subsequent years
12 pursuant to Section 1.

13 (b) Appropriations made to a reserve fund as defined
14 by Section 6.

15 (c) Appropriations required for purposes of
16 complying with mandates of the courts or the federal
17 government which, without discretion, require an
18 expenditure for additional services or which unavoidably
19 make the providing of existing services more costly.

20 (d) Appropriations made to assume the responsibility
21 of providing services or programs previously provided by
22 another entity or level of government, provided that the
23 allowable appropriations of such other government
24 entities are reduced by an equal amount.

25 (e) Appropriations by local governments which
26 correspond to subventions made by the state for
27 state-mandated programs, pursuant to Section 5.

28 (f) Appropriations of any special district which existed
29 on January 1, 1978, and which did not as of the 1977-78
30 fiscal year levy an ad valorem tax on property in excess
31 of 12½ cents per \$100 of assessed value; or the
32 appropriations of any special district then existing or
33 thereafter created by a vote of the people to be included
34 therein, which is totally funded by fees, rates, tolls, or
35 other charges for service.

36 SEC. 3. (a) The limitations imposed on the state
37 government by this article may be exceeded if a majority
38 of the electors voting in a statewide election approve an
39 appropriation level exceeding such limitations.

40 (b) The limitations imposed on a local government by

1 this article may be exceeded if a majority of the electors
2 voting in an election held for such purpose and
3 encompassing the entire government entity approve an
4 appropriation level exceeding such limitations.

5 SEC. 4. Any revenues collected by any government
6 entity in excess of the appropriations of that government
7 entity allowed by this article shall be reflected in a
8 corresponding reduction in the tax revenues of that
9 government entity in the next ensuing tax year. Such
10 reduction may be accomplished by any method,
11 including, but not limited to, reductions in tax rates,
12 changes in the tax base, or grants of tax rebates or tax
13 credits.

14 SEC. 5. Whenever the Legislature or any state agency
15 mandates a new program or higher level of service on any
16 local government, such mandate shall not be effective
17 against the local government unless the Legislature shall
18 provide an appropriation to reimburse such local
19 government for the costs of such program or increased
20 level of service.

21 SEC. 6. (a) "Reserve fund" means a sum of money
22 segregated to meet emergency expenditures.

23 (b) A government entity shall not maintain a reserve
24 fund which exceeds 5 percent of the allowable
25 appropriations of the government entity. Such reserve
26 funds may be utilized only for emergency appropriations
27 authorized pursuant to subdivision (a) of Section 2, and
28 only if such fund is exhausted, may a government entity
29 resort to emergency tax increases or debt.

30 SEC. 7. Nothing in this article shall be construed to
31 impair the ability of the state or of any local government
32 to meet its obligations with respect to existing or future
33 bonded indebtedness. Appropriations required to pay
34 the cost of principal and interest on existing bonded or
35 other indebtedness, together with any reserve or sinking
36 funds required in connection therewith, shall be exempt
37 from the appropriations limitations and base-year
38 appropriations imposed by Sections 1 and 8. Appropriations
39 required to pay the cost of principal and interest on
40 bonded indebtedness hereinafter approved by a vote of

1 the electors of the issuing jurisdiction voting in an
2 election for such purpose shall constitute priority
3 expenditures of such government entity; and if the
4 principal and interest payments of such bonds shall
5 exceed the appropriations limitations of the issuing
6 government entity, such limitations may be exceeded to
7 satisfy such payments.

8 SEC. 8. This article shall be effective commencing
9 with the 1980-81 fiscal year. For purposes of establishing
10 the appropriations limitations contained herein, the base
11 shall be the actual appropriations of each entity of
12 government for the 1979-80 fiscal year. The
13 appropriations limit for each entity of government for
14 the 1980-81 fiscal year shall be the base, adjusted as if this
15 article had been in effect for fiscal year 1979-80.

16 SEC. 9. The Legislature shall have plenary power to
17 enact legislation consistent with, and to implement the
18 purposes of, this article.

Assembly Constitutional Amendment No. 4

Introduced by Assemblyman Priolo

December 4, 1978

REFERRED TO COMMITTEE ON REVENUE AND TAXATION

Assembly Constitutional Amendment No. 4—A resolution to propose to the people of the State of California an amendment to the Constitution of the state, by adding Article XXIX thereto, relating to public funds.

LEGISLATIVE COUNSEL'S DIGEST

ACA 4, as introduced, Priolo (Rev. & Tax.). Public funds.

1. Existing statutory law provides for the imposition of personal income taxes according to a schedule of ascending rates applied to income brackets which are required to be adjusted by the Franchise Tax Board to reflect changes in the Consumer Price Index.

Existing statutory law also provides for comparable inflation adjustments in specified tax credits and deductions.

This measure would establish a constitutional mandate that would require the Legislature to provide for the annual percentage change of such income brackets, tax credits, and nonbusiness deductions to reflect the change in the cost-of-living.

2. Existing provisions of the California Constitution do not limit the total annual appropriations of the state or by local government.

This measure would prohibit the annual appropriations of any governmental entity from exceeding the total appropriations of such entity of government for the prior year

by more than the annual percentage change in the cost-of-living and population, with certain exceptions.

This measure would establish for this purpose a base year of 1978-79; however, sums appropriated by the state or received by any entity of local government pursuant to Chapters 292 and 332 of the Statutes of 1978 would be excluded from the appropriations of the state and each entity of local government, respectively, in determining the 1978-79 appropriations of that government entity.

This measure would also require the Legislature to provide a method of determining the change in the cost-of-living and for estimating the actual population change for the state and each local government.

3. Existing statutory law mandates that the state shall reimburse local government for the cost of complying with a state-mandated local program, as defined.

This measure would provide, with certain exceptions, that no new program or higher level of service mandated on any local government by the Legislature or any state agency is effective, unless an appropriation to reimburse such local government for the costs of such program or increased level of service is provided.

4. The measure would become effective commencing with the 1980-81 fiscal year.

Vote: 3/4. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

1 *Resolved by the Assembly, the Senate concurring,* That
2 the Legislature of the State of California at its 1978-79
3 Regular Session commencing on the fourth day of
4 December, 1978, two-thirds of the members elected to
5 each of the two houses of the Legislature voting therefor,
6 hereby proposes to the people of the State of California
7 that the Constitution of the state be amended by adding
8 Article XXIX thereto, to read:

ARTICLE XXIX
EXPENDITURES

13 SECTION 1. The annual appropriations of the state

1 and of each local government shall not exceed the total
2 allowable appropriations of such entity of government for
3 the prior year by more than the annual percentage
4 changes in the cost-of-living and population. The
5 Legislature shall provide a method for determining the
6 change in the cost-of-living which shall reflect the actual
7 change in the cost of providing governmental services,
8 but in no case shall such change exceed the change in the
9 state's per capita personal income. The Legislature shall
10 provide a method for estimating the actual population
11 changes for the state and each local government;
12 however, the population of school districts shall be the
13 average daily attendance. The limitation on
14 appropriations contained in this article shall not apply to
15 funds received by the state from the federal government
16 or to funds received by local governments from either
17 the state or the federal government.

18 SEC. 2. The Legislature may exempt from the
19 limitations imposed by Section 1 any of the following,
20 provided that both the state and the local governments
21 shall be treated in substantially the same manner:

22 (a) Appropriations made upon the separately
23 recorded vote of two-thirds of the membership of the
24 governing body declaring an emergency. In no case shall
25 an emergency authorization exceed the period of time
26 between the declaration thereof and the next election in
27 the government entity for which the emergency
28 appropriation is authorized, nor shall an emergency
29 appropriation be considered an appropriation for
30 determining appropriations for subsequent years
31 pursuant to Section 1.

32 (b) A reserve fund not to exceed 5 percent of the
33 allowable appropriations of the government entity. Such
34 reserve funds may be utilized only for emergency
35 appropriations authorized pursuant to subdivision (a),
36 and only if such fund is exhausted, may a government
37 entity resort to emergency tax increases or debt.

38 (c) Appropriations required for purposes of
39 complying with mandates of the courts or the federal
40 government which, without discretion, require an

1 expenditure for additional services or which unavoidably
2 make the providing of existing services more costly.

3 (d) Appropriations made to assume the responsibility
4 of providing services or programs previously provided by
5 another entity or level of government, provided that the
6 allowable appropriations of such other government
7 entities are reduced by an equal amount.

8 (e) Appropriations by local governments which
9 correspond to subventions made by the state for
10 state-mandated programs, pursuant to Section 5.

11 (f) Appropriations of any special district which existed
12 on January 1, 1978, or which is thereafter created by a
13 vote of the people to be included therein, which is totally
14 funded by fees, rates, tolls, or other charges for service.

15 (g) Appropriations made from funds or assets
16 received by way of gift, made in accordance with the
17 terms and limitations of such gift.

18 (h) Appropriations made from user charges derived
19 from the sale of a product or service, the quantity or level
20 of which provided to a user is at the discretion of the user,
21 provided that the total user charge collected is no greater
22 than the cost reasonably ascertained to have been borne
23 in providing the product or service to the user.

24 SEC. 3. (a) The limitations imposed on the state
25 government by this article may be exceeded if a majority
26 of the electors voting in a statewide election approve an
27 appropriation level exceeding such limitations.

28 (b) The limitations imposed on a local government by
29 this article may be exceeded if a majority of the electors
30 voting in an election held for such purpose and
31 encompassing the entire government entity approve an
32 appropriation level exceeding such limitations.

33 SEC. 4. Any revenues collected by any government
34 entity in excess of the appropriations of that government
35 entity allowed by this article shall be reflected in a
36 corresponding reduction in one or more of the taxes
37 collected by that government entity in the next ensuing
38 tax year.

39 SEC. 5. Whenever the Legislature or any state agency
40 mandates a new program or higher level of service on any

1 local government, such mandate shall not be effective
2 against the local government unless the Legislature shall
3 provide an appropriation to reimburse such local
4 government for the costs of such program or increased
5 level of service, except:

6 (a) Legislation defining a new crime or changing an
7 existing definition of a crime, or

8 (b) Legislative mandates enacted prior to January 1,
9 1979, or executive orders or regulations initially
10 implementing legislation enacted prior to January 1,
11 1979.

12 (c) Legislation enacted at the specific request of such
13 local government.

14 SEC. 6. (a) The Legislature shall provide for an
15 annual percentage change in the amount of any income
16 bracket upon which personal income tax rates are
17 imposed, any personal income tax credits, any
18 nonbusiness deductions and any standard deduction
19 allowed in lieu of such nonbusiness deductions, which
20 reflects the percentage change in the overall personal
21 cost-of-living for a one-year period ending in the year of
22 each current annual change.

23 (b) This section shall not be construed to prevent the
24 Legislature from amending the provisions of a personal
25 income tax, or from increasing or decreasing the rates
26 thereof, by statute.

27 SEC. 7. Nothing in this article shall be construed to
28 impair the ability of the state or of any local government
29 to meet its obligations with respect to existing or future
30 bonded indebtedness. Appropriations required to pay
31 the cost of interest and redemption charges on existing
32 bonded or other indebtedness, together with any reserve
33 or sinking funds required in connection therewith, shall
34 be exempt from the appropriations limitations and
35 base-year calculations imposed by Sections 1 and 5.

36 SEC. 8. This article shall be effective commencing in
37 the 1980-81 fiscal year. For purposes of establishing the
38 appropriations limitations contained herein, the base
39 shall be the actual appropriations of each entity of
40 government for the 1978-79 fiscal year; provided,

1 however, that the sums appropriated or received
2 pursuant to Chapters 292 and 332 of the Statutes of 1978
3 shall be excluded from the appropriations of the state,
4 and from the appropriations of each local government
5 receiving any such sums, in determining the actual
6 1978-79 appropriations. The appropriations limit for each
7 entity of government for the 1980-81 fiscal year shall be
8 the base, adjusted as if this article had been in effect for
9 fiscal years 1978-79 and 1979-80.

10 SEC. 9. The Legislature shall have plenary power to
11 enact legislation consistent with, and to implement the
12 purposes of, this article.