Why the Mid-1970s Play a Large Role in Property Taxes Today

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This is the fifth blog post in our series *California's Property Tax: Where Does Your Money Go?* In an earlier post, we explained that one of the primary factors that determines how much property tax revenue a local government receives is how much property tax that local government received in the mid-1970s. Below, we explain why this is the case.

Historically, Local Governments Could Levy Individual Property Tax Rates. Prior to 1978, state law authorized each local government to levy a property tax. Local governments would set their rate based on the amount of revenue necessary to provide the level of services desired by their residents. Each local government's rate was independent of the rate set by other jurisdictions. A property owner's property tax bill reflected the sum of the individual rates set by each local government serving the property.

Proposition 13 Made Major Changes to the Property Tax. In 1978, voters passed Proposition 13, which made major changes to California local government finance. Before the passage of Proposition 13, thousands of local governments were levying property taxes on the properties in their jurisdictions. Statewide, the average property tax rate was 2.67 percent. This average rate reflected the sum of individual property tax levies of multiple local governments serving a property. Proposition 13 made three primary changes to property taxes:

- Changed the method for determining a property's value (known as assessed value) for tax levies,
- Limited a property's overall tax rate from all local governments serving the property to no more than 1 percent (with some exceptions),
- Directed the state to determine how to allocate property tax revenue from the 1 percent rate.

Proposition 13 Shifted Significant Authority to the State. Before Proposition 13, the property tax had been a local tax levied by local governments for local services. Under Proposition 13, overall property tax rates had to be lowered—from over 2 percent to no more than 1 percent—but the measure did not specify how that should be done. Because Proposition 13 directed the state to allocate the property tax, the state had to determine how to lower each local government's rate such that no property's overall tax rate exceeded 1 percent. Thus, by directing the state to allocate the property tax, local governments lost control over their property tax rates.

State Set Uniform Rate and Developed Local Government "Shares." To lower overall property tax rates, the state set a rate of 1 percent on all property. This eliminated the individual rates set by local governments. Within each county, revenue from the 1 percent rate went to local governments in the county. To determine how much property tax revenue each local government would receive, the state directed county auditors to determine how much property tax revenue each local government received before Proposition 13. Next, county auditors divided that amount by the property tax raised by local governments countywide before Proposition 13. These were called local governments' shares of the property tax.

The state used these shares to determine how much of the revenue from the 1 percent rate local governments would receive. For instance, if before Proposition 13 a school's property tax revenue had been $100,000 and the countywide property tax revenue had been $1 million, the school's share would be 10 percent. (Note: This example simply illustrates the major component of how shares were calculated. There were additional calculations each county auditor took into account to develop local governments' shares.) As a result, local governments' property tax rates before 1978 largely determined what they received after Proposition 13.

Today's Property Tax Allocation Firmly Rooted in Property Tax Decisions of the Mid-1970s. Today, the total property tax revenue a local government receives is called its AB 8 share after one of the pieces of legislation that implemented Proposition 13. Year to year, property tax revenue typically grows due to increases in assessed values. The revenue growth is distributed to local governments based on the increase in assessed values within their boundaries. Because every property is served by more than one local government, each local government receives a part of the growth in property tax revenue within its boundaries. The amount of growth each local government receives is largely based on the property tax each local government received before Proposition 13. Thus, today's distribution of property tax revenue is founded on the property tax decisions local governments made in the mid-1970s.

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