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

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Executive Summary

When Proposition 13 was passed by California voters in 1978, its cap on property taxes significantly stemmed the flow of revenues to the state, reducing funding for schools and other community services. It has had other less visible but equally pernicious effects. Generations of Californians have been harmed by this policy—especially Black and Latino Californians, those with lower incomes, and those with less property wealth. The policy has benefited older generations of Californians at the expense of those who have followed.

In this report, we discuss how Proposition 13 has contributed to intergenerational, economic, and racial inequities in schools and communities, citing literature where it exists. We also explore the answers—through original data analysis—to three main research questions: (1) How has the accrual of residential property wealth, by race, changed over the past 40 years? (2) Which homeowners most benefit from California’s cap on property taxes? (3) How much more revenue could the state theoretically generate if it changed its property tax policies, and how would school districts benefit from such a change? Our analysis points to the following findings:
1. Since Proposition 13, housing and wealth disparities have widened.

- Since 1980, California has experienced a widening gap in homeownership between Black households on the one hand and white and Asian American households on the other. This gap is more pronounced in some regions of the state than in others.

- Housing wealth has increased significantly for all racial groups, with the average home value increasing by 660 percent since 1980.

- Those with the most property wealth have gotten wealthier: Homes in the top quintile of market value have increased in value by more than 800 percent.

- Black and Latino Californians hold disproportionately less housing wealth than their population shares would suggest, and white Californians hold more. Asian Americans living in California have acquired housing wealth at a pace that exceeds their population growth.

2. Proposition 13 offers a tax subsidy to some Californians at the expense of others.

- Older and longer-tenured homeowners enjoy the lowest property tax rates in California; they effectively receive the largest property tax subsidies.

- The homeowners who enjoy the largest tax subsidies also tend to own higher-value homes. In some regions, there are significant disparities in tax rates by home value. These tend to be higher-cost areas.

3. Property tax reforms could increase revenues for schools.

- We estimate that California could generate billions of dollars in additional revenue if it were to change its residential property tax system to be more like comparison states.

- K–12 schools could stand to gain about $1,200 per student on average—although the actual figure could be much more depending on what policy changes California adopts.

The report is divided into five sections. In Section 1, we explain the importance of Proposition 13 to policy discussions related to equity. In Section 2, we review the history of Proposition 13. In Sections 3 and 4, we explore the answers to our research questions. Finally, in Section 5, we discuss possible paths forward.
SECTION 1

Proposition 13 and Its Implications for Equity

Introduction

Californians take pride in the state’s diversity and inclusivity as well as in its stated commitment to building a healthy, sustainable, and equitable future for its residents. Yet despite these progressive values and goals, many in the Golden State struggle to achieve the American dream. Taking into account its high cost of living, California has the highest poverty rate in the nation (Kimberlin & Hutchful, 2019), and school funding levels are both inadequate to address student needs and below cost-adjusted national averages (Hahnel et al., 2020).

Why the disconnect? Part of the reason can be traced back to 1978’s Proposition 13. When voters said “yes” to the tax reform, they ostensibly aimed to protect themselves—a group that was largely white and mostly homeowners—from soaring property tax bills and what many of them perceived to be government overreach and largess. The measure’s backers succeeded at the ballot box, but at what cost? Proposition 13 had several immediate and long-term consequences that have harmed generations of Californians, especially Black and Latino Californians, those with lower incomes, and those with less housing wealth.
Proposition 13 is just one example of what happens when a purported progressive state allows a privileged few to hoard opportunities and resources at the expense of the greater good.

Proposition 13’s passage coincided with a major demographic shift underway in California. The 1970s had the largest proportional increase in nonwhite children of any decade (Pastor, 2017), and during that decade, the state’s foreign-born population doubled (California Immigrant Data Portal, 2020). It was during this time that Proposition 13 promised a permanent tax subsidy to both commercial and residential property owners, who were and continue to be disproportionately white, older, and higher income. It did this by capping property tax rates and tightly limiting the rate at which a property’s assessed value could increase.

People owning the highest-value properties have benefited the most. Proposition 13’s tax subsidy has incentivized homeowners—especially wealthier homeowners—to stay in their homes longer while accruing tax savings and housing wealth. In addition, policies that followed Proposition 13 allowed some homeowners to pass their tax subsidies on to their children and grandchildren, aiding the intergenerational transfer of wealth. Commercial property owners, too, have been incentivized to hold onto properties or to transfer partial ownership to avoid triggering reassessment. Some longtime commercial property owners can enjoy extraordinarily low property taxes while charging market prices.

On top of this, Proposition 13 has made housing less affordable. It has reduced property turnover and disincentivized new residential development. The measure also made it harder for communities to pass new taxes since Proposition 13 increased the voter threshold for the passage of new special taxes from a simple majority to two-thirds. These aspects of Proposition 13 have contributed to California’s housing-affordability crisis and have helped sustain and exacerbate the socioeconomic and racial segregation of neighborhoods. In a state where the school a student attends is largely determined by where their family lives, this directly leads to school segregation.

Proposition 13 is not alone to blame for California’s racial wealth disparities, unaffordable housing, stubborn school and neighborhood segregation, inadequate school funding, and inequitable educational opportunities. Plenty of blame can be shared with other local and state policies and de facto practices that have made inequality the norm. Proposition 13 is just one example of what happens when a purported progressive state allows a privileged few to hoard opportunities and resources at the expense of the greater good. In this report, we explain those consequences in greater detail, sharing evidence to support our claims. We also illustrate these effects in our logic model (see Figure 1). This model documents our hypotheses about how Proposition 13 has contributed to various conditions and consequences that collectively have exacerbated economic, racial, and intergenerational inequalities.
Exclusionary zoning, redlining, and other segregating and racist policies pre-1978 mean that Proposition 13 came on top of de facto and de jure neighborhood and school segregation.

**PROPOSITION 13**

**Created Winners and Losers**
- Capped tax allows property owners to enjoy tax subsidies and rapidly accrue housing equity/wealth.
- Higher-income households, white homeowners, and seniors enjoy the largest subsidies since they tend to own higher-value homes and/or have lived in their homes longer.
- Parents and grandparents can pass homes down to children and grandchildren without triggering new assessments.
- Commercial property owners pay a lesser share of the total property tax burden than they did pre-1978.

**Made Housing Less Affordable and Equitable**
- Homeowners are less likely to sell homes, especially in areas where home values are rising fastest.
- Lower taxes have been capitalized into housing prices, driving up house prices.
- Without the ability to control property taxes, cities have fewer incentives to build new housing.
- Cities instead impose fees on developers and new homeowners, driving up new-home costs.

**Reduced Revenues and Exacerbated Education Inequalities**
- Reduced funding for schools and community services, leading to reductions in services and staffing.
- Increased state dependence on volatile tax sources.
- Made school funding more volatile, leading to big budget cuts during economic downturns.
- Low-wealth districts forced to borrow or cut programs because they have fewer local funding sources to backfill lost state aid.
- Higher-wealth districts more likely to backfill through parcel taxes, bonds, and other local fundraising.

These factors have led to insufficient and more expensive housing. This has made homeownership and housing wealth increasingly inaccessible to younger generations of Californians, who are also more diverse.

Differences in funding translate into differences in opportunity: School districts with greater and more stable funding can pay higher salaries, offer more programs and staff, and invest in nicer facilities.
Proposition 13 Created Winners and Losers

By design, Proposition 13 subsidizes property owners at the expense of local governments and the residents served by those governments. These property owners include not only residential homeowners but also commercial property owners and landlords who own rental housing and investment properties. By capping property taxes and making it harder for local communities to impose additional taxes, the measure constrains the amount of revenue generated by local communities. In exchange, it provides a financial benefit to property owners: It gives them a permanent tax subsidy that grows the longer they own the property and as the property becomes more valuable.

Previous research has found that homeowners who enjoy the most tax relief are those who are less mobile and have owned their homes longer (O’Sullivan et al., 1995) as well as higher-income households since they tend to own more and higher-value homes (Taylor, 2016). Researchers have recently started to look at the link between race and property taxes. One study found that in Oakland, homeowners in white neighborhoods enjoy larger tax subsidies than homeowners in Latino neighborhoods (Denney et al., 2022). Another national study, which largely excluded California because of the “stringent limitations on assessment practices authorized by Proposition 13,” nonetheless found that in California, white residents have lower assessments relative to market values compared to Black and Latino residents (Avenancio-León & Howard, 2019).

The largest beneficiaries include commercial property owners. Since Proposition 13’s passage, commercial and industrial property owners have paid a smaller and smaller share of the total property tax while residential property owners have paid an increasing proportion of the total tax bill (Goldberg & Kersten, 2010; Ito et al., 2015).

In sum, Proposition 13 is a regressive fiscal policy: The biggest winners are the wealthiest homeowners and commercial property owners. Meanwhile, those who do not own property (e.g., renters) realize none of the tax subsidies while also experiencing reduced city and county services. Proposition 13’s follow-on measures doubled down on these regressive features. They allowed owners to transfer a property to their children (Proposition 58, 1986) or grandchildren (Proposition 193, 1996) along with its reduced valuation. This has allowed some family members to inherit a substantial tax break. Proposition 19, passed in 2020, aims to limit these intergenerational tax breaks by requiring that an inherited property be used as a primary residence. Whether that requirement will be enforced remains to be seen. Enforcement may require that county assessors verify who is living in properties that have passed from parents to children or from grandparents to grandchildren.

By design, Proposition 13 subsidizes property owners at the expense of local governments and the residents served by those governments.
Proposition 13 Made Housing Less Affordable and Equitable

Because local budgets are constrained by the loss of property tax revenues, some cities depend more on other revenue sources, including regressive sales taxes and fees (Chapman, 1998). Communities with less property tax revenue may have more incentive to build big-box stores, hotels, and other commercial properties that generate sales and hotel taxes rather than build houses that draw in comparatively less revenue and generate additional costs for cities, as families moving into those homes will need access to roads, parks, libraries, and schools (Chapman, 1998). Indeed, one analysis found that in the Bay Area, cities that received a greater share of the property tax revenue they generated contributed to a larger share of the region’s housing supply (Atwater et. al, 2020). Another study found that Proposition 13 has discouraged development and property sales in Los Angeles County (Fisher, 2022). Although there are many reasons why California is not building enough housing other than Proposition 13, insufficient housing supply drives up housing costs. And when new housing is built, local governments are increasingly likely to impose impact fees on developers and what are called Mello–Roos assessments on owners of those new homes, which help offset the infrastructure costs that new houses impose on the city (Taylor, 2016). In some ways, these fees serve as a workaround for the property tax revenue a city would usually receive from housing and effectively shift the tax burden away from existing homeowners and onto new homeowners and developers.

Proposition 13’s tax subsidies have led California homeowners to move less frequently than they would otherwise, especially in areas where home values and therefore tax subsidies are higher (Miller & Sklarz, 2016; Wasi & White, 2005). This lock-in effect has slowed housing turnover and made it harder for new buyers to enter the market, and it has helped sustain neighborhood segregation and, therefore, school segregation.

Housing availability has also been squeezed by the inheritance perks of Proposition 13, which encourage children and grandchildren inheriting properties to hold on to them rather than put them up for sale (Uhler, 2017). In many cases, these inherited properties have been used as lucrative rentals (Dillon & Poston, 2018)—a practice that could be limited by 2020’s Proposition 19. Before Proposition 19, about 10 percent of all transferred properties received these inheritance exclusions annually (Uhler, 2017), and those homes tended to be high-value properties (Dillon & Poston, 2018).

In addition, evidence suggests that the lower taxes have been capitalized into housing prices, significantly driving up house prices in California (Rosen, 1982; Sexton et al., 1999). Collectively, the evidence suggests that Proposition 13 has contributed to a limited housing supply and more expensive housing, has subsidized property owners—especially the wealthiest ones—and has facilitated the intergenerational transfer of wealth. Given that financial policies and practices related to homeownership have historically favored white people and since homeownership represents the single largest source of wealth for many families, Proposition 13 has likely exacerbated racial wealth gaps.
As a result of all these factors, housing and housing wealth have become increasingly inaccessible to younger generations of Californians. As working- and middle-class millennials (those born between 1981 and 1996) and people of color seek to buy a home, they increasingly find themselves priced out or forced into less desirable neighborhoods (Kotkin & Cox, 2017). In the meantime, those who have been able to accrue significant wealth in their homes can secure other economic and educational opportunities; for example, they can get home equity loans to start a new business or pay for college. Such loans have more favorable interest rates than loans to those who have less or no home wealth, further exacerbating the disparity.

Proposition 13 Reduced Revenues for Schools and Has Exacerbated Education Inequalities

School funding immediately suffered following Proposition 13’s passage. Some researchers attempted to capture the short-term impacts of the tax revolt on schools. For example, one study from the University of California, Los Angeles, found that while school funding did grow in the six years after Proposition 13, it grew far more slowly than previous rates of growth and cost-of-living increases would have suggested (Catterall & Brizendine, 1985). Researchers documented how the decline in revenues had substantially narrowed the high school curriculum and other services like summer school in large, urban districts.

Although California education funding has mostly recovered since then, it still lags behind the national average, especially when adjusted for cost of living (Hahnel, 2020). Because California’s education funding heavily relies on volatile personal income taxes, state education funds are highly susceptible to economic fluctuations and are vulnerable during a recession. During economic downturns, school districts with less property wealth—and thus more dependent on state aid to meet funding targets—are more likely to experience funding cuts. During the Great Recession, many of these districts were forced to borrow or to cut staff and programs to balance their budgets (Lafortune et al., 2020).

Differences in funding translate into differences in opportunity: Districts with greater and more stable funding can pay higher salaries, offer more programs, and invest in nicer facilities. Unfortunately, these types of opportunities are not equitably apportioned in California by race and income. School districts with more stable revenues and that can more easily raise additional local revenues in the forms of parcel taxes and school bonds tend to be in communities with more property wealth and that are less tax averse. Most of these districts tend to be in higher-wealth cities in the San Francisco Bay Area (Sonstelie, 2014). Since access to homeownership and affordable housing is inequitably distributed, so too is access to quality schooling.
The History of Proposition 13

Proposition 13’s Racist Antecedents and Roots

Long before the tax revolt, racial and economic inequalities were deeply entrenched in California communities. After all, California is the state that championed the Foreign Miners’ Tax of 1850 and the Chinese Exclusion Act of 1882, conducted mass deportations of people of Mexican descent under the guise of “repatriation” in the 1930s, and interred tens of thousands of Japanese Americans in 1942.

For at least a century before Proposition 13, Black, Latino, and Asian American families had been denied equal access to homeownership as banks, developers, and real estate agents refused to lend or sell to them (Rothstein, 2017). This redlining was backed by official government policies and voter-enacted measures, and it was enhanced and exacerbated by local zoning policies and other discriminatory practices (often driven or sustained by voters, particularly white homeowners) that continue to this day. Together, these policies and practices have segregated neighborhoods and limited housing opportunities—and the wealth accrual that often comes with homeownership—for people of color.
These policies and practices have also directly contributed to the segregation of schools by both race and income since district boundaries and school zones closely mirror neighborhood patterns (DeRoche, 2020; Monarrez & Chien, 2021). Because school segregation is negatively associated with learning opportunities and outcomes (Reardon et al., 2021), racially discriminatory housing policies have led to racially disparate educational opportunities as well.

The link between housing and schooling drove not only segregation but also resource inequities. For most of the 20th century, California—like most states—funded a district’s schools largely with property tax dollars raised in that community. By the early 1960s, housing wealth and school funding were so tightly linked that California was sued. In the three *Serrano v. Priest* decisions in 1971, 1976, and 1977, the California Supreme Court ruled that the way in which California used property taxes to fund schools resulted in disparities in school revenue, violating the equal protection clause of the California Constitution. The problem was not so much that property taxes were part of the mix of school funding but rather that the tax rate in a property-rich school district would generate more funding than the same tax rate in a property-poor district. The *Serrano* decisions required California to break the link between local property wealth disparities and school funding disparities (Sonstelie et al., 2000). In response, the state began to play a larger role in funding schools and reduced local control over taxation (Sonstelie et al., 2000). However, Proposition 13’s passage constrained and complicated the state’s options for how to bring the school-funding system into compliance.

**The Proposition 13 Campaign**

Ostensibly, Proposition 13 was fueled by economic circumstances. In the 1970s, state government spending was surging, but incomes were flat, and Californians saw the price of everything increase as the nation experienced double-digit inflation. Housing prices were skyrocketing, and property tax bills began to take a bigger bite out of homeowners’ already-stretched budgets (Sears & Citrin, 1982). The public was frustrated with the government’s inability to rein in soaring property taxes (Smith, 1999).

But the campaign also had racist undertones and fed on distrust of government and anti-immigrant fervor (Pastor, 2018). Many of those who campaigned and voted in favor of Proposition 13 were concerned that their property taxes were increasingly being diverted from their own (largely white) communities to fund schools in Black, Latino, and lower-income communities, that immigrants were taking unfair advantage of public services and programs, and that their own children would not benefit from the housing and economic security they felt they had built for themselves (Pastor, 2018; Smith, 1999; Toppin, 2019). Howard Jarvis, a businessman and would-be politician who ran unsuccessful Republican Senate and Los Angeles mayoral campaigns, seized on the anger felt largely by white homeowners and championed a series of efforts to cap property taxes, ultimately succeeding with Proposition 13. While some have described the campaign as a populist tax revolt (Sears & Citrin, 1982), others have argued that it was actually highly centralized and was backed by real estate agents, apartment owners, and other monied interests (Smith, 1999).
Regardless, the campaign led by Jarvis worked. In 1978, 65 percent of voters approved Proposition 13, which did the following:

- rolled back residential and commercial property assessments to 1975–76 values;
- capped property tax rates at 1 percent of a property’s purchase price;
- allowed assessed values to increase 2 percent per year or at the rate of inflation, whichever was lower;
- allowed a property to be reassessed only when sold or when the owner made significant improvements;
- gave the state government responsibility for the distribution of property tax revenue;
- established that a two-thirds rather than simple vote majority would be required to pass any new “special” tax in a local election; and
- established that a two-thirds majority in both legislative houses would be required to increase tax rates or amounts.

Proposition 13 led to copycat bills across the country. Since 1978, most states have followed suit in some form, either capping property tax rates, limiting the speed at which assessments can increase, or both (Walczak, 2018). California’s limitations, however, are broadly seen as particularly and egregiously stringent, especially because the state’s tax caps and constraints are all enshrined in the state constitution.

Proposition 13 was also just one in a contemporaneous wave of state referendums that had xenophobic and racist overtones (Martinez HoSang, 2010). During the 1970s and 1980s, voters passed measures that reversed school-desegregation mandates and advanced “English only” policies; during the 1990s, voters declared immigrants ineligible for public education and other government services and ended affirmative action.

**Proposition 13’s Impact on State and Local Finance**

The constitutional amendment went into effect in the 1978–79 fiscal year and led to an immediate and significant decline in state and local revenues. Facing a $6 billion reduction in property tax revenues (Chapman, 1998), the legislature and governor passed Senate Bill 154 within weeks of Proposition 13’s passage. That one-year temporary measure was followed by the more permanent Assembly Bill 82 in 1979. With these bills, the state stepped in to help county and city governments provide public services amid precipitous declines in local revenue, fundamentally altering the relationship between these two levels of government. The state assumed a larger role in funding schools, even more than it had begun to in response to *Serrano v. Priest* (Murphy & Paluch, 2018). Although *Serrano* was meant to improve school-funding equity, Proposition 13 left the state with fewer funds as well as fewer options for how to balance local and state control. This led to what some have described as a “leveling down” of school funding (Sonstelie et al., 2000). To safeguard a consistent share of state funding for schools, voters passed Proposition 98 in 1988. The measure did not increase education funding, but it guaranteed that schools would receive a minimum amount in each year’s budget (Taylor, 2017).
The fiscal effects of Proposition 13 were long lasting: Controlling for inflation, per capita revenues declined by 16 percent in the 20 years after the passage of Proposition 13 (Shires et al., 1998). Although California’s revenues have since recovered, the mix of revenues that make up the state budget is quite different today than before Proposition 13. As property tax revenues declined, state income tax revenues increased by 226 percent and sales tax revenues increased by 107 percent between 1977 and 2017 (Hahnel, 2020). This has introduced tremendous volatility into California’s budget. Under California’s progressive income tax systems, the top 1 percent of income earners pay about 50 percent of the state’s personal income taxes (Garosi & Sisney, 2014). These high-income earners’ taxes are largely based on capital gains as well as partnership income, dividends, interest, and rent. When the economy does well, as it has since the brief pandemic-induced recession of 2020, state revenues surge. But when the economy is in turmoil, the tax base in California declines more than it does in other states (see Figure 2). This volatility was particularly evident during the Great Recession when school districts experienced cuts of about 14 percent over several years, or about $1,500–$2,000 per student (Lafortune et al., 2020; Shambaugh et al., 2011).

**Figure 2**  
California’s General Fund Is Highly Volatile Because Income Taxes Are Volatile

Today, state General Fund dollars make up the bulk of K–12 funding in California. Districts with smaller property tax shares (per Assembly Bill 8) and less local property wealth depend more on state funding than districts that receive a larger slice of their county’s property taxes or that have a substantial local property tax base. Some of these high property tax districts are called “basic aid” districts and tend to be found in wealthier enclaves, but they also include sparsely populated areas where fewer local agencies must compete for the same property taxes and areas where significant property taxes are earned through such activities as oil production. About 150 of California’s school districts are basic aid, representing about 320,000 students (California Department of Education, 2021, 2022).

Laws Modifying Proposition 13

Since 1978, voters have made changes to Proposition 13 nearly two dozen times (Christopher, 2020). With some exceptions, most of these changes have served to extend the perks and protections of Proposition 13 or to make it harder for local governments to pass new taxes, fees, and levees. Some of the additional perks and protections, which continue to largely benefit longer-tenured homeowners, include:

- inherited tax subsidies for individuals inheriting a home from a spouse or parent or from a grandparent if the individual’s parents are deceased;
- portable tax subsidies for people who move because the government took their home for eminent domain, people who rebuild after a natural disaster, some people over age 55 who buy a new home of equal or lesser value, and some people with disabilities who move to a home of equal or lesser value; and
- protections from reassessment for people who have made improvements to their homes to protect from earthquake or fire, have removed environmental contaminants, or have added solar panels or rainwater-capture systems.

Challenges to Proposition 13

After Proposition 13 passed, a flurry of challenges was levied against it, but none of these cases were successful. In 1978, immediately after the initiative passed, multiple cities, school districts, and counties filed constitutional challenges alleging that they would be adversely affected by the new law. In reviewing these cases, consolidated as Amador Valley Joint Union High School District. v. State Board of Equalization (1978), the Supreme Court of California rejected all of the legal arguments, including the argument that Proposition 13 violated the equal protection clause of the U.S. Constitution’s 14th Amendment—in part because the challenge was “premature.” The court upheld Proposition 13 as the will of the people (although the court acknowledged that it did not “consider or weigh the economic or social wisdom or general propriety of the initiative”).
In 1989, the department store company Macy’s pursued a set of legal actions, arguing that Proposition 13 gave an unfair competitive advantage to long-standing commercial property owners over newcomers. Just days after the U.S. Supreme Court agreed to hear the appeal, Macy’s bowed to public backlash and dropped the case. Although the case addressed the constitutionality of commercial tax subsidies, many feared that the Supreme Court might demand changes to Proposition 13 in its entirety (Johnston & Roderick, 1991).

In 1992, the constitutionality of Proposition 13 was again tested in Nordlinger v. Hahn. In this case, the plaintiff also argued that Proposition 13 treats taxpayers differently without adequate justification and therefore violates the equal protection clause. The main concern was that newer homeowners paid higher taxes than longer-tenured homeowners. However, the U.S. Supreme Court upheld the constitutionality of Proposition 13, with Justice Harry Blackmun saying that while the measure may be “unfair and unwise,” it is not arbitrary. The Court also said that Proposition 13 furthers “legitimate state interests,” including “local neighborhood preservation, continuity, and stability.”

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When the economy is in turmoil, the tax base in California declines more than it does in other states.
In this section, we explore what has happened to housing wealth since Proposition 13, and we examine whether there are inequities in who has benefited from housing-wealth accrual and property tax subsidies in the decades since the so-called tax revolt. Here, we build upon prior research using U.S. census data. It is important to note that we did not study commercial properties and are not able to draw conclusions about racial disparities or wealth accrual among commercial property owners. This analysis focuses squarely on residential properties. Specifically, we seek to answer the following research questions:

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

• **Which homeowners most benefit from California’s cap on property taxes?**

We find that housing-wealth disparities have widened. Although we cannot causally connect these patterns to Proposition 13, they nonetheless paint a troubling picture of disparities that undercut California’s values related to equal opportunity for all. We also find that Proposition 13’s tax subsidies have benefited older and longer-tenured homeowners—which is exactly what Proposition 13 was designed to do.
Data and Research Methods

To answer our research questions, we combined, harmonized, and analyzed four decades of individual-level census data obtained from IPUMS. Our sample contained records for around 5 million individuals, 1.75 million households, and 1 million homeowner households in California. These data provide rich and comparable information at the individual and household levels. The large sample size also allows us to zoom into small geographical units and generate separate statistics by subgroups.

We used the 5 percent census sample for 1980, 1990, and 2000, while we used the 1 percent American Community Survey, or ACS, for yearly cross sections for 2010 and 2019. We did not use 2010 census data because publicly available data from IPUMS for the 2010 census have no weights to ensure representativeness by state. Although Proposition 13 was passed in 1978, we did not analyze census data before 1980 because those data sets do not include data on real estate taxes. Because the harmonized data cap annual property taxes at $10,000, we also separately used ACS source data for 2019 when analyzing effective tax rates for that year. Those data cap property taxes at a much higher and more appropriate level, $22,500.

To answer our research questions, we exploited two key pieces of information provided by respondents. First, we used the self-reported value of the property in which they reside. To ensure confidence in these values, we compared the census-reported data with housing prices as reported by the S&P/Case-Shiller Home Price Index in California metropolitan statistical areas. We found evidence that self-reported housing values mimic official housing prices reasonably well. Second, we used the self-reported real estate tax paid by each household. From these two variables, we computed the effective property tax rate as the ratio between property tax and property value. Additionally, we used census data on household and personal income, race, age, education, household composition, and housing tenure (some but not all of which are reported here).

California Has Become More Diverse Since Proposition 13

Before looking at how housing wealth has changed over time by race, we must first offer context on how the racial makeup of California has changed. Between 1980 and 2020, the state’s Latino population share doubled, increasing from 19 percent to 39 percent of the state population (see Figure 3). The Asian and Pacific Islander American population share more than tripled, growing from 5 to 16 percent. Meanwhile, the white population share dropped from 67 percent to 39 percent of the population. Whereas white Californians were the majority in 1980, just two years after Proposition 13 passed, they were no longer even the plurality in 2020. The Californians living under Proposition 13’s rules, restrictions, and benefits are majority-minority.
Housing and Wealth Disparities Have Widened Since Proposition 13

For the census, one adult representing the “householder” or head of household completes the survey. Although this is perhaps a dated concept, it is useful for our research because it allows us to attribute a race to each household (even though the actual people living there may represent multiple races). Using these data, we found that in 2019, 55 percent of California householders were homeowners. Homeownership rates were highest for white householders (63 percent were homeowners) and Asian American householders (59 percent) and lowest for Black households (36 percent). During the last 40 years, homeownership rates have remained flat overall, but they declined for Black Californians while increasing for Asian American and white Californians (see Figure 4). This growing inequity in homeownership is particularly pronounced in some regions of the state, such as the San Jose metro area, the San Francisco Bay Area, and the Yolo County metro area, which includes Davis, Woodland, and West Sacramento.
Housing wealth has increased significantly for all racial groups, with the average home value increasing from about $95,920 to $731,700. (By housing wealth, we mean house value—recognizing, of course, that many people hold mortgages for part of this value while the rest could be considered home equity.) Despite the enormous increase in house values, as shown in Figure 5, not all groups are benefiting equally:

- **White homeowners** maintained 60 percent of the total housing wealth in California in 2019, even though they represented just under 40 percent of the state’s population. This disproportionality has worsened since 1980. Then, 67 percent of California was white while 83 percent of the housing wealth was held by white homeowners. This means that the gap between population share and housing-wealth share has grown from 16 to 20 percentage points during the last 40 years.
• **Black homeowners** own just a fraction (3 percent) of the total housing wealth in the state, a share that is half of what might be expected given that 6 percent of Californians are Black.

• **Latino homeowners** have not increased their housing wealth in proportion to their increased representation in the state population. 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.

• **Asian American homeowners**, by contrast, have acquired housing wealth at a pace that exceeds their population growth. This may be because the majority of recent immigrants to California are from Asia and those immigrants tend to be highly educated (Johnson et al., 2021). This is not by chance: U.S. immigration policies award temporary visas to high-skilled workers, especially those from India and mainland China (Hanna & Batalova, 2021). Many of these skilled Asian newcomers, in turn, secure well-paying jobs and purchase new homes, including many high-value homes.

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**FIGURE 5**

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

![Bar chart showing the percentage of housing wealth owned by different racial and ethnic groups in California from 1980 to 2019.](image)

*Note.* All percentages in columns are rounded.
The average home has increased in value by 660 percent over the 39-year period from 1980 to 2019. Homes in the top quintile of market value have increased in value by more than 800 percent.

For Californians who have been able to enter the housing market, the payoff has been significant. The average home has increased in value by 660 percent over the 39-year period from 1980 to 2019, gaining in value by an average of $636,000. This works out to a compounded growth rate of 5.35 percent per year. If home prices had instead increased at the rate of inflation, which was about 2.95 percent over that period, the average home would have increased in value by just $297,600, or 210 percent.

High-value homes have increased in value even faster: Homes in the top quintile of market value (that is, the 20 percent most expensive homes) have increased in value by more than 800 percent during the past 40 years while bottom-quintile homes have increased in value by a comparatively small 350 percent (see Figure 6). The upshot? Those with the most property wealth have gotten wealthier. And just who are those Californians who own the 20 percent most expensive homes? They are disproportionately white and higher income.
Younger and Newer Homeowners Pay Higher Property Tax Rates

Although Proposition 13 caps property taxes at 1 percent, the effective tax rate, or ETR, for a given property is different from that for a few reasons. First, as discussed previously in this report, most properties are assessed at below-market value per Proposition 13’s rules. Second, regional differences affect tax rates: Some counties impose additional special taxes that influence the total tax paid. Third, owner-occupied properties receive a standard exemption of $7,000, which marginally decreases the tax bill. The result is that in California, the average ETR is 0.7 percent and is lower than in 33 other states (Cammenga, 2021).

Because Proposition 13 limits the increase in assessed value to 2 percent annually and because home values grow so quickly in California, most homeowners effectively enjoy a tax subsidy—a subsidy that grows the longer they stay in the home. It also grows based on the market value of the home: the higher the value, the bigger the subsidy. As shown in Figures 7 and 8, older homeowners and longer-tenured homeowners enjoy the lowest property tax rates.
**FIGURE 7**  
Older Homeowners Pay the Lowest Effective Tax Rates

![Bar chart showing effective property tax rates by homeowner age.](chart1)

**FIGURE 8**  
Long-Tenured Homeowners Pay the Lowest Effective Tax Rates

![Bar chart showing effective property tax rates by homeowner tenure.](chart2)
These tax rate differences may appear small. However, they represent significant differences in total dollars. For instance, the difference between a 0.5 percent tax rate and a 0.8 percent tax rate on a $1 million home is $3,000 annually. Longtime owners of higher-value homes can save substantially more than that each year.

Consider an illustrative example from Fullerton, in northern Orange County (see Figure 9). These homes, which are within a couple of blocks of each other, are comparable to one another. They each have three bedrooms and two bathrooms and are a similar square footage. Zillow estimates their value to be similar. But in 2021, their property taxes ranged from about $2,900 to $11,800. The difference is entirely due to the purchase date. Such differences can be found up and down the state.

<table>
<thead>
<tr>
<th>Purchase Year</th>
<th>Specifications</th>
<th>Square Footage</th>
<th>Market Value (Zillow Estimate)</th>
<th>2021 Property Tax</th>
<th>Effective Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>3 bdrm 2 bath</td>
<td>1,308</td>
<td>$827,700</td>
<td>$2,933</td>
<td>0.35%</td>
</tr>
<tr>
<td>2000</td>
<td>3 bdrm 2 bath</td>
<td>1,516</td>
<td>$872,000</td>
<td>$4,022</td>
<td>0.46%</td>
</tr>
<tr>
<td>2010</td>
<td>3 bdrm 2 bath</td>
<td>1,500</td>
<td>$1,068,900</td>
<td>$7,193</td>
<td>0.67%</td>
</tr>
<tr>
<td>2020</td>
<td>3 bdrm 2 bath</td>
<td>1,527</td>
<td>$997,400</td>
<td>$11,757</td>
<td>1.18%</td>
</tr>
</tbody>
</table>
Property Tax Disparities by Race

New homeowners pay the highest property tax rates under Proposition 13 by design. Because of this structure, the differences by homeowner race (as shown in Figure 10) are not as pronounced as the differences by age and length of home ownership. Regardless of race, Californians who have owned their homes for many years benefit from significant subsidies, and new homeowners pay full freight on their property taxes.

Despite this modest disparity in tax rates, racial differences are more evident in the dollar value of tax subsidies since home values vary by race. Suppose that all homeowners should be paying 1.1 percent of market value annually, which takes into account the current 1 percent tax rate plus local bonds or other fees (per Wasi et al., 2005). As it stands now, based on mean self-reported home values and taxes, the average white homeowner pockets a $3,500 tax subsidy annually while the average Latino homeowner saves just $1,500 annually (see Figure 11). Given that homeowners may be inclined to understate their home values and overstate their taxes, the actual subsidies may be much greater. And in more expensive neighborhoods, the differences may be even larger. In fact, one set of researchers calculated larger subsidies in Oakland, especially in white neighborhoods (Denney et al., 2022).
While these disparities are stark, the larger racial differences in housing opportunities are between renters and homeowners, not among homeowners themselves. Indeed, young Latino and Black Californians are increasingly shut out of the housing market. If Latino and Black Californians were purchasing new homes in proportion to their increasing share of the population, they might actually pay higher effective property tax rates than they currently are.

**Regional Differences**

The homeowners who enjoy the largest tax subsidies—those who have owned their homes longer—also tend to own higher-value homes. In some regions, there are significant disparities in tax rates by home value. These tend to be higher-cost areas like San Jose and Santa Barbara, but they also include other parts of the state like Bakersfield, where a relatively small number of homeowners with high-value properties pay lower property tax rates than the majority of homeowners who overwhelmingly own lower-priced homes (see Figure 12).
# FIGURE 12

In Some Regions of the State, Effective Tax Rates Are Significantly Lower for High-Value Homes

<table>
<thead>
<tr>
<th>Metropolitan Area, 2019</th>
<th>Effective Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>0.55 1.01</td>
</tr>
<tr>
<td>Bakersfield</td>
<td>0.77 1.18</td>
</tr>
<tr>
<td>Fresno</td>
<td>0.64 1.20</td>
</tr>
<tr>
<td>Los Angeles-Long Beach-Anaheim</td>
<td>0.54 1.00</td>
</tr>
<tr>
<td>Modesto</td>
<td>0.64 1.10</td>
</tr>
<tr>
<td>Oxnard-Thousand Oaks-Ventura</td>
<td>0.66 0.95</td>
</tr>
<tr>
<td>Riverside-San Bernardino-Ontario</td>
<td>0.75 1.10</td>
</tr>
<tr>
<td>Sacramento–Roseville–Arden–Arcade</td>
<td>0.67 1.07</td>
</tr>
<tr>
<td>Salinas</td>
<td>0.53 0.85</td>
</tr>
<tr>
<td>San Diego–Carlsbad</td>
<td>0.61 1.01</td>
</tr>
<tr>
<td>San Francisco–Oakland–Hayward</td>
<td>0.48 1.01</td>
</tr>
<tr>
<td>San Jose–Sunnyvale–Santa Clara</td>
<td>0.44 0.97</td>
</tr>
<tr>
<td>San Luis Obispo–Paso Robles–Arroyo Grande</td>
<td>0.52 0.87</td>
</tr>
<tr>
<td>Santa Cruz–Watsonville</td>
<td>0.57 0.85</td>
</tr>
<tr>
<td>Santa Maria–Santa Barbara</td>
<td>0.45 1.02</td>
</tr>
<tr>
<td>Santa Rosa</td>
<td>0.54 0.97</td>
</tr>
<tr>
<td>Stockton–Lodi</td>
<td>0.69 1.04</td>
</tr>
<tr>
<td>Vallejo–Fairfield</td>
<td>0.70 0.97</td>
</tr>
<tr>
<td>Visalia–Porterville</td>
<td>0.63 1.12</td>
</tr>
</tbody>
</table>

- Lowest home value quintile
- Highest home value quintile

Effective Tax Rate (%)

0.0 0.2 0.4 0.6 0.8 1.0 1.2 1.4
Other researchers have found similar disparities at the neighborhood level, using school district boundaries as proxies. For instance, researchers at the University of Chicago’s Center for Municipal Finance studied tax rates in counties nationwide as part of their Property Tax Fairness Project (propertytaxproject.uchicago.edu). They report that in Los Angeles County, the lowest ETRs are paid by homeowners in Beverly Hills Unified and Manhattan Beach Unified as well as by homeowners in Torrance Unified who live in Redondo Beach (as opposed to the Torrance Unified homeowners who live in lower-priced Torrance). In Santa Clara County, homeowners in Gilroy and Morgan Hill pay far higher ETRs than homeowners in Palo Alto Unified or homeowners in the Sunnyvale part of Santa Clara Unified.

**Key Takeaways**

The findings in this section demonstrate that property-wealth accrual in California has been unequal, with wealthier homeowners reaping the greatest benefits as their properties have increased in value over time. Other literature on Proposition 13’s impacts, cited previously, help explain why these patterns have occurred. The measure’s tax subsidy has been capitalized into house prices, driving up the cost of homes. The tax breaks that come with Proposition 13 have caused a lock-in effect, whereby owners are less likely to move than they would be otherwise. Cities have been disincentivized to build new housing. All of these factors have driven up the cost of housing, pricing out younger generations of would-be homeowners and allowing white, older, and longer-tenured property owners to benefit from sometimes enormous home equity. Meanwhile, newer homeowners, including younger Californians, must pay full freight on the property tax while older generations, including those living in wealthy enclaves, pocket their subsidies year after year.
SECTION 4

Property Tax Reforms Could Increase Revenues for Schools

While it was clear that Proposition 13 led to a sharp decline in school revenues immediately after its passage, it is far less obvious how well funded California schools or other local agencies would have been without the tax revolt. In the four decades since Proposition 13, state and local governments have enacted so many tax and policy changes that we cannot ever know how much schools would have received without Proposition 13. But we can look to the future. In this section, we seek to answer the following 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?

In this section, we develop two scenarios to estimate how much more revenue California could gain from policy changes that increase property tax revenues to be more like rates and revenues seen in other states. We do not propose or model specific policy solutions, as there are many, which we discuss in Section 5 of this report. Here, we merely aim to show that some states have implemented policies that make greater revenues
possible—and if California were to follow suit, those revenues could be significant. They could also be more stable since property taxes tend to be less volatile than other taxes, such as personal income taxes. We also do not attempt to estimate the secondary fiscal effects of any change to property tax policy. For instance, would an increase in property taxes prompt reductions in other taxes? Those types of questions are beyond the scope of our analysis, but we encourage other researchers to model specific scenarios and their fiscal impacts.

**California Compared With Other States**

First, we look at how California compares nationally in terms of tax revenues and education spending to put our subsequent analysis and findings in context.

**California's Tax Revenues**

In 2017, California raised $63 billion in property tax revenues. When compared with its population, this puts California's property tax revenues at about the national average. California ranks 20th in property tax revenues per capita and 25th in property tax revenues per public elementary and secondary school student. However, California is a wealthy state, and its wealth has grown faster than its population. If we look at property taxes compared with incomes, we find that California ranks lower—31st—in property tax revenues per $1,000 of personal income. (See Appendix A for state-by-state figures and rankings.)

The two other major sources of revenue in California beyond property taxes are income and sales taxes. California collected $95 billion in income taxes in 2017, a figure that is expected to rise to $134 billion in 2022 (California Department of Finance, 2022). As noted previously, California’s income tax system, unlike its property tax system, is highly progressive but also highly volatile because of its dependence on personal income from capital gains: The top 1 percent of income earners pay a significantly larger share of the state’s income taxes than all other income earners. California’s state and local governments also collected $53 billion in 2017 from sales taxes (Urban Institute, n.d.).

**California's Education Spending**

After decades of underfunding, California has reached the national average in raw per-pupil K–12 education spending, although it still lags significantly behind comparable states like New York, Massachusetts, and Illinois (see Figure 13). But when adjusted for cost of living, California spends about $1,200 below the national average (Farrie & Sciarra, 2021). Further, California spends less than researchers have projected it needs to spend to help all students reach state academic goals, especially in the poorest districts (Imazeki et al., 2018).
California’s Raw Per-Pupil K–12 Education Spending Has Reached the National Average Before Adjusting for Cost of Living

Note. All data are inflation-adjusted to 2020 dollars.

Source. U.S. Census Bureau public elementary–secondary education finance data, per-pupil amounts for current spending.
Scenario 1: Property Taxes as a Share of Personal Income

For Scenario 1, we looked at how much property tax revenue a handful of states generate as a percentage of personal income, drawing on data from the Lincoln Institute of Land Policy (n.d.). We then asked: How much more property tax revenue could California realize if it generated the same property tax, as a share of personal income, as these comparison states? The results are shown in Table 1. In theory, California could generate about $41 billion more if it collected the same amount of property tax as a share of personal income as New York. It could collect about $3 billion more if it collected the same amount as a share of personal income as Florida.

### Table 1

<table>
<thead>
<tr>
<th>Comparison State</th>
<th>Additional Property Tax California Could Realize</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>$41.5 billion</td>
</tr>
<tr>
<td>Illinois</td>
<td>$35.1 billion</td>
</tr>
<tr>
<td>Texas</td>
<td>$29.3 billion</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>$21.3 billion</td>
</tr>
<tr>
<td>Florida</td>
<td>$2.6 billion</td>
</tr>
<tr>
<td>National Average</td>
<td>$10.5 billion</td>
</tr>
</tbody>
</table>

To be sure, property taxes are generated based on property value, not income. But as described in the prior sections of this report, there are many Californians with significant personal incomes and wealth who pay relatively low property taxes. One way in which California could “right size” its property tax system would be to somehow increase property tax revenues to better match the relatively high incomes of its residents. As it stands now, California generates about $27 in property tax revenue per $1,000 of personal income, which is less than the national average of $31 in property tax per $1,000 of income. New York—which is also home to many high-wealth individuals—generates $44 in property tax revenue per $1,000 of personal income. Texas, where incomes are lower, generates about $39 in property tax revenues per $1,000 of personal income. Texas does not have an income tax, so that may not be an apt comparison. Nevertheless, these state examples demonstrate that California may have room in its economy to generate additional property tax revenues.
Scenario 2: Property Tax Rates

For Scenario 2, we looked at how much more revenue California could generate if it had effective tax rates more like other states. For this analysis, we looked at residential housing units only. By excluding commercial properties, which are not available in the census data files, our estimates are necessarily an underestimate of how much revenue could be realized. See Table 2 for our findings. Under this scenario, California could theoretically gain about $22 billion if its tax collections were more like New York’s and nearly $3 billion if its tax collections were more like Florida’s.

<table>
<thead>
<tr>
<th>Comparison State</th>
<th>State Average ETR</th>
<th>Additional Property Tax California Could Realize</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>1.4%</td>
<td>$22.3 billion</td>
</tr>
<tr>
<td>Illinois</td>
<td>2.0%</td>
<td>$44.7 billion</td>
</tr>
<tr>
<td>Texas</td>
<td>1.6%</td>
<td>$34.7 billion</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>1.1%</td>
<td>$9.0 billion</td>
</tr>
<tr>
<td>Florida</td>
<td>0.9%</td>
<td>$2.8 billion</td>
</tr>
<tr>
<td>National Average</td>
<td>0.9%</td>
<td>$7.1 billion</td>
</tr>
</tbody>
</table>
Data and Research Methods

For Scenario 2, we used the National Historical Geographic Information System data provided by IPUMS. These data aggregate the American Community Survey and the census microdata to different geographical levels. We use data from the five-year ACS (2015–2019) aggregated at the county level; in total, 3,220 U.S. counties are represented in our data set. For the purposes of our analysis, we use the following key variables: total population, total number of housing units (both owner or renter occupied), aggregate home values, and aggregate property taxes.

We also include a set of population characteristics, such as the number of families with children, the total number of white and nonwhite inhabitants, the total population with a college degree or higher, and the average personal and household income for the last 12 months. Additionally, we assign to each county the level of urbanization according to the classification used by the National Center for Health Statistics.

We calculated a potential gain in revenue by applying the following steps:

- We computed the average ETR for housing units in each comparison state.
- For each comparison state, we multiplied that state’s average ETR by the total home values in each California county to arrive at a counterfactual property tax estimate for each California county.
- We computed the difference between actual property taxes and counterfactual property taxes for each California county.
- We summed the differences across all California counties to obtain the total gain in residential property taxes for the state of California under different counterfactual scenarios.

Of course, no state applies the same ETR to every property. For example, our previous analysis has shown that longer-tenured homeowners pay lower tax rates in California and that in some parts of the state, homeowners with high-value properties tend to pay lower tax rates. Some other states follow similar patterns. To account for differences in ETRs based on counties’ characteristics and achieve a finer estimate of counterfactual property taxes, we further adjusted the ETR based on a variety of factors: urbanization, personal income, and household income. Taking the counterfactual adjusted for urbanization as an example, we proceeded as follows: We first computed the ETRs in the different counterfactual states separately for counties with low, middle, and high levels of urbanization. We then applied the counterfactual ETRs to California counties according to their level of urbanization (e.g., the ETR of low urbanized Texas counties to low urbanized California counties) and computed counterfactual property taxes. Next, we followed the steps previously described to aggregate the revenue gains at the state level. For some counterfactual states, like Illinois and New York, adjusting for some of these factors makes our estimates of potential revenues much larger. That is because these states impose higher ETRs, on average, on properties with high-income owners. If we assume that California also could impose higher tax rates on properties owned by higher-earning individuals, California could yield significantly more revenue. In Appendix C, we further discuss the data and methods used for the construction of counterfactual scenarios, and we present additional analyses.
Estimating Possible New Revenues

In these two scenarios, we estimate that California could generate anywhere from $2.6 billion to $44.7 billion more if it made changes to its property tax system to tax primary-home residential properties similar to how the comparison states tax property. Of course, this is a very broad estimate, as it should be. Tax policies vary considerably from state to state, and the specifics of a tax policy matter a great deal when estimating revenues. But let’s pick a midpoint number and suppose that California could raise $20 billion in new revenues if it reformed its residential property tax policies. This does not consider the additional revenues that could be generated through reforms to policies affecting commercial properties or nonprimary homes.

We think this is a reasonable low-end estimate, given what others have estimated. For example, in 2018 a statewide media collaboration that included CalMatters, KPBS, KPCC, KQED, and Capital Public Radio estimated that California could increase annual revenues by $30 billion if it taxed all residential properties (not just primary homes) at 1 percent of market value (Levin et al., 2018). In addition, others have estimated that California could realize an additional $11 billion annually in property tax revenue if commercial properties were assessed at market value (Ito et al., 2020).

Under Proposition 98, California K–14 education receives about 40 percent of General Fund revenues. If we suppose that 40 percent of our conservatively estimated $20 billion went to schools, that would be an additional $8 billion for schools. Typically, K–12 schools receive about 89 percent of the Proposition 98 share while community colleges receive about 11 percent. At that rate, K–12 schools could stand to gain about $7.1 billion in stable ongoing revenue, or about $1,200 per student on average. That is in addition to revenues the state could realize by changing policies that apply to commercial properties and nonprimary homes. Assuming those dollars flowed to school districts through an equitable state formula similar to the Local Control Funding Formula (rather than simply being retained in the counties in which they were generated), this would mean roughly $1,400 more per pupil for Los Angeles Unified and San Bernardino City Unified and $1,200 more per pupil for San Jose Unified (see Appendix B for estimates for California’s largest 30 districts).

What could that kind of money buy? For an average-size elementary school of 500 students, that would be enough to hire six additional staff, such as counselors, nurses, and librarians, or to reduce class sizes by two students. Those funds could also be used to expand preschool and afterschool offerings, establish new community schools, deepen professional development for staff, upgrade technology, and more. An increase of this magnitude could also be enough to push California school spending to at or above the national average on a cost-adjusted basis.

K–12 schools could stand to gain about $7.1 billion in stable ongoing revenue. That is in addition to revenues the state could realize by changing policies that apply to commercial properties and nonprimary homes.
Because California voters have chosen to tightly limit property taxes in the state, California is forgoing stable, ongoing sources of revenue that other states currently realize through their property tax systems.

Key Takeaways

Because California voters have chosen to tightly limit property taxes in the state, California is forgoing stable, ongoing sources of revenue that other states currently realize through their property tax systems. Although there are many ways California could choose to modify its property tax system, it is beyond the scope of this analysis to model those different policy changes and estimate the fiscal impact of each. Doing so would probably require choosing specific scenarios to model, obtaining parcel-level data, and more accurately estimating the market value of properties. We encourage other researchers to run those models. But by running some high-level scenarios, we estimate that the increased revenues could be considerable, with much of those additional revenues owed to schools. And that is just by taxing primary residential homes differently. The reality is that significantly more revenues could be raised by increasing taxes on commercial properties and nonprimary homes. Assuming that changes are made without enacting offsetting changes, such as reductions to other taxes and revisions to how dollars flow to education, we estimate these savings could be enough to push California's per-pupil spending comfortably above the national average. The benefits would be most pronounced in higher-poverty school districts since California distributes state education funding through a progressive funding formula. These potential new school revenues are in addition to the fiscal benefits that would be realized by other local agencies.
In 2020, voters only narrowly defeated Proposition 15’s “split roll” proposal, which would have increased property taxes for commercial and industrial properties by pegging assessments to market value. The additional revenues would have been redistributed by the state to fund schools and other community services. Although it was defeated, the measure demonstrated that 48 percent of Californians were ready to take on Proposition 13 and end tax breaks for corporate property owners, especially if it meant more money for education.

On the same ballot, voters narrowly approved Proposition 19, which made changes to Proposition 13 by striking a bargain: Those inheriting properties would only be able to retain the property’s inherited (and often low) assessed value if they used the home as their primary residence. No longer could they generate rental income on the property while also keeping the tax break. In exchange, owners over age 55 would be able to move anywhere in the state and take some of their prior tax base with them. Californians seemed to think this was a fair bargain. It made it more financially palatable for older Californians to move while it also sun-setted a tax break enjoyed by many wealthy families.
These two measures are evidence of some voter willingness to reform the system. But reform of such a complex, long-standing policy is a complicated endeavor—especially in a state where many Californians benefit from Proposition 13’s financial protections and perhaps even take them for granted. Indeed, polls have consistently found that the majority of Californians feel Proposition 13 is mostly a good thing even though they are more divided over specific provisions of the measure, such as the supermajority vote requirement (Baldassare et al., 2018). Perhaps advocates could capitalize on voter’s oft-expressed interest in taxing the rich, including both corporations and wealthy individuals (Johnson, 2019; Schneider & Kahn, 2020). This may be a fitting approach since we have shown that California’s property tax policy is regressive as currently implemented.

In tackling Proposition 13 through the initiative or legislative process, voters and state leaders will need to decide what piece of it they want to address and what the goals are. Do they aim to generate more revenue? Increase tax fairness? Expand access to homeownership? Increase local control over taxation? Give the state legislature more control? Increase revenue stability? Depending on the goal, the pathway to reform will be quite different.

That said, we write as researchers interested in expanding equitable access to well-resourced schools that reflect the state’s great racial diversity. To achieve that goal, we encourage state leaders and voters to consider ways to reform Proposition 13 and other state and local policies to achieve increased and sustainable revenues for education, expand fair access to affordable housing, and achieve the right level of local control over school and community budgets and services. (Of course, we are not the first to broach this topic: Ideas for policy changes have been explored by many other researchers and experts working in public finance and government.\(^5\))

**Ways Policymakers or Voters Could Reform Proposition 13**

**Reduce or Remove Property Tax Limits**

Regarding Proposition 13’s tax limits, there are a number of reforms that advocates, voters, and state leaders could consider. They could lift caps on assessed values, increase property tax rates, impose property surcharges, or use a mix of any of these strategies. In 2020, Proposition 15 aimed to remove the cap on assessed values for corporate properties, and that “split roll” approach remains one viable strategy among others. The state could also lift the assessment cap for residential properties: removing the cap altogether so that assessments are pegged at market value, allowing assessed values to increase at a faster rate than the current 2 percent, or allowing the rate to rise at the rate of inflation. In addition to these reforms, the state could pursue the following:

- **Means testing:** If the state wanted to shield most property owners from increases, it could employ some sort of means testing to lift the assessment cap, increase the tax rate, or impose surcharges on only extremely high-value properties or nonprimary homes.
• **Phase-ins, deferments, and protections:** Under any scenario, the state could slowly phase in any change, allowing assessed values or tax rates to increase incrementally over time. The state could also choose to protect property owners from skyrocketing tax bills by allowing them to defer payment of the increased taxes until they sell the property, treating it as a lien on the property. This may be especially helpful to Californians on limited or fixed incomes who may be house rich but cash poor.

• **Closures of inheritance loopholes:** The state could end all inheritance tax shelters. In 2020, Proposition 19 aimed to close the inheritance loophole significantly, but children and grandchildren can still enjoy considerable tax subsidies if they claim to live in the homes they inherited. The state could end this practice, perhaps slowly increasing the assessed value over time so as not to hit property owners with untenably high tax bills.

**Make It Easier for Local Governments to Pass Taxes**

As described in Sections 1 and 2 of this report, Proposition 13 did more than just limit the amount of property tax the state could raise. It imposed restrictions on local taxation more generally. By requiring a two-thirds majority of voters to approve special taxes, the voters for Proposition 13 imposed a fiscal straitjacket on local leaders. Under the current system, a minority of voters can block a new measure that the majority of voters favors. This makes it very difficult for communities to raise local revenues and has increased their dependence on state sources. This may leave significant resources on the table: Studies have found that voters are more willing to tax themselves if they know the dollars will be spent on services they can benefit from (Rueben & Cerdán, 2003, p. xii). To address this, the state could:

• **Expand local taxation authority.** Voters could remove Proposition 13’s supermajority requirement, but this would need to be paired with measures to ensure equity. There are multiple ways this could be done. The most straightforward would involve the state kicking in additional state aid for low-wealth areas for every dollar raised in high-wealth areas (not unlike the role the state currently plays in ensuring each school district receives minimum funding).

• **Allow for regional taxation, so long as dollars are redistributed regionally.** For instance, the state could require that all new education dollars generated from taxes in a county be redistributed by that county based on school district need. This would keep the revenues in the county and acknowledge that education is a regional priority. It would also acknowledge that different districts in the same county have different tax bases.
A Role for Lawyers and Policy Scholars

Further Interrogate the Ways in Which Proposition 13 Exacerbates Inequities

Although Proposition 13 supposedly sought to treat all property owners fairly by imposing a single property tax, this report has shown that the effects of this policy have been inequitable. We are not legal scholars, but we encourage advocates to explore whether provisions of Proposition 13 stand up to federal laws, including current interpretation of those laws by federal agencies. This may include revisiting whether the law violates the equal protection clause since Proposition 13’s benefits fall disproportionally to some groups (e.g., homeowners, white Californians, property-rich Californians) at the expense of others (e.g., renters, Black Californians, those with less housing wealth). As another angle, a recent *Stanford Law Review* article proposes that “federal constitutional claims rooted in Proposition 13’s impact on interstate mobility are the most promising terrain for future litigation” (Danforth, 2021). The gist of this idea is that would-be homeowners are unfairly discouraged from moving to California because Proposition 13 drives up home prices.

In addition, at least one set of legal scholars has argued that even if Proposition 13 is not unconstitutional, it may violate the Fair Housing Act’s prohibition on policies, including tax policies, that have a disproportionate effect on particular racial groups or that perpetuate segregation (Sarkar & Rosenthal, 2018). Similar claims have been made in places like Wayne County, which includes the city of Detroit. There, in *Morningside Community Organization v. Sabree* (2016), plaintiffs supported by the ACLU of Michigan, the NAACP Legal Defense and Educational Fund, and others argued that Black property owners experienced disproportionate tax foreclosures in violation of the Fair Housing Act. The plaintiffs and the city of Detroit ultimately reached a settlement agreement.

Build a Deeper Research Base and Consensus

We believe the state would benefit from deeper research on the extent to which Proposition 13 and other tax policies have contributed to racial disparities in housing, economic opportunity, and education. California would also benefit from policy and thought leaders coming together to craft practical and politically plausible solutions. As part of this, scholars, public finance experts, local leaders, and movement builders should collectively determine what it will take to overcome political and taxpayer resistance to changing Proposition 13 and other policies that constrain taxation and budgetary decision-making in California.
This 40-year-old measure has truly been golden for the state’s homeowners—especially its older, wealthier, and white homeowners—who have benefited from annual tax subsidies and wealth-generating opportunities.

Conclusion

California prides itself on its progressive values. But in practice, many of the Golden State’s policies and practices deny full economic and educational opportunities to its citizens, including the Black, Latino, and low-income students who make up most of its school-age population. Proposition 13 is a prime example. This 40-year-old measure has truly been golden for the state’s homeowners—especially its older, wealthier, and white homeowners—who have benefited from annual tax subsidies and wealth-generating opportunities. This has come at the expense of public services like schools, and it has made it harder for younger generations of Californians and people of color to own homes, accrue property wealth, and secure equitable educational opportunities for their children. With this report, we hope to contribute to a broader understanding of how Proposition 13 and related policies affect Californians and how we can build a future that more fully aligns our state’s policies with its progressive values and political rhetoric.
Endnotes

1 For example, 1964’s Proposition 14 referendum overturned the Rumford Fair Housing Act of 1963—a measure that sought to prohibit housing discrimination.

2 With AB-8, the state codified into law the share of the total county-collected property taxes to be distributed to each unit of local government within the county. The share of property taxes received by each school district, city, or special district was frozen in place. The result is that the same variation that existed in 1977 still exists today, despite major changes in population, revenues, and priorities in many counties. Today, some school districts receive 20 percent of their county’s property tax revenues while some districts receive more than 60 percent (Chu, 2016). For other local governments, Sonstelie (2014) notes that AB-8 contributes to a situation where, even within the same county, the property tax distribution per capita is uneven among cities. For example, in 2010 Pomona received $85 per capita compared to Pasadena’s $262.

3 Notably, Proposition 39 in 2000 dropped the voter threshold required for passing school bonds from two-thirds to 55 percent, making it easier for local communities to pass these measures.

4 Proposition 19 in 2020 dilutes these inheritance perks by requiring that an inherited property be used as a primary residence and by limiting the total savings for those inheriting high-value properties.

5 For example, in 2018 scholars and experts were convened by the Fiscal Democracy Project at the University of California, San Diego, to discuss California’s public finance policies, especially Proposition 13 (Nations et al., 2018).

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Unjust Legacy


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