



THE CENTER FOR STATE AND LOCAL TAXATION

California's Local Tax Policy: Past, Present, and Future

California Municipal Revenue & Tax Association

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- A brief history of California local taxation
- What constitutes a “good” local tax system?
- Challenges facing California’s local tax system
- Recommended reforms



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1850

First formal tax structure

- State property tax
- Male tax
- Foreign miners tax
- Military commutation tax
- Counties were allowed to assess business license taxes

1850 -1910 the property tax was the major state and local revenue source



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- 1910** Tax reform abolished the state property tax but local governments raised their rates to absorb the state tax.
- 1923** **Motor Vehicle Act** imposed a flat \$3 registration fee divided between the state, cities and counties.
Motor Vehicle Fuel Act imposed the first “gas tax” at 2 cents/gallon split between the state and counties.



Depression Era Tax Reform

1933 State sales tax was adopted at 2.5%

1935 Personal income tax enacted at approximately 25% of federal tax

The state “car tax” or VLF was adopted at 1.75% of value



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Post World War II

1945-1955

Increases in the gas tax, the car registration fee, and the VLF financed the boom in highway construction.

Cities began imposing sales taxes (without legislative authorization). San Bernardino was first, adopting a 1% rate in 1945. By 1954, 173 of the then 316 California cities were taxing sales.



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1955

The Bradley Burns Uniform Local Sales Tax Act authorized counties to levy a 1% tax and cities up to 1% as a credit against the county tax.

1963

Cities and counties were authorized to impose hotel/motel taxes.

Gas tax increased by 1 cent for city & county road construction.

Local income taxes were prohibited.



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1967

Senior citizen property tax relief
Cities & counties authorized to impose
property transfer tax at \$.55 per \$500
of value
State sales tax increased to 4%

1970

Local option sales taxes began to
appear beginning with .5% for BART
followed by .5% in L.A. County.



Property Tax Revolt

- 1962** Howard Jarvis met at a neighbor's home with a group of angry taxpayers, kicking off the property tax revolt.
- 1965** Assessor scandal
- 1968** Homeowners exemption established at \$750
- 1965-72** single family home assessments increased on average 58% while local officials increased property tax rates by 34%.



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1971

Serrano v. Priest

Sales tax extended to gasoline

1972

Property tax rate limits were imposed on cities, counties & special districts for the first time.

Homeowners exemption increased to \$1750

School aid provided to low wealth districts

1977

Serrano II: Reform school finance!



1978 Proposition 13

- limited the tax rate to 1%
- established acquisition value based assessment
- established voting requirements for state and local taxes



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1986

Prop 46: reinstated property tax financed general obligation bonds with 2/3 vote

Prop 62: required majority vote approval of local general taxes

Prop 58: the dynasty provision

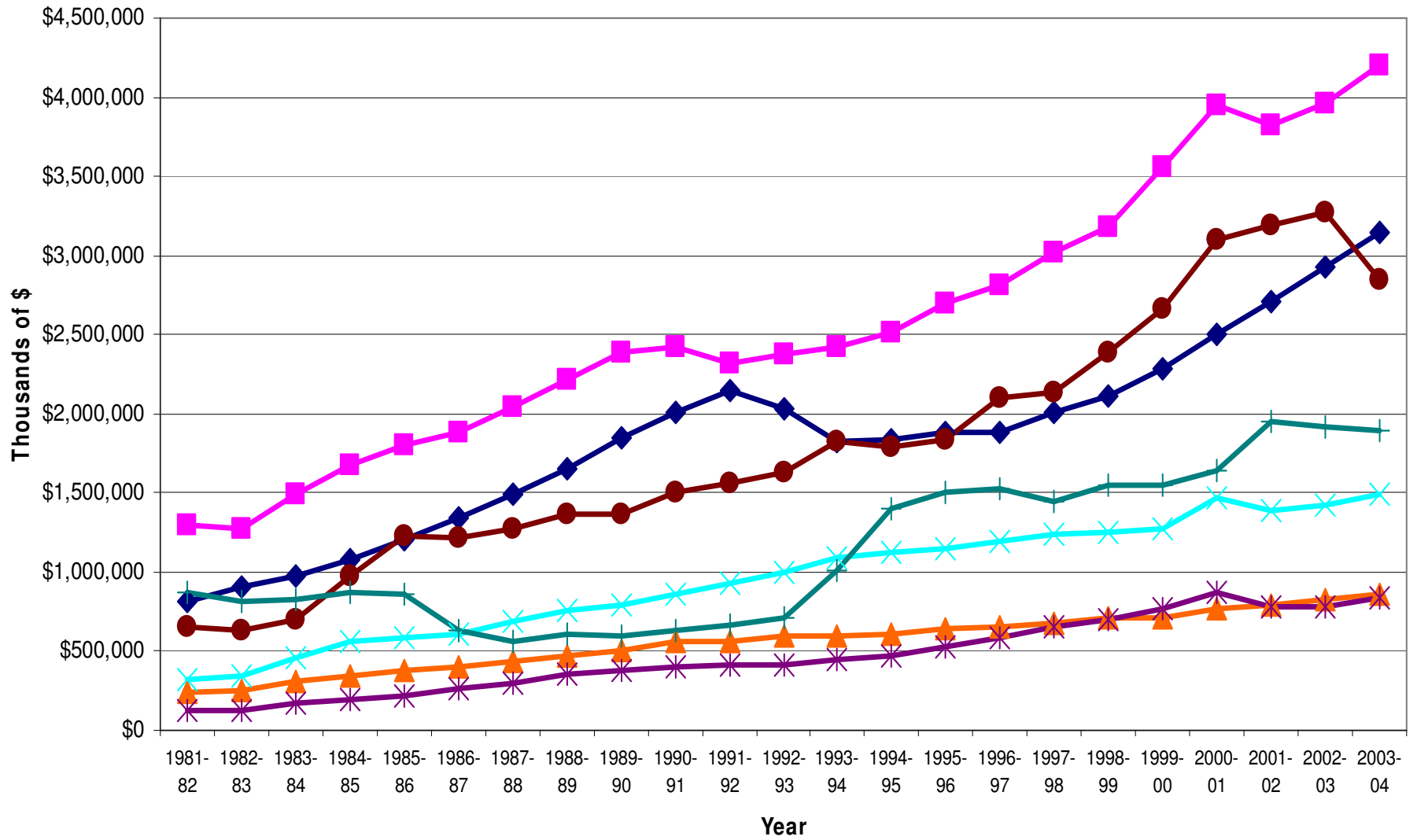
Prop 60: seniors allowed to transfer their assessed value



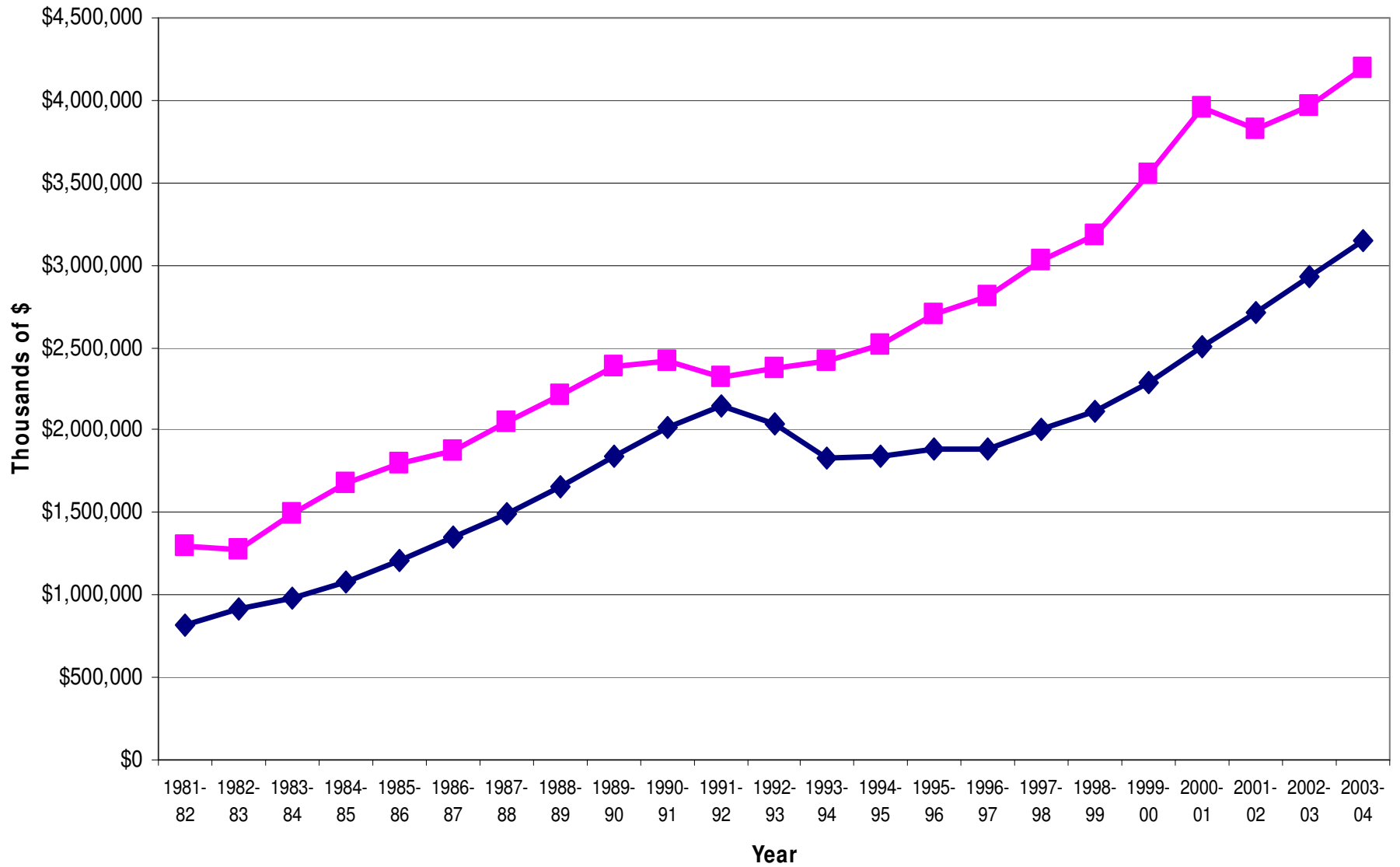
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- 1988** **Prop 98:** Mandates minimum funding for schools
- 1992-93** **ERAF:** shifted \$3.6 billion (17%) of
- 1993-94** CA property tax revenues from cities, counties, and special districts to schools
- 1996** **Prop 218:** Vote requirements on local taxes
- 2004-05** Another \$1.3 billion property tax shift
- &** from local governments to schools
- 2005-06**

City Revenues

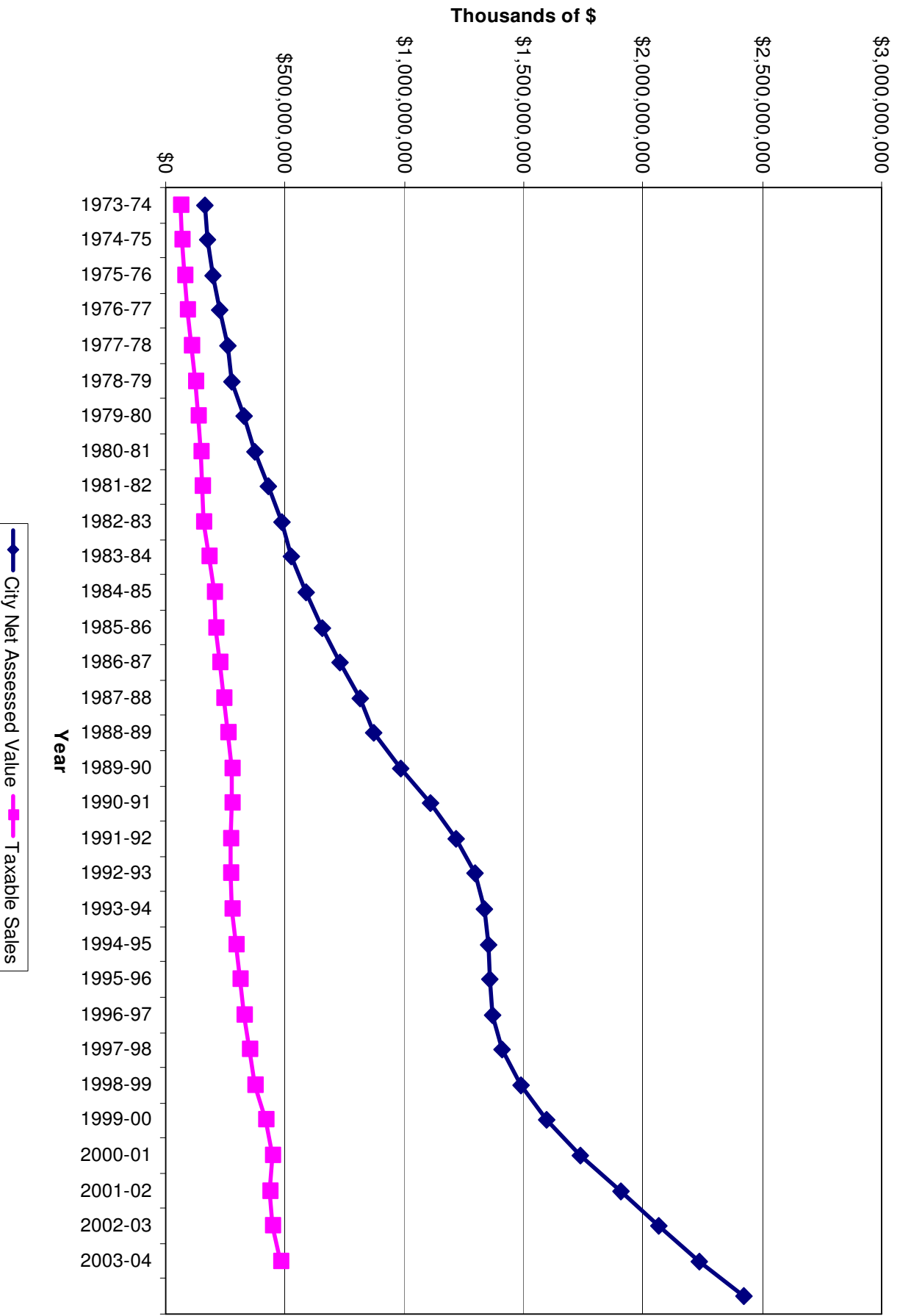


City Revenues



◆ Property Tax ■ Sales & Use Tax

Property and Sales Tax Bases





Criteria for Evaluating Taxes:

- **Efficiency**

An efficient tax causes no economic distortions, no behavioral changes.

- **Equity**

- Benefit principle
- Ability-to-pay principle



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Characteristics of a “good” local tax system:

- immobile and visible tax base
- equitable or fair tax burden
- adequate, stable and predictable tax yield
- easy to administer



Evaluation of Local revenue options:

- Property Tax
- Charges and Fees
- Sales Tax
- Income Tax



Future Challenges Facing Local Finance Systems:

- Technological advances
- Globalization
- Deregulation of utilities
- Changing demographics



Recommended Reforms:

1. Broaden the sales tax base and lower the rate
2. Swap local sales tax for property tax
3. Split roll
4. Reform property tax allocation system
5. Replace local property tax rate limit with a revenue or spending limit.



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Homeowner Property Tax Burden

