

Prop 13 is supposedly the third rail of California politics. The [1978 ballot measure](#) effectively froze property taxes in the state and ultimately ensured that any new tax increases require a 2/3 vote, whether in the legislature or among local voters approving a new city or county tax measure. It can only be undone if two-thirds of the state legislature (or a signature drive) places a reform measure on the ballot to be approved by voters.

There's a good case to be made for reform, given that Prop 13 has helped wreck the state.

First, Prop 13 has badly distorted development patterns in the state — depressing new housing supply and worsening the environment. It's all about the perverse incentives that Prop 13 has created.

For example, longtime property owners, particularly commercial property owners, pay so little in property taxes under Prop 13 that they have no incentive to upgrade their properties. That means lots of downtown parcels that fall into neglect, as cruddy tenants can keep landlords happy with steady cash flows to meet low overhead from the minimal tax burden. Communities suffer from the blight and neglect.

On the residential side, longtime homeowners have little incentive to downsize since their overhead is so low under Prop 13, further diminishing available housing supply for newcomers and young families and pushing new residents farther out into sprawl areas with long commutes.

Meanwhile, under Prop 13, local government officials have little incentive to approve or zone for new housing, since it brings so little property tax revenue. Instead, they opt for commercial developments that promise sales tax revenue. It's probably not a coincidence that California has been [under-producing housing](#) relative to population and job growth since Prop 13 was passed (although other factors undoubtedly contribute).

Second, Prop 13 makes it harder to provide cost-effective, equitable and sufficient government services. With the 2/3 hurdle to approve new revenues, measures like local transportation taxes can sometimes lose by [just a few thousand votes](#), even though say 66.5% of the voters approve. As a consequence, local governments sometimes can only provide poor service and are stuck with crumbling infrastructure. And when they do get tax measures passed, they're often the product of [extensive compromises](#) to please everyone, leading to inefficient spending.

Prop 13 has also increased disparity among California's communities. Since Prop 13 passed, California's [schools and basic services](#) like fire departments have become more unequal, as

poor communities struggle to fund them while rich communities can raise significant parcel taxes to cover them, in the face of dwindling property tax revenues.

Third, Prop 13 leads to significant injustices and inequalities among homeowners and businesses. As a recent [Trulia study](#) documented, as [summarized](#) by the San Francisco Chronicle:

Homeowners in expensive coastal cities such as Palo Alto and Los Altos, where median home values exceed \$2 million, pay effective tax rates under 0.5 percent, while households in inland areas, like Beaumont and Arvin, where home values are under \$265,000, have effective tax rates of more than 1.3 percent, [Trulia said in its report](#).

This “cross-city variation” is a result of price appreciation and share of longtime residents, Trulia said. The more a home appreciates, the lower its effective tax rate becomes. The lower the rate, the more incentive there is to stay put.

And even within those communities, homeowners pay vastly different amounts of property taxes:

However, it also found that “substantial differences occur even among property owners of similar ages, incomes, and wealth.” Looking at Bay Area homeowners ages 45 to 55 years with homes worth \$575,000 to \$625,000 and incomes of \$80,000 to \$90,000, it found that their property tax payments in 2014 ranged from \$1,350 to \$7,500.

It all depends on when you bought, but young families could easily be paying five times as much in property taxes as a longtime homeowner next door.

Finally, on the inequality front, Prop 13 is really a giant subsidy for commercial property owners. Many pay practically nothing in property taxes compared to the value of their property, particularly since these properties can change hands via corporate buy-outs and mergers to avoid triggering a re-assessment and thus higher property tax rates. Disneyland may be the poster child for [this perverse outcome](#).

In short, Prop 13 has been a negative for California in terms of land use, equality and

government efficacy. With a new Democratic super-majority in the California legislature, now would be a good time for them to place a reform measure on the ballot, so the voters have a chance to undue this bad policy.