

Unjust Legacy

Report available at TheOpportunityInstitute.org



Unjust Legacy

How Proposition 13 Has Contributed to Intergenerational, Economic, and Racial Inequities in Schools and Communities

Carrie Hahnel, Arun Ramanathan, Jacopo Bassetto, and Andrea Cerrato





About Proposition 13

- Ballot measure passed by voters in 1978
- Made changes to property tax system, including:
 - Capped property taxes at 1%
 - Allowed assessments to increase only 2% annually
 - Allowed a property to be reassessed only when sold
 - Established that a two-thirds vote majority would be required to pass any new “special” tax in a local election

Report Findings





First, We Looked at Housing Wealth

Research Question:

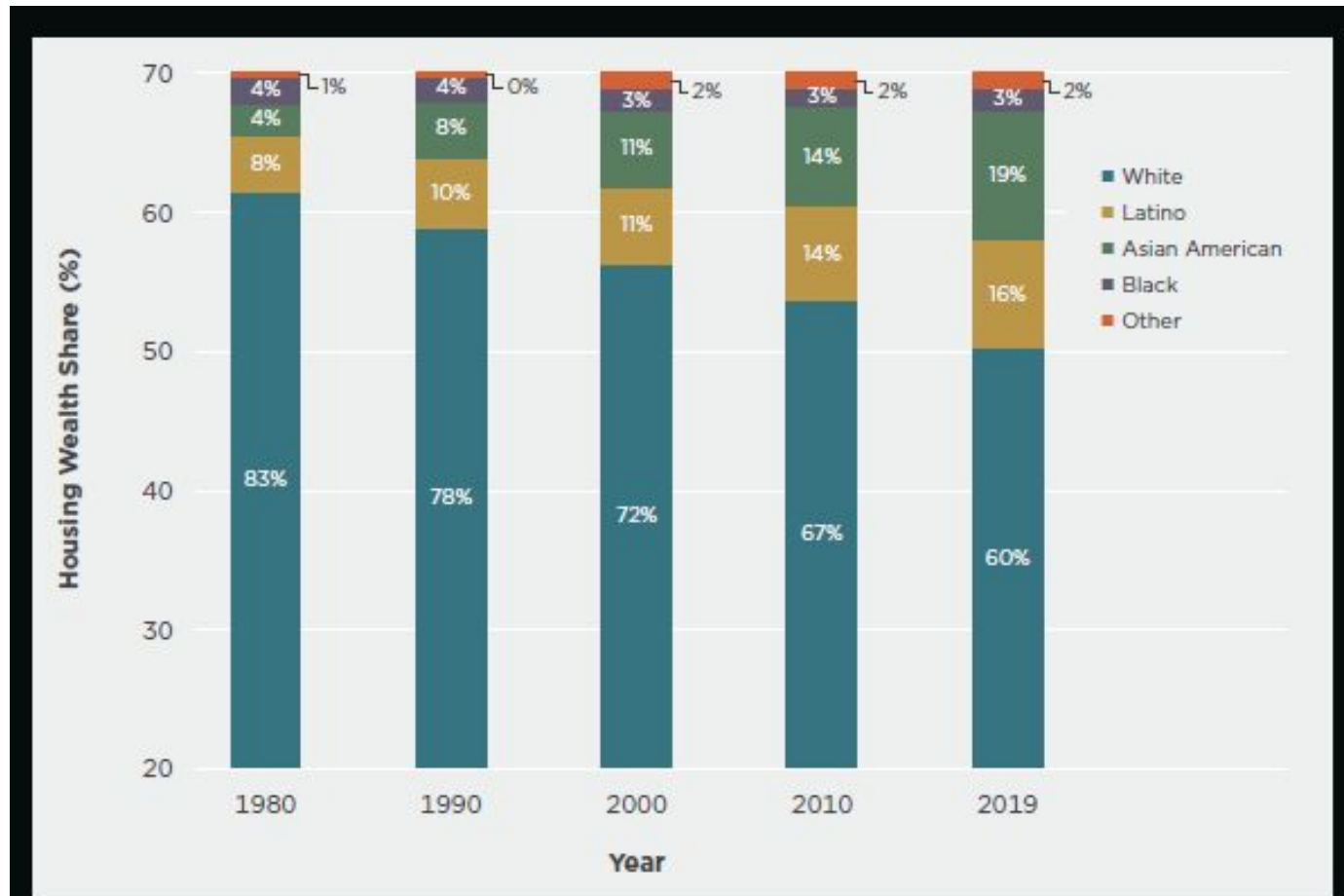
How has the accrual of residential property wealth, by race, changed over the past 40 years?

Data Sources:

- 5% census sample for 1980, 1990, and 2000
- 1% American Community Survey (ACS) for 2010 and 2019



White Californians Own a Disproportionate Share of the State's Housing Wealth



Note. All percentages in columns are rounded.

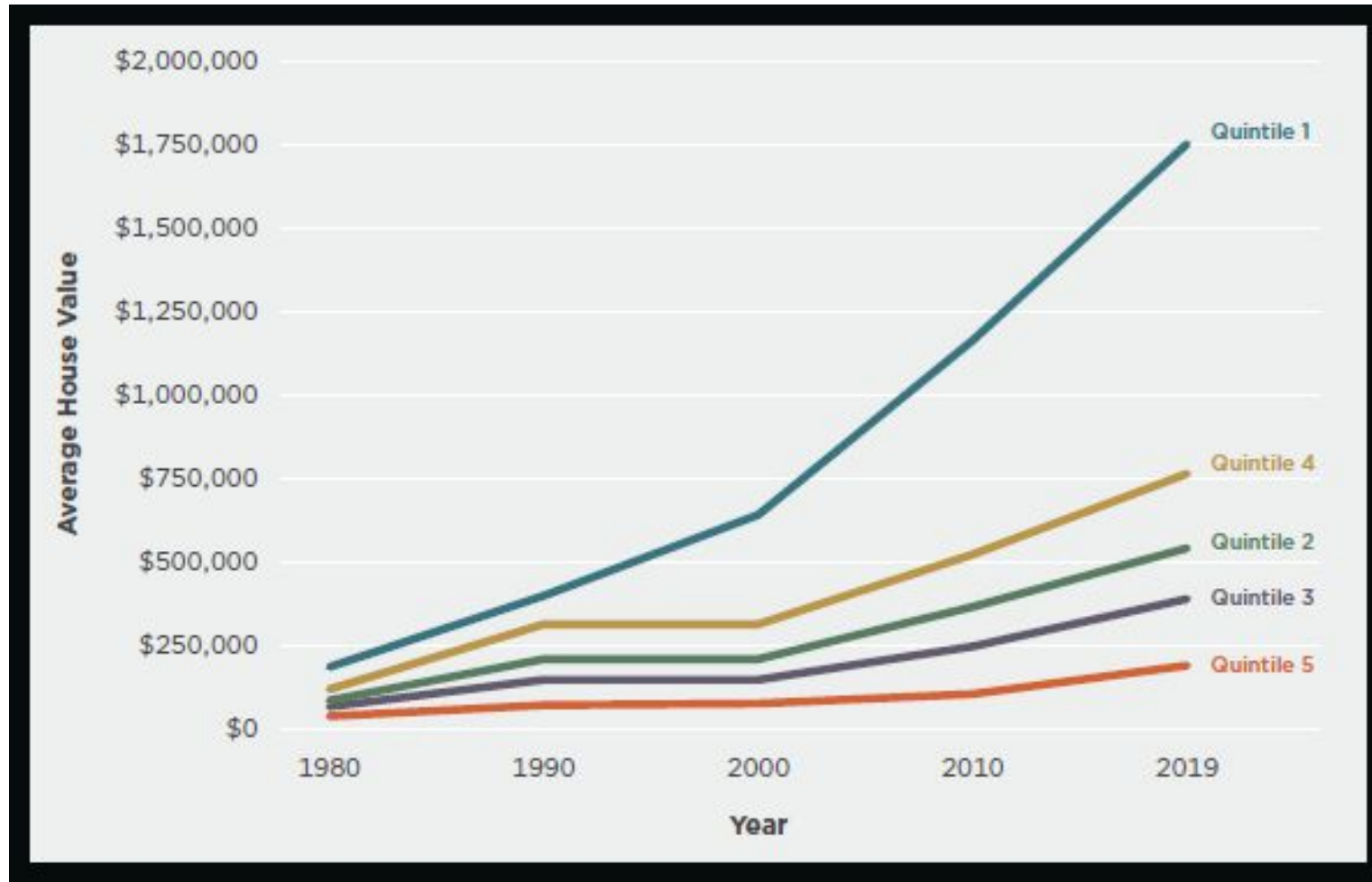
Black homeowners own just 3% of the total housing wealth even though 6% of Californians are Black.

Asian American homeowners have acquired housing wealth at a pace that exceeds their population growth.

Between 1980 and 2020, the state's Latino population increased by 20 percentage points, but their housing wealth increased by only 7 percentage points in about the same timeframe.



Average Home Values Have Risen Dramatically, Especially for the Most Expensive Homes



The average home has increased in value by 660% from 1980 to 2019.

Homes in the top quintile of market value have increased in value by more than 800%. This means those with the most property wealth have gotten wealthier.

Californians who own the most expensive homes are disproportionately white and higher income.



Next, We Looked at Property Tax Savings

Research Question:

Which homeowners most benefit from California's cap on property taxes?

Data Source:

- 1% American Community Survey (ACS) for 2019



Similar Homes, Different Taxes

Comparison of Property Taxes and Effective Tax Rates of Similar Homes in Fullerton, California

				
Purchase Year	1996	2000	2010	2020
Specifications	3 bdrm 2 bath	3 bdrm 2 bath	3 bdrm 2 bath	3 bdrm 2 bath
Square Footage	1,308	1,516	1,500	1,527
Market Value (Zillow Estimate)	\$827,700	\$872,000	\$1,068,900	\$997,400
2021 Property Tax	\$2,933	\$4,022	\$7,193	\$11,757
Effective Tax Rate	0.35%	0.46%	0.67%	1.18%



Prop 13 Creates “Subsidies” Which Grow Over Time

$$\begin{array}{l} \text{(Theoretical)} \\ \text{Unsubsidized tax:} \\ \\ \text{Market value} \\ \times \\ 1.1\% \end{array} - \text{Actual tax paid} = \text{Tax Subsidy}$$



White and Asian American Homeowners Are Enjoying the Largest Tax Subsidies





Next, We Estimated Hypothetical Revenues

Research Questions:

- How much more revenue could the state theoretically generate if it changed its property tax policies?
- How would school districts benefit from such a change?

Data Source:

- 1% American Community Survey (ACS) 5-year sample for 2015-2019



Scenario 1: Looks at California's property tax revenues as a share of personal income, relative to other states

Comparison State	Additional Property Tax California Could Realize
New York	\$41.5 billion
Illinois	\$35.1 billion
Texas	\$29.3 billion
Massachusetts	\$21.3 billion
Florida	\$2.6 billion
National Average	\$10.5 billion



Scenario 2: Compares California's effective property tax rates for housing units to other states

Comparison State	State Average ETR	Additional Property Tax California Could Realize
New York	1.4%	\$22.3 billion
Illinois	2.0%	\$44.7 billion
Texas	1.6%	\$34.7 billion
Massachusetts	1.1%	\$9.0 billion
Florida	0.9%	\$2.8 billion
National Average	0.9%	\$7.1 billion



Reforms Could Generate Significant Revenues for Schools

- Suppose California could raise **\$20 billion** in new revenues if it reformed its residential property tax policies.
- That's about **\$7 billion**, or **\$1,200 per pupil** for K-12.
- What could that buy for a 500-student elementary school?
 - 6 additional staff
 - Class sizes reduced by 2 students per class

Paths Forward



Reduce or Remove Property Tax Limits

Voters/lawmakers could:

- Lift caps on assessed values
- Increase tax rates
- Impose property surcharges

Perhaps in combination with:

- Means testing
- Phase-ins, deferments, and protections
- Closures of inheritance loopholes



Make It Easier for Local Governments to Pass Taxes

Voters/lawmakers could:

- Expand local taxation authority
- Allow for regional taxation, so long as dollars are redistributed regionally



What Else is Needed?

- Advocates and lawyers should interrogate the ways in Prop. 13 exacerbates inequities. What opportunities are there for future litigation?
- Build a deeper research base and craft policy options
 - Scholars, public finance experts, local leaders, and advocates should collectively determine what it will take to overcome political and taxpayer resistance.

#UnjustLegacy

Thank you! Please share and tag us on Twitter:



TheOpportunityInstitute.org

[@OpportunityOrg](https://twitter.com/OpportunityOrg)



PivotLearning.org

[@PivotLearning](https://twitter.com/PivotLearning)