ALASKA LEGISLATURE COMMITTEE FILES 1981-1982 8672

2004 HSA TAX PROPOSITION

2004

(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. DEFEATED 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 tha[t] public officials in Sacramento continued to sit o[n] despite the growing tax lament from the public. Inflation pushes many taxpayers into highe[r] brackets in all graduated-income-tax systems a[s] their dollar earnings (although not their rea[l] earnings) go up. Under the Reagan administra[-]tion, the California income tax had been mad[e] even more progressive than before, producing [a] visible and well-publicized $5.7 billion surplus b[y] 1978. This was available for distribution, or t[o] serve as the basis of a tax cut. But instead of pro[-]posing such remedies, Reagan's successor, Gove[r]nor Jerry Brown, apparently preferred to hoar[d] the surplus in order, according to some, to us[e] it to advantage in his reelection year. As Stat[e] Treasurer Jesse Unruh has pointed out, this eno[r]mous surplus constituted a standing public inv[i]tation to Proposition 13, the Jarvis-Gann Amen[d]ment. For this reason, Unruh has called Brow[n] "the father of Proposition 13," although th[e] Governor opposed the measure—with somewha[t] waning vigor as the polls showed increasing sup[-]port for it. The polls were accurate: Propositio[n] 13—which rolled back property taxes to 1 per cen[t] of market value as of 1975, prohibited local taxe[s]

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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 5? 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 (32-27); 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, 8[illegible] 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 7[illegible] 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 anwsers 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 continuingly 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 Democrats, 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 rollback 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 "nonrecession 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 employe 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 employes 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 [illegible]e over-65 group rose sharply as a per cent of the population, contr[illegible]g to higher health and welfare expenditures.

The years follow[illegible]d War II saw a massive exodus from the nation's farms and rural [illegible]nd 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.[7] 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 health care 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 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 abiltity 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 employes, 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 11.6 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 unreassessed in this rising market and, therefore, taxed at substantially less than 2% of current market value.

c. The Reagan-Moretti 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 payments (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 stiffs 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 <u>noblesse oblige</u>.

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 'f 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 simple said "Whoopee!" 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 form of aid to 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 Revenues 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 Revenues 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 returns 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 limits 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 of the following conditions are met: (1) The governor 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 expenses 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 thereto 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 could 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 Revenues" 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 Revenues shall exclude the amount of any credits based on actual tax liabilities or the imputed tax components of rental payments, but shall include 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 provisions 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 townships 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 hereinbefore established. These limitations may be increased to an aggregate of not to exceed 50 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 this constitution, voting on the question.

The foregoing limitations shall not apply to taxes imposed for the payment of principal and interest on bonds APPROVED BY THE ELECTORS or other evidences of indebtedness APPROVED BY THE ELECTORS or for the payment of assessments or contract obligations in anticipation of which bonds are issued APPROVED BY THE ELECTORS, which taxes may be imposed without limitation as to rate or amount; OR, SUBJECT TO THE PROVISIONS OF SECTIONS 25 THROUGH 34 OF THIS ARTICLE, to taxes imposed for any other purpose by any city, village, charter county, 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 townships 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 hereinbefore established. These limitations may be increased to an aggregate of not to exceed 50 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 this 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 evidences of indebtedness or for the payment of assessments or 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 any city, village, charter county, 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

State	November, 1978 Ballot Proposal[1]		Concrete indication that Legislatures will consider significant tax reform proposals in 1979 session.[2]
ALABAMA	●	Referendum to increase number of property tax classifications, prohibits property tax from exceeding variable percentage of "fair market value"	
ALASKA		NTLC[3] reports activity: 8 cities have local initiative campaigns for tax limits.	
ARIZONA	●	Referendum-constitutional amendment calling for 7% limit of state personal income on state spending lid	
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[4] Constitutional Amendment for legislature to refer to voters	●
DELAWARE		Legislature limited appro[illegible]ations 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 [illegible] 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 lids 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 Legislatures. Must be passed again to go on 1980 ballot. Advisory initiative in most state Senatorial districts, calling for TEL. Citizen petition drive for 2½% limit on property taxes	
MICHIGAN	●	3 constitutional initiatives have qualified for the ballot. Headlee Amendment ties state spending to growth in personal income. Tisch property tax limit halves property taxes and limits assessment increases. Voucher education proposal also on ballot. Headlee and Tisch 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, for example, to inflated assessments).	
MONTANA		Call for special session on this issue failed by 4 votes. 1979 session activity predicted	
NEBRASKA	●	5% limit on local government spending	
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		Speaker 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 [illegible]pected 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 1½ 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	●

[1] 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.

[2] 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.

[3] NTLC: National Tax Limitation Committee

[4] TEL: [illegible] 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 (ECS)

RECENT TAX AND EXPENDITURE LIMITATION (TEL) PROPOSALS

STATE	LIMIT	GROWTH	LEVEL OF GOV'T.	LEGAL	OVERRIDE	MANDATE
Alabama	R	F, V	L	C		N
Arizona	E	V	S	C	Lg	Y
California	R	F	L, S	C	Rf, Lg	N
Colorado						
Initiative #1	R	V	L, S	C		N
Initiative #2	E	V	L, S	C	Rf, Lg	Y
Idaho	R	F	L, S	St	Rf, Lg	N
Maine	E	V	L, S	C	Rf	Y
Massachusetts						
Initiative	R	V	S	C	Rf, Lg	Y
Legislation	R	V	L, S	C	Rf	Y
Michigan	R	V	L, S	C	Rf, Lg	Y
Nebraska						
Initiative	E	F	L	C	Rf, Lg	N
Legislation	R	F	L	St	Rf, Lg	Y
New Jersey	E	F	L	St	Rf, Lg	Y
Oregon	R	F	L, S	C	Rf, Lg	N
Tennessee	E	V	S	C	Lg	Y

Key to Chart

Limit = Type of limitation placed on the unit of government.
R = Revenue E = Expenditure
Growth = Type of growth rate allowed to a unit of government.
F = Fixed percentage
V = Variable, e.g., CPI, personal income, economic growth, etc.
Level of Government = Units of government affected.
L = Local S = State
Legal = Legal impact of proposal.
C = Constitutional St = Statutory
Override - In what manner the limitation can be exceeded.
Rf = Referendum Lg - Legislative action
Mandate - Is there some form of reimbursement to local government for new or increased services mandated by state government or the courts?
Y = Yes
N = No

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, Cusanovich, 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, ~~20505,~~ 20542, 20543, and 20544 of, to add Sections 37, 253.6, 401.6, 1603.5, 2187.5, ~~2231.1,~~ 2261, 2263, ~~17062.6, 17062.4, 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: ⅔. 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

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

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

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

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

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

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

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

~~253.5. Any person who is the owner or assessee of property to which the homeowners' property tax exemption applies shall submit to the assessor an affidavit, giving any information required by the board. Such information shall include, but shall not be limited to, the name and social security number of the person claiming the exemption and the spouse of such person, the address of the property, and a statement to the effect that the claimant owned and occupied the property as his principal place of residence on the lien date, or that he owns and intends to occupy the property as his principal place of residence on the next succeeding lien date. The provisions of this paragraph are mandatory.~~

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

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

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

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

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

The board shall prescribe the form of the affidavit.

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

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

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

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

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

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

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

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

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

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

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

~~2231.1. There is hereby appropriated five million dollars ($5,000,000) to the Controller for payments to local agencies for claims which have been approved by the Board of Control pursuant to Article 3.5 (commencing with Section 2250) of Chapter 3 of Part 1 of Division 1 of this code.~~

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

2260. The maximum property tax rates for local agencies shall be those established pursuant to the provisions of this article or of Article 6, 7 or 8 of this chapter (commencing with Section 2201) and shall exclude the following from the determination thereof: (1) any property tax rate levied pursuant to Article 5 of this chapter; (2) any property tax rate levied pursuant to a city charter procedure ordinance for the purpose of paying principal and interest on assessment bonds or for the purpose of paying annual costs of maintenance and operation of improvements financed pursuant to city charter procedure, when the levy is made in relation to benefits derived and not in accordance with the last equalized city or county assessment roll; and (3) any property tax rate levied on behalf of a county superintendent of schools.

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

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

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

A local agency may levy a property tax rate on owner-occupied dwellings lower than the maximum rate computed pursuant to this subdivision, but no lower than 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 2212), 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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2325. Annually, no later than 15 days after the property tax rate for a local agency has been fixed, each local agency shall report to the Controller, on a form to be specified by the Controller, the property tax rate levied by, or on behalf of, the agency for the current fiscal year. Such information shall show the amount of the rate, if any, levied pursuant to Sections 2260, 2261, 2263, 2264, 2265, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279 and 2280. Such information shall also show any property tax rate authorized or levied pursuant to the provisions of Article 6 (commencing with Section 2285), Article 7 (commencing with Section 2295), and Article 8 (commencing with Section 2305). Information with respect to any rate levied pursuant to Section 2270 shall also indicate the rate levied to pay interest and redemption charges on bonded indebtedness, the rate 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 ~~2353. 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

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

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

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

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

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

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

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

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

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

(1) The assessed value of the property;

(2) The amount of the homeowners' exemption;

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

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

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

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

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

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

(1)	Assessed value of the property	~~$3,000~~ *$12,000*
(2)	Homeowners' exemption	$1,750
(3)	Total tax rate applicable to the property	$10
(4)	Gross taxes prior to the application of the homeowners' exemption	~~$300~~ *$1,200*
(5)	Tax reduction attributable to the state-financed homeowners' property tax relief program	$175

(6) Tax reduction attributable to state financed program of cutting tax rates by 30%	*$307*
~~(6)~~ *(7)* Total taxes due	~~$325~~
	$718

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

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

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

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

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

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

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

to a uniform statewide tax rate.

"Special assessments," as used in this section, mean any amount levied solely against real estate or real estate and improvements.

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

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

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

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

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

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

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

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

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

17014, and

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

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

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

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

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

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

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

18432.

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

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

~~SEC. 33. Section 17062.3 is added to the Revenue and Taxation Code, to read:~~

~~17062.3. (a) Except as provided in subdivision (b), in addition to the other taxes imposed by this part, there is hereby imposed for each taxable year, a tax at a rate of 5 percent of the items of tax preference as defined in Section 17063.2.~~

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

~~SEC. 33.5. Section 17062.4 is added to the Revenue and Taxation Code, to read:~~

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

~~SEC. 33.6. Section 17062.5 is added to the Revenue and Taxation Code to read:~~

~~17062.5. The provisions of Sections 17062.3, 17062.4,~~

~~Section 20503.~~

~~(b) For purposes of Chapter 2 (commencing with Section 20581), was a member of the household and who was 62 years of age or older on September 30 of the calendar year in which the fiscal year for which postponement is claimed commences, in order for the claimant to be eligible for postponement of taxes on both the first and second installment of taxes in the fiscal year for which postponement is claimed, or on January 31 of the fiscal year for which postponement is claimed, in order for the claimant to be eligible for postponement of taxes only on the second installment of taxes in such fiscal year; provided, for purposes of eligibility for postponement of taxes for the 1977/78 fiscal year, an individual must be 62 years of age or older on March 15, 1978.~~

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

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

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

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

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

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

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

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

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

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

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

(1) (A) Only one owner-claimant from one household 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:

Line	If the total household income (as defined in this part) is not more than:	The percentage used to provide assistance is:
6	$4,000	96%
7	4,200	94
8	4,400	92
9	4,600	90
10	4,800	83
11	5,000	86
12	5,200	84
13	5,400	82
14	5,600	80
15	5,800	78
16	6,000	76
17	6,200	73
18	6,400	70
19	6,600	67
20	6,800	64
21	7,000	61
22	7,200	58
23	7,400	55
24	7,600	52
25	7,800	49
26	8,000	46
27	8,200	43
28	8,400	40
29	8,600	38
30	8,800	36
31	9,000	34
32	9,200	32
33	9,400	30
34	9,600	28
35	9,800	26
36	10,000	24
37	10,500	22
38	11,000	20
39	11,500	18
40	12,000	15

12,500	12
13,000	10

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

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

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

If the total household income (as defined in this part) is not more than:	The statutory property tax equivalent is:	The percentage of the statutory property tax equivalent used to provide assistance is:
$4,000	$250	96%
4,200	250	94
4,400	250	92
4,600	250	90
4,800	250	88
5,000	250	86
5,200	250	84
5,400	250	82
5,600	250	80
5,800	250	78
6,000	250	76
6,200	250	73
6,400	250	70
6,600	250	67
6,800	250	64
7,000	250	61
7,200	250	58
7,400	250	55
7,600	250	52
7,800	250	49
8,000	250	46
8,200	250	43
8,400	250	40
8,600	250	38
8,800	250	36
9,000	250	34
9,200	250	32
9,400	250	30
9,600	250	28
9,800	250	26
10,000	250	24
10,500	250	22
11,000	250	20
11,500	250	18
12,000	250	15
12,500	250	12
13,000	250	10

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

DIVISION 3. STATE REVENUE LIMITS

PART 1. GENERAL PROVISIONS

50000. "State" shall mean State of California.

50001. "Current year revenue" for 1978–79 shall mean all revenue from "major taxes and licenses" for 1978–79 as reported on Schedule 2 of the 1979–80 Governor's Budget.

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

PART 2. STATE REVENUE LIMIT

CHAPTER 1. MAXIMUM STATE REVENUE LIMIT

50010. For the 1979–80 fiscal year and each year thereafter the maximum state revenue limit shall be the amount of revenue equal to the current year revenue for

the prior fiscal year increased by a percentage equal to the percentage increase in California personal income for the calendar year beginning within the current fiscal year, as estimated in the Governor's Budget, multiplied by a 1.2 revenue elasticity factor.

CHAPTER 2. EXCESS REVENUES

50015. If, in the preparation of the budget or in the May revenue revisions, the Governor projects that state revenues will exceed the maximum state revenue limit, the Governor in such budget shall identify the amount of revenue in excess of the limit.

50016. There is hereby established in state government the Excess Revenue Fund, in which the Controller shall deposit any and all revenues above the state revenue limit for any fiscal year.

50017. Revenues in excess of the maximum state revenue limit may be used only upon the following circumstances:

(a) Upon a separately recorded ⅔ vote of both houses of the Legislature, recorded in the journal, and concurred in by the Governor, such vote to be accompanied by an explanation of the reasons for the state retaining and using such revenues rather than their being returned to the taxpayers as provided in subsection (b).

(b) All revenues not appropriated pursuant to subsection (a) shall be used exclusively for the following purposes:

(1) To pay for *"additional"* property tax relief programs funded by the state;

(2) To reduce state taxes below current statutory levels;

(3) To maintain a "prudent" surplus not to exceed 3 percent of total revenues;

(c) For emergencies, if the Governor declares an emergency and such emergency is concurred in by the Legislature by Concurrent Resolution, or

(5) To fund a revenue sharing program with local government.

SEC. 40.6. Section 11008.4 of the Welfare and Institutions Code is amended to read:

11008.4. (a) Property taxes (1) as defined in Section 20584 of the Revenue and Taxation Code, which are postponed by a person pursuant to Chapter 2 of Part 10.5 (commencing with Section 20581) of Division 2 of the Revenue and Taxation Code, and (2) as defined in Section 20511 and 20512 of the Revenue and Taxation Code, on which a person is granted assistance pursuant to Chapter 1 of Part 10.5 (commencing with Section 20501) of Division 2 of the Revenue and Taxation Code, and (b) renters credits as defined in Section 17053.5 of the Revenue and Taxation Code, shall not be considered as income or resources in determining the amount payable to any person under Division 9 (commencing with Section 10000) of the Welfare and Institutions Code.

This section shall not be construed to limit the provisions of Section 11008 or 11008.1.

SEC. 41. Section 12400 of the Welfare and Institutions Code is amended to read:

12400. (a) For the 1974–75 fiscal year, the county share toward the cost of state supplementary aid provided under this chapter shall be the amount specified for the particular county in the following table:

County	Amount
Alameda	$7,025,338
Alpine	4,947
Amador	38,704
Butte	670,251
Calaveras	77,181
Colusa	49,813
Contra Costa	3,476,380
Del Norte	114,534
El Dorado	250,723
Fresno	2,904,906
Glenn	68,691
Humboldt	720,054
Imperial	470,331
Inyo	72,676
Kern	2,185,196

Line	County	Amount
1	Kings	388,717
2	Lake	200,967
3	Lassen	74,308
4	Los Angeles	46,323,058
5	Madera	461,328
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

Line	County	Amount
1	Ventura	1,188,797
2	Yolo	462,791
3	Yuba	316,161
4		
5		$118,000,000

6
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

current year under Section 17261 of the Education Code for the local roll of the county with the factors so certified for the two immediately preceding years.

The term "modified assessed value" for the base year means the total of (1) the taxable assessed value of partially or totally exempt state-assessed property on which tax losses are reimbursed by the state and (2) the product of the sum of (i) the taxable assessed value of county-assessed property, (ii) the exempt assessed value of partially or totally exempt county-assessed property on which tax losses are reimbursed by the state, and (iii) the sum of assessed valuation equivalents of revenue amounts certified pursuant to Section 27423 of the Government Code and Section 38905 of the Revenue and Taxation Code times the factor certified for the base year under Section 17261 of the Education Code for the local roll of the county. The factor referred to herein is as corrected pursuant to subdivision (b) of Section 1819 of the Revenue and Taxation Code. The assessed valuation equivalents of Section 27423 of the Government Code and Section 38905 of the Revenue and Taxation Code shall be derived by multiplying such amounts by a factor of 100 and dividing the product by the county's secured tax rate for the prior year.

For purposes of this subdivision commencing with the 1976–77 fiscal year, the term "taxable" assessed value of county-assessed property shall not include any assessed valuation upon which tax receipts are allocated to a redevelopment agency pursuant to Article 6 (commencing with Section 33670) of Chapter 6 of Division 24 of the Health and Safety Code.

The State Controller shall determine the amount payable by each particular county in subsequent fiscal years under this section.

(d) The counties' share toward the cost of care and administration provided under this chapter shall be paid to the state monthly.

SEC. 42. Section 14150 of the Welfare and Institutions Code is amended to read:

14150. (a) For the 1971–72 fiscal year, the county

share toward the cost of care and administration provided under this chapter shall be the amount specified for the particular county in the following table:

County	Amount
Alameda	$11,832,000
Alpine	5,000
Amador	156,000
Butte	952,000
Calaveras	215,000
Colusa	142,000
Contra Costa	6,018,000
Del Norte	123,000
El Dorado	359,000
Fresno	6,873,000
Glenn	187,000
Humboldt	1,200,000
Imperial	430,000
Inyo	241,000
Kern	5,233,000
Kings	740,000
Lake	132,000
Lassen	124,000
Los Angeles	99,975,000
Madera	661,000
Marin	1,120,000
Mariposa	33,000
Mendocino	550,000
Merced	1,545,000
Modoc	120,000
Mono	31,000
Monterey	2,595,000
Napa	550,000
Nevada	425,000
Orange	10,395,000
Placer	913,000
Plumas	220,000
Riverside	5,160,000
Sacramento	8,627,000
San Benito	181,000
San Bernardino	6,462,000