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THE EFFECTS OF PROPOSITION 13 IN
SANTA CLARA COUNTY

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I. PREFACE

More than a decade has passed since determined California voters gave themselves the biggest property tax cut in American history. On June 6, 1978, Proposition 13, voted into existence by those seeking relief from escalating property taxation, cleared the ballot by nearly unanimous agreement.

In the ensuing years, many facets of this gigantic voter reaction have come to light.

The following is an exploration into the events and results of this historical phenomenon in the Santa Clara Valley.

II. THE EFFECTS OF PROPOSITION 13 ON SANTA CLARA COUNTY

In the beginning, pink and white apple and cherry blossoms frothed over the valley like bridesmaids at a wedding.

Small animals scampered with Bambi-like innocence through endless vistas of wildflower fields and orchards of fruit trees.

Free-floating eagles soared above the lush greenery of a flourishing agricultural area, and fish jumped playfully from the pure waters, their flesh gleaming a sunspangled silver.

This was Santa Clara County up until the late 1960's. Because of its abundance and beauty, it was known as the "Valley of Heart's Delight." Located approximately fifty miles south of San Francisco, and consisting of a 30-by-10 mile stretch of prime agricultural land, it boasted the most prolific fruit production of any area in the state, except for the Central Valley and Southern California.

In 1950, Santa Clara County was the prune capital of America. Today, pollution threatens the wildlife and the fruit trees are nearly gone, replaced by "plants" of a different type, that manufacture computers, microprocessors, pocket calculators, video games, and laser technology. The "Valley of Heart's Delight" has become known instead as Silicon Valley.

Drawn to the booming employment market and the general attractiveness of the area, thousands of people took up residence. The local economy became the fastest-growing and wealthiest in the United States, with a median family income of over \$30,000. From 1970 to 1980, San Jose, Santa Clara County's largest city, grew from the 29th to the 18th largest city in the country, making it the fastest-growing city in the nation.¹

But other areas of California, mostly huge metropolitan regions, were also experiencing unprecedented growth. The new residents clamored for jobs, homes, and county services. They flocked to buy housing, and the competition created tremendous demand for both new and existing structures. As a result, real estate inflation ran rampant.

With the astronomical increase in housing assessments came sharply higher property taxes. Although homeowners gloried in their soaring equities, they abhorred the accompanying tax rates. Many, such as the elderly and others on fixed incomes, simply could not afford the increases. Perversely, they were threatened by the cost of the taxation of their growing wealth.

In addition, the public's confidence in the competence and good motives of government had been dashed in the decade prior to 1978, when the perceived failure of the Great Society programs, Vietnam, and Watergate occurred.²

The California of 1978 was very different from the Golden State of Governors Earl Warren and Edmund G. "Pat" Brown, when aggressive, big-money government, post-World War II economic expansion and high public ambition

1. Everett M. Rogers and Judith K. Larsen, Silicon Valley Fever, p. 28.

2. George Will, "Conservative Tide on the Ebb," San Jose Mercury News, 5/88

joined to create a place like America had never seen before.³

But by 1978, Californians had different desires, personal ones that were hampered by an expensive government in which many had lost faith.

And so on June 6, 1978, California voters, by a margin of almost two to one, ratified the Jarvis-Gann initiative, more commonly known as Proposition 13, and applied the brakes—not just to property taxes but also to the momentum of government.

The first year's tax cut was \$7 billion, and it shook California government officials to their insoles. Proposition 13 forced new approaches to government financing at every level and brought a basic alteration in the way public officials behave in the nation's largest state.⁴

But Proposition 13 was seen by many political observers to be less evidence of a generalized tax revolt than a strike against a particular complaint: extreme property taxes in an era of runaway inflation. And the voters got the relief they demanded; a hefty 60 percent reduction in tax rates.

WHAT IT DID

Proposition 13 rolled back property assessments to their 1975 levels and placed a limit on future increases. Assessed values are allowed to increase no more than two percent a year—less if the inflation rate is lower. The exception: Every time property changes hands, the assessed value increases to its current worth.

Proposition 13 also set the maximum property tax rate at one percent; typical tax rates prior to 1978 were around three percent.⁵

3. Gary Blonston, "Prop. 13 ended the California dream," San Jose Mercury News, 5/18/88, p. 12A.

4. Blonston, Prop. 13: How unkind a cut?" San Jose Mercury News, 5/15/88, p-1A.

5. Blonston, op. cit. p-22A.

Government Effects

It put a snag in the way government does the public's business, for Proposition 13 had indexed all government budget growth to gains in the population and the cost of living.

Many said it had to happen; that there had to be a curb on government spending. A halt had to be called on costly and futile leadership. But instead, it concentrated unprecedented power among state officials, some of the very people the tax reformers blamed most for allowing California's property taxes to rise so high.⁶

Prior to the passage of Proposition 13, state government was claiming about forty-nine cents of every tax dollar received in California; since it passed, the state portion has increased to sixty-three cents.

Proposition 13 sent up political flares to legislators that the taxpayers had decided government must live within a budget. It heralded the day of a new public sector austerity; few new programs could be set up by any level of government, and existing ones did well just to keep their funding allotments adjusted for inflation.

It swiped hard at plans for new social enactments, like national health insurance, and imminently deep cuts were made in existing programs for the poor, ill, aged and homeless. Despite these social setbacks, the message got through to political officials: The voters had had enough, and had stomped their respective feet.

And yet, popular consensus has it that an error was made in the interpretation that Proposition 13 was used by the voters as an objection to government spending in general. This led, in 1981, to conservative miscalculation

6. Blonston, loc. cit.

of the public's willingness to cut federal spending as well as (property) taxes.⁷ Proposition 13 was seen more as an angry revolt against high property taxes in an era of high inflation. It struck the homeowner on the personal level.

In the years since, there has been an increasing feeling that perhaps Proposition 13 slashed too deeply to provide adequate government services. That for the sake of our schools, police departments, hospitals, and scores of other government provisions upon which we rely, we must tax ourselves. "Taxes," according to Oliver Wendell Holmes, "are what we pay for civilized society."

For despite the fact that today public payrolls are smaller (the Los Angeles city payroll is 4,000 jobs smaller than in 1978), and Proposition 13 saves property owners about \$15 billion a year, many Californians think insufficient government is now a problem.

In 1983, halfway through the Conservative decade President Reagan and his followers had ushered in, sixty-four percent of Californians polled favored smaller government with fewer services and fewer costs, and twenty-eight percent favored the opposite. Today the smaller government lead is just 48-43, and seventy-one percent favor raising local taxes for transportation, public safety and education.

Some private and government sector observers believe the imbalance between ever-increasing property taxes, as the price of housing keeps rising, and taxpayer dissatisfaction with government services may spur another tax revolt; a sort of Proposition 13, Part II.

7. Will, loc. cit.

The National Effect

Proposition 13 created instant, nationwide shock-waves. It was the setting from which Howard Jarvis, the initiative's master planner, emerged to spur a tax revolt that swept not just California but the country.⁸

And yet Jarvis, the father of the initiative, failed completely in his efforts to go national. Despite the new conservatism of the country, most states did not adopt similar laws. No other state had undergone the astonishing increases in property values that California had, and no other state felt the need to react with such drastic tax reductions.

Farflung Local Effects

Although rural counties suffered from reduced revenue as a result of slashed property taxes, Santa Clara Valley's larger cities withstood attack because of enormous industrial expansion—growth that contributed new tax dollars and other fees when they were needed most.⁹

Santa Clara was in an especially good position because it had never depended on property taxes for any more than fourteen percent of its revenues, and because it held large tracts of land where industry wanted to build.

San Jose still has to struggle to keep up, however. In the decade since Proposition 13, San Jose's staff grew by 829 people, or eighteen percent, and its spending per person increased ninety-eight percent, to \$396.¹⁰

But because population grew twenty-four percent and inflation nearly doubled costs, the city still has to face budget challenges.

8. Blonston, op. cit., p. 22A.

9. David M. Kutzmann, "Valley Cities finally feel it," San Jose Mercury News, 5/17/88, p. 13A.

10. ibid.

And Santa Clara County government lost out because the demand for its services far outweighs its ability to raise funding. Unlike the cities, the county administers a large hospital, jails and courts.

Further eroding its budget, San Jose's gigantic downtown redevelopment project laid claim to \$20 million in tax revenue for new construction in redevelopment areas. State law allows redevelopment agencies to keep all property taxes generated by new construction within renewal areas.¹¹

But the low point for county government came in 1982, when \$57 million in programs had to be cut from a \$700 million budget. More than 1,000 jobs were abolished, although only about 200 people lost their jobs.¹²

The results were deep gashes in health care for the poor and handicapped, children's services, communicable disease control, welfare benefits, and health department services for the elderly.

Valley Medical Center, Santa Clara County's general hospital, lost \$4.5 million that year, causing cutbacks in most services. And adding additional fuel to the financial fire is the escalating cost of running the county jails and courts.

In the past seven years, the county has spent more than \$150 million to relieve the jail overcrowding that ignited a costly court battle with inmates.¹³

And some city officials don't think the worst is over yet; that the most severe effects remain to be seen. They are also concerned about the possible future bite of a Proposition 13 companion measure, known as

11. ibid.

12. ibid.

13. ibid.

Proposition 4. In 1979, Paul Gann qualified this more cautious initiative, the so-called Gann lid on government spending. It is modeled on tax and spending limitations adopted by several other states, and links the future growth of state and local expenditures to the increase in California's personal income.

Some Unhappy Homeowners

The winners were those Californians who saved on property taxes. A modest homeowner would save a few hundred dollars. The owner of a Beverly Hills estate would save upward of \$5,000. Renters got nothing. And the biggest windfall of all went to the corporate property owners.

Pacific Telephone and Telegraph (Pacific Bell) saved \$130 million in property taxes; Pacific Gas & Electric, \$91 million; Southern Pacific Railroad, \$12 million. In Contra Costa County alone, Standard Oil saved \$13.1 million, and several other *Fortune* 500 companies with California operations, including Lockheed, Bank of America, United Airlines, and IBM, (saved) tens of millions of dollars each.¹⁴

And in Santa Clara County, where business and industries do not often change hands with the frequency of residential property, business and industrial taxpayers have continued to reap the rewards of Proposition 13; even as homeowners have witnessed an increase in their property taxes once again.

A concern to local government is that major corporate landowners, such as Lockheed Missiles & Space Co. in Sunnyvale, probably will never sell. So their property taxes will continue to be assessed at 1975 levels plus an annual inflation rate of up to two percent.

And that, according to officials, has been the problem; not the

14. Robert Kuttner, *Revolt of the Haves*, pp. 83-84.

initial reduction of sixty percent off the property tax. It is the two percent lid on the assessed value increases that make budget planners wince.

The losers were mainly the recipients of public services. But even some homeowners, one of the groups which most benefited by the passage of Proposition 13, suffered some aftereffects.

It created a blatantly unequal property tax system that becomes even more so, every time a piece of real estate is sold. Proposition 13 dictates that a property can be reassessed at current value—and its taxes raised as a result—only when it is sold. So for the past ten years, new buyers have been paying not only substantially higher prices for housing, but also steeply higher taxes, than their neighbors who have stayed put. Those lucky neighbors who are still assessed only at the very low, 1975-vintage property rates that came with Proposition 13.

For example, on one block of Cherry Avenue in San Jose's Willow Glen area, current tax bills on two comparable houses can vary by hundreds of dollars, depending on their assessed valuations at time of purchase. Within just a short distance of one another, one neighbor pays \$570 per year, and the other is set back \$2500.

And the tax gap is only expected to widen in future years, as homes in the neighborhood sell for prices three, four and five times higher than in the early to mid-seventies.

"You're adding \$150 to \$200 a month (in taxes), and that's on a moderately priced home," said Mickie Constantino, president of the San Jose

Real Estate Board.¹⁵

Services & Schools Hurt

Both fans and critics of Proposition 13 say they have noticed deterioration in municipal services. A common complaint is the lack of street sweeping, tree trimming, and general neighborhood maintenance.

"The streets and gutters need repair," said one longtime resident of San Jose. "Cars (are) parked on sidewalks or left parked (on city streets) for weeks at a time."¹⁶

Residents complain that attitudes at city hall and other places of public service have changed; that local government moves more slowly, and poor service is blamed on Proposition 13.

Similarly, county governments, which perform a multitude of state-mandated duties, have very little to say these days about how to pay for medical, welfare, social service, law enforcement and corrections operations.

But of all services that suffered cutbacks, the schools were perhaps the most severely affected. Proposition 13, and the state spending limit that followed, have trapped schools in a fiscal straitjacket.

What was once California's crown jewel—its public education system—now seems to face a future of mediocrity. The school system's demise has been called "the dulling of California's sense of the future."

"This state was built by people willing to make short-term sacrifice for long-term benefit," says state Sen. John Garamendi, D-Stockton.

15. Kutzmann, "Where Taxes Clash," San Jose Mercury News, 5/15/88, p-23A.

16. ibid.

"We're so selfish today that we won't tax ourselves to build a high school, a community college or an elementary school so the kids we plan to retire on are educated.

"That's stupid."¹⁷

Ways Around the Voter

"One of the primary effects of the passage of Proposition 13 (was that it) made California politicians almost religiously opposed to raising taxes, and many of them remain so to this day."¹⁸

Fear for their careers galvanized politicians into finding new sources of revenue without asking the vengeful taxpayers to assume any more of the load.

It caused government officials to scrounge under every law book and fee schedule they could find for ways of raising money that don't require voter approval.¹⁹

Officials imposed stiffer fees for everything from dead dog removal to drunken driving arrests; requirements that developers pay for the roads, utility systems, and even the highway interchanges that their projects require; sidelong techniques for borrowing money that avoid the necessity of voter approval.²⁰

For the word "fee" was the clue. By substituting the term "fee" for tax and matching the amount charged to the cost of a service, government has avoided the requirement of two-thirds voter approval.

17. Blonston, loc. cit.

18. Blonston, op. cit. p-22A.

19. ibid.

20. ibid.

Government has been successful at this. Ten years after the most successful tax revolt in U.S. history, state and local government spending (was) approaching the same amount per California resident, after inflation, as it was before Proposition 13 passed.

That was not exactly what Howard Jarvis, Paul Gann and the other leaders of the Proposition 13 revolt had in mind when they set out to do what California politicians wouldn't--reduce the price of government.²¹

In short, the losses from property tax funding have been replaced through the new fees, taxes, and more aggressive investment of idle cash that builds up, as San Jose demonstrated in 1984 by losing \$60 million in speculative bonds.

Such financial solvency wasn't supposed to occur. The tax slashers thought they cut property tax payments and sharply limited government's ability to replace the money by requiring a two-thirds voter approval of new "special taxes."

But before the passage of Proposition 13, California, with its highly progressive income tax system, had garnered more and more tax dollars every year, because inflation was pushing taxpayers into ever higher brackets. And as consumer prices rose, sales tax receipts soared, too.

The extra income tax revenues piled up in state accounts. And instead of using this windfall to buy bigger and better services, or to relieve local property tax laws, Gov. Brown and the legislature built

21. ibid.

up a \$4 billion state surplus, setting the stage for the remedy, Proposition 13.

Liberated by the initiative, the billions of idle dollars in state reserves both bailed out local government, and were (also) put back to work in the state's private economy.²²

The 1978 voters were complaining against a burdensome injustice in the way that property taxes were apportioned, which was doubly insulting given the state surplus.²³

But through the early 1980's, after the state's \$3.5 billion surplus finally ran out, Proposition 13 set California back measurably, especially as cutbacks in federal spending became chronic.

Positive Future Effects ?

One positive effect of the passing of the years has developed. Proposition 13 does allow property tax revenues to grow over time, and they have grown so much in ten years that today they provide almost as large a share of city and county funds in California as they did before Proposition 13 was passed. adjusting for inflation and population fluctuations.

But today, in the late 1980's, local government claims it sees little benefit from the elusive Santa Clara County property tax dollar, and is striving to borrow billions of dollars for roads and public buildings, schools are struggling for dollars to match their

22. Kuttner, op. cit. p-19.

23. Kuttner, op. cit. p-20.

increasing student numbers and needs and the state's poor and minority populations are growing both in size and economic separation from the middle class.

Given these reminders, it is hard to see very many positive aspects of Proposition 13. It has indeed been blamed for much of what has happened. But one must always wonder if the initiative's passage wasn't significant of something larger, a signal of change, that was happening to California; to its roads and schools and people. As usual, the residents of the Santa Clara Valley will sit and wait and watch. And in the end, their wisdom and judgement will be cast by ballot.

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