California before Proposition 13
Property taxes - the traditional revenue source for local governments, schools, community colleges, and special districts
Local elected officials determine level of taxes and controlled programs
Annual re-assessment of property value
Typical property tax at 2-3% of assessed value

Elected body determined budget and the level of property taxes needed to make the budget
-citizen input on programs and level of taxes to the governing body

Responses to this system:
Williamson Act - limit on taxes on agricultural land
Creation of no tax cities (Industry; Commerce; Irwindale; Vernon; Cerritos (Dairyland))
Redevelopment Agencies - all increased property tax goes to City
-state makes up lost revenue to non-basic aid schools, but not to county, community colleges, or special districts

Major Fiscal Changes in the 70s
Equalization of school spending - Serrano v. Priest
Proposition 13
- Limits increase in annual re-assessment to 2%
- at sale of property, property re-assessed at true value
- Property tax limited to 1% of assessed value
- Rollback of assessed value start point to 1975
- elimination of 50% of "time of sale" re-assessments
- 2/3 vote required for increase in taxes

Prop 13 - 53% decrease in property tax revenues upon enactment

Legislative response-
- assumption of funding of many programs by state with big increase in state controls
- Examples: schools, community colleges, court system

Follow-up initiatives-
Elimination of Inheritance Tax
Income tax indexing
Revenue limits
Prop 218 - limits on fees
Local Government Response to Property Tax Limits
Increase in fees for services and exactions
- however, housing industry has aggressively limited these in state legislation
Increase in unregulated taxes- business license fees/utility taxes/franchise fees

Since property taxes are outside local control, focus has been on getting sales tax revenue.
In 1976, property taxes were 15% of city revenue.
Currently, property taxes are 7% of city revenue.

Service charges increased from 35% to 41% in same time frame

Transfers to city government from other governments fall from $210 per person in 1975 to about $125 in 2003.
Elimination by state government of transfers from liquor licenses, trucking licenses, cigarette tax,
mobile home fees, and business inventory exemptions.

City push for sales tax revenue-
Giving back 50% of tax
Economic development staffers to chase down sales tax generator

For 25 years, City staff's principal focus has been on making land use decisions that enhance revenue

Implications
Big increase in citizen referendum/initiatives to control land use
Local government opposition to incorporation that will cause loss of revenue
Lowering of total revenue available to local government because of rebates to gain sales tax revenue
New districts must have 2/3 vote to be funded (no property tax available)
Encouragement of new business/commercial development where it is easier to collect fees
Discouragement of housing- city cannot recover losses in initial service cost; residents will oppose full
recovery of costs thru fees
- statewide housing shortfall is monumental