Collection: Reagan, Ronald: Gubernatorial Papers, 1966-74: Press Unit

Folder Title: Issues – Tax Reform (5 of 5)

Box: P32

Tax Reform

California
Council on
Intergovernmental
Relations

THE WATSON INITIATIVE

"What It Means for California"

The Watson Initiative, sponsored by the "Tax Limitation Committee" and proposed by Philip E. Watson, Los Angeles County Assessor, will appear on the November ballot. The constitutional amendment is a very complex tax reorganization; which, if approved, would have far reaching effects on the State's system of taxation. It is designed to shift the source of revenue for the support of government away from property taxation to income tax, consumer taxes and corporation taxes.

Opinions vary radically as to how feasible these changes are. Different studies show that a funding deficit anywhere from 0 to $1.2 billion may result. Thus, the Initiative is not fully understood.

This report summarizes the basic components of the Amendment and presents arguments both for and against the issue.

SUMMARY PROVISIONS OF THE WATSON AMENDMENT

- The property tax shall be limited to 1.75% of market value plus the payment of debts and liabilities.

- All costs of social welfare services and a major portion of the costs of education must be paid for from revenue sources other than the property tax.

- The State cannot levy a property tax unless no other funds or taxes are available. In this case, the State may levy a property tax sufficient to pay for bonding services only.

- Tax limits:

  - County tax rate - $2.00 per $100 of assessed value - does not include costs of servicing bonded indebtedness. (1/2%)

  - City tax rate - $2.00 per $100 of assessed value as above. (1/2%)

  - City and County tax rate (San Francisco) - $4.00 per $100 as above. (1%)

  - Special districts tax rate - the total of all inter-county special districts cannot exceed $.50 per $100 as above. (1/8%) The Legislature shall set up methods of apportionment. The total of all intracounty special districts cannot exceed $.50 per $100 as above. (1/8%)

  - Schools (K-12) - each County shall levy a rate of $2.00 per $100 for the support of schools within that county. To be apportioned to schools in a manner prescribed by the Legislature. (1/2%)

  - If any taxing agency is in excess of the stated limit for 1971-72, the amount of taxes levied in 1971-72 for the specified services shall be the limit for that agency for a period not to extend beyond the 1976-77 fiscal year.

- Debts and liabilities, bonds, etc., shall be incurred only on approval of a 2/3 majority of voters.

- Debts or liabilities - bonds, notes, certain loans and leasebacks, etc. Many financing loopholes are closed.

- Assessed value - 25% of full cash value.

- All new State programs, services and benefits enacted by the Legislature must be funded from sources other than the property tax.

- Suggested sources of replacement revenue:

    - Sales and Use Tax - maximum 6%/State - 1%/local.

    - No sales tax on prescription medicine and food products if exempt on 1/1/71.

    - Insurance Companies, Bank and Corporation Income Tax - not less than 11%. Requires 2/3 vote to increase over 11%.

    - Personal Income Tax - any increase over present rate must be by 2/3 vote of Legislature.

    - Cigarette Tax - not less than $.01 per cigarette.

    - Repeal home office offset for Insurance Companies.

    - Mineral Severance Tax - same rate as sales tax. Can offset a property tax against severance tax.

    - Distilled Spirits Tax - not less than $2.50 per gallon.

- A minimum of $825 ADA is guaranteed for the support of education. This includes revenue from property tax.

- Any future exemption or classification of property resulting in a lower property tax must be approved by majority of the voters.

- The operative date of this initiative is the beginning of the fiscal year immediately following approval by the voters.

HOW THE INITIATIVE WOULD OPERATE

Tax Rate Limitation

If the Watson Initiative succeeds, property tax will be limited to 1.75% of Market Value or a maximum of $7.00 per $100 of assessed valuation, plus costs of bonding. Allocations to local governments would be as follows: $2.00 county, $2.00 city, $2.00 education, $.50 to intercounty special districts and $.50 to intracounty special districts. These rate limits relate only to current operating expenses and do not apply to past or future bond or long-term debt repayments. If local jurisdictions exceed these limits during 1971-72, then they shall be frozen at that level for a five year period, from 1972-73, and until 1976-77. Thereafter, the tax rates shall be reduced to the maximum specified in this measure.

Education

The measure requires the State to apportion $825 per ADA for K-12, minus the amount that would be raised from a new $2.00 county school tax. These state apportionments would go to the counties rather than individual school districts, and unless the Legislature provides to the contrary, the Board of Supervisors would then apportion these funds. It does not specify, however, that each school district shall receive the same amount per ADA. After the effective date of this measure, the school districts would no longer have the power to impose a local property tax for current operations. District property taxes could be levied only for past and future bond repayments.

This measure also provides that the Legislature may increase the $825 per ADA basic apportionment, but it shall annually adjust this amount to reflect changes in the cost of living index.

A final change will be in financing community colleges. Support would be shifted from local property taxes to the State; an amount estimated to be $397 for 1972-73 by the Legislative Analyst.

Social Welfare

The county costs for social welfare including all categorical aids, general relief and local administration, would be shifted to the State effective July 1, 1972. The Board of Equalization estimates the amount to be $688 million in 1972-73.

Bond Issues

There would be no change in bonding limitations. Costs of interest of bonds are exempt from property tax limitation. All future bonds and lease agreements would be passed only by a 2/3 majority of electors voting for the issue at a statewide primary or general election.

State Property Tax

Such a tax would be prohibited except to retire existing debts or liabilities and thus only if the State Controller certifies no other funds are available.

Special Assessment Districts

No restrictions on new special assessment districts; but, they must come within present limitations and must be approved during a statewide primary or general election.

Special Districts

There is some question about the funding of special districts. The Legislative Analyst's Office has provided the clearest explanation as to how the new system will work. They conclude that "for intracounty special districts, the tax rate limit applies to the total assessed valuation within the county and not just to the portion covered by each district." In effect, this means the county could impose a $.50 tax for all of these districts and then this measure gives the Board of Supervisors the authority (in the absence of legislation to the contrary) to apportion these funds as they see fit.

"For intercounty special districts, the $.50 applies only to the assessed valuation within such districts." A final determination may be left up to the courts, as the wording in the Initiative is not without controversy.

ARGUMENTS IN THE SUPPORT OF THE INITIATIVE

Rising Taxes

Property taxes have escalated so rapidly in California that the desirability of owning property may be questioned by both business investors and homeowners. There is always the fear that industry will establish its facilities in another state, shipping its products to California more economically than it can produce them here. Moreover, the property tax is an extra burden on both elderly and young families, and it has an adverse effect on new housing starts. The Watson Initiative would clearly ease these problems.

Lack of Legislation

The Legislature has had difficulty in finding an agreeable tax relief package. While many proposals have been offered, no comprehensive program has been implemented. The initiative process may not be the best way to work out tax reform; but, at the present, it seems to be the most practical.

Errors May Be Corrected

If there are errors or desirable improvements to the Watson Amendment which become manifest in the future, these problems can be solved by adjustment by the Legislature, the people, or both.

Shift to Welfare Costs

The cost of welfare imposes a tremendous burden upon local governments, which in turn, depends upon the local property taxpayer. Newest thinking indicates that social welfare is a responsibility that should be handled by the State if not the Federal Government. The Watson Amendment would provide for welfare to be solely state funded.

Major School Tax Shift

Taxation for schools is not only expensive for property owners, but in light of the Serrano vs. Priest decision, it is apparently illegal in its present form. The Watson Amendment, which establishes uniform support of $2.00 on the property tax rate for schools and establishes a State ADA of $825 per child per year, would move the State toward a policy that may be acceptable to the courts.

Substantial arguments have been raised as to whether the proposal is in balance. Part of the argument is related to the school pupil base amount of $825, which many claim should have been a base amount established at a figure closer to $925. Watson suggests that the opposition claim is based on average costs, using the expenditure figures for rich and for poor districts, while the $825 is based on the compiled costs of providing an adequate educational operation. The consideration of Federal funds also enters into the question of "balance," as well as the projections of a declining school population.

Watson claims that any imbalance would not exceed $100 million and suggests that it is offset by the bases where higher tax rates for state taxes are applied to normal growth of the particular tax base.

Curbs the Use of Leasebacks

Passage of the Watson Amendment would curb leasebacks and joint powers agreements by requiring that they be approved by a 2/3 vote at a general (not a special) election. The use of these devices to avoid the necessity of gaining voter approval for general obligation bonds has contributed greatly to the burden on the property taxpayer.

Sets Reasonable Tax Limit

There is a growing body of opinion that a property tax rate in excess of 2% of assessed value is a regressive tax. By setting a ceiling of 1-3/4% of assessed value, plus providing for the retirement of debt, the Watson Amendment arrives at 2% of assessed value as the maximum property tax.

Renter Relief

Renters would benefit in the course of open-market competition. While landlords probably would not uniformly reduce rates, property tax pressure would be relieved, and when vacancies occur, owners would be more likely to rent at a lower rate to insure an occupancy.

Provides Relief to Both Large and Small Landlords

The charge is often made that the Amendment favors major landlords and large property owners. The Assembly Revenue and Taxation Committee states, "Business, paying 65% of the property tax, is given $3.056 billion in relief and will pay only $743 million in new taxes." Included in this figure, however, are very small landlords; the study combined the type of people renting half of their duplex and living in the other half with large corporations. Of California's 3,000,000 landlords, the California Real Estate Association estimates that half of them own and rent only a few apartments or a second home.

ARGUMENTS AGAINST THE INITIATIVE

No Real Relief

While the proposal is generally discussed as a "tax limitation," it is well to remember it is really a tax shift, as other taxes are increased. The homeowner may experience no savings in the end.

Problems with School Funding

Alan Post indicated in his analysis of the Initiative that it will, "drastically change the methods of supporting local schools." Under the Initiative, the State is required to apportion $825 per ADA for grades K-12, minus the amount that would be raised from a new $2.00 county school tax.

Currently, State and local expenditures per ADA average $916 for K-12. In other words, Mr. Watson's measure provides about $91 less per ADA than the present financing system will provide: a decrease of $25 million according to Mr. Post.

Moreover, the Initiative provides that the State apportionments will go to the counties rather than the school districts; and unless the Legislature provides to the contrary, Board of Supervisors shall apportion these funds. The Watson Amendment does not specify any criteria or guidelines for apportioning these funds. (Chart on next page.)

Shift in the Support of Local Schools
K-12 and Special Programs
1972-73 Data in Millions

Source of Funding	Existing Law	Watson Initiative	Change
State Support	$ 1,499	$ 2,698	+ $ 1,249
Local Property Taxes	2,871	1,197	- 1,674
Federal & Other Funds	322	322	0
	$ 4,642	$ 4,217	- $ 425

Source: Legislative Analyst

Special Districts

Special districts will face grave questions. The Initiative provides that all intracounty special districts are limited in the aggregate to a $.50 rate. That is, the total of all rates levied by all districts would be limited to $.50. This will preclude many districts from levying more than a token tax rate and will make it impossible for many districts providing essential functions such as fire protection services to continue to function. For unincorporated areas, this is a crippling blow, because virtually no other government units could provide services to these areas under the rate limits.

No Renter Relief

Many analyses of the Initiative point to the lack of a provision which would insure that renters receive tax relief. Although renters will be called on to pay their share of the new taxes required by the program, there is little evidence they will experience other benefits.

Limits State Power to Respond in Crisis

By writing this proposal into the constitution, the State is limited, in its power, to respond to changing conditions. The tax rates would be set by constitutional amendment, and should sudden or unforeseen circumstances arise, there would be very few options open to the State.

Changes Property Classifications

The Amendment deprives the Legislature of its existing power to classify personal property for taxation or exempt it from taxation. Moreover, it is uncertain whether existing classifications will be wiped out or allowed to stand. The language is unclear, and much interpretation will be needed before new tax categories are achieved.

Home Rule Dimished

Opponents of the measure indicate that the Initiative will foretell the end of independent local government and home rule. As wage and cost pressures exceed the growth rate of city and county revenues, the State and Federal governments will be compelled to shoulder more and more of the fiscal burden of local government. The Initiative perils local government as it now exists, but it fails to replace it with a structure capable of providing services of a level and quality acceptable to individual communities.

Although the Watson proposal limits property tax for schools and counties, at the same time, it relieves those entities of heavy obligations. Cities receive no such relief. Many of our large cities and counties exceed the tax rates set by the Initiative and would be subject to the freeze. The measure makes no mention of how these governments, which are above the limits, shall meet their revenue needs during the freeze period, or thereafter, when the tax rates would be reduced to $2.00.

Mr. Watson has said that the $2.00 maximum rate was selected as sufficient for an average city with average needs. But, this assumes, of course, there are "average cities" and "average needs." Such an assumption seems far to vague and impractical to be used as the basis of the State's fiscal structure.

New Transportation Funds Lost

The new gasoline sales tax, provided by SB 325, which would make at least $138 million available for local transportation development, is canceled out. By setting the local sales tax rate at 1%, the additional 1/4% local sales tax provided in the bill for transportation is lost. The new sales tax on gasoline would still be imposed beginning July 1, 1972 however.

Too Complex for the Ballot

The measure is far too complex a matter to have details of its major elements written into a law that can be changed only by submitting it to all of the voters of the State. The right of the Initiative can be abused. Is it fair for a group with a specialized interest to present to the electorate a measure so complex that fewer than 10,000 persons in the whole state will understand in full?

SUMMARY

The most important question to ask of the Watson Amendment is will it meet the fiscal needs of the State while offering property tax relief. Many of the analyses of the Initiative indicate that it is underfunded. Alan Post shows a deficit of $696 million and the Assembly Committee on Revenue and Taxation reports the Amendment is underfunded by $1.272 billion. The Los Angeles Area Chamber of Commerce, which supports the Initiative, disputes these claims. "Mr Post's office is not telling the whole story. The $700 million loss, in the first place, assumes that the Federal Government will not continue its aid to impacted areas program. There is no basis for this assumption. If, at any time the Federal Government were to discontinue this program, the impact of California, as a whole, would be a $370 million revenue loss as a direct support to education. Under Watson, or under current law, were the Federal Government to stop the flow of this $370 million, the State would somehow have to find a way to take up the slack. Since the argument proceeds from a point of political impracticality, $370 million should be subtracted from the Post figure of $700 million, leaving a net deficit of $330 million." No one can say, with any degree of certainty, what the Amendment's exact effects will be on the State's fiscal structure. Funding for state and city services, special districts and schools is in question, and these "uncertainties" may lead to years of litigation.

Table 1

State Revenue and Costs Estimates of
The Watson Initiative
(In Millions)

	1972-73 Ongoing Effects
I. State Costs	
1. Education	
K-12	$1,249
Community Colleges	397
Sub-total	$1,646
2. Social Welfare	$ 688
3. Homeowner's exemption payments	- 111
4. Business inventory payments	- 6
5. Senior citizen reimbursements	- 5
Total State Costs	$2,212
II. State Revenues	
1. Increase state sales tax rate from 4 to 6 percent	$1,000
2. Increase state cigarette tax from 10 to 20 cents per pack	128*
3. Increase distilled spirits tax from $2 to $2.50 per gallon	25
4. Increase bank and corporation tax rate from 7 to 11 percent	320
5. Eliminate gross premiums tax on insurance companies, and their principal office decutions, and impose a 11 percent net income tax	- 147
6. Impose a 7 percent serance tax on all minerals	105
7. Interaction	85
Total State Revenue	$1,516
Unfunded State Costs	- 696

*Only the state portion of the revenue increase.

Source: Legislative Analyst

Impact of the Watson Initiative on Various Economic Units

	Property tax rate reduction 1.75% limit	Sales Tax 4 - 6¢ + 1¢ city	Cigaretee tax 10 - 20¢	Distilled spirits \$2 - \$2.50	Bank and corporation tax 7 - 11%	Insurance tax	Severance tax	Income tax - State	Income tax - Federal
Renters	(-)	+	+	+	(+)	(-)	(+)	-	-
Senior citizens	-	+	+	+	(+)	(-)	(+)	+	+
Homeowners	-	+	+	+	(+)	(-)	(+)	+	+
Farmers									
In open space	-	+	+	+	(+)	(-)	(+)	+	+
Not in open space	-	+	+	+	(+)	(-)	(+)	+	+
Landholders	-	N	N	N	+	(-)	N	+	+
Corporations									
With real estate	-	+	N	N	+	(-)	N	N	+
Without real estate	N	+	N	N	+	(-)	N	N	-
Insurance companies	-	+	N	N	+	-	N	N	N
Banks	-	+	N	N	-	(-)	N	N	-
Oil Companies	-	+	N	N	+	(-)	+	+	+
Exempt properties	N	+	N	N	N	(-)	N	N	N
Timber	-	+	N	N	+	(-)	N	+	+

\+ Indicates a direct increase in taxes.
(+) Indicates an indirect increase in taxes.
\- Indicates a direct reduction in taxes.
(-) Indicates an indirect reduction in taxes.
N Indicates neutral or negligible.

SOURCE: Board of Equalization

INITIATIVE MEASURE TO BE SUBMITTED DIRECTLY TO THE ELECTORS

The Attorney General has prepared a title and summary of the chief purposes and points of the proposed measure, as follows:

TAXATION. INITIATIVE CONSTITUTIONAL AMENDMENT. Establishes several property tax rate limitations. **Prescribes tax rates** for sales, use, cigarettes, **distilled spirits**, banks, corporations, and insurance companies. **Limits total ad** valorem tax on property to 1.75% **of market value** for all purposes except payment of designated **types of debts and liabilities.** Eliminates property tax for **welfare** purposes, **limits** property **tax** for **education, and requires state funding** of these from other **taxes. Requires severance** tax on extraction of **minerals** and hydro**carbons.** **Requires** two-thirds vote of Legislature to **increase** designated taxes. **Restricts exemptions from property tax to those approved** by election. If the **proposed** initiative **is adopted** undefined additional **financing from state sources in the approximate** annual **amount of seven hundred million** dollars ($700,000,000.00) **will be required.**

STATE OF CALIFORNIA,
COUNTY (or City and County) of ____________________

To the Honorable Secretary of State of the State of California:

We, the undersigned, registered, qualified electors of the State of California, residents of ____________________ County (or City and County), present to the Secretary of State this petition and hereby propose an amendment to the Constitution of the State of California, by adding Article XIII A, amending Section 16 of Article XIII and repealing Section 14 4/5 of Article XIII, hereinafter set forth in full, and petition that the same be submitted to the electors of the State of California for their adoption or rejection, at the next succeeding general election or at any special election called by the Governor of the State of California prior to such general election or as provided by law. The proposed constitutional amendment reads as follows:

The People of the State of California do enact as follows:

First, that ARTICLE XIII A is added to the Constitution to read:

ARTICLE XIII A
Tax Limitation

Section 1. It is the intent of this Article that:

(a) The property tax shall be limited to 1.75% of market value for all purposes other than for the payment of debts or liabilities;

(b) All of the costs of education, except as hereinafter provided, and all of the costs of social welfare services throughout the State of California shall be funded by the State and shall be paid from revenues derived from sources other than ad valorem property taxes; and

(c) Other tax reforms and limitations shall be established.

Section 2. From and after the effective date of this Article, the State shall not levy an ad valorem property tax for any purpose whatsoever; provided, however, that in each year that the State Controller certifies that no other source of funds or method of taxation is available, the State may levy a statewide ad valorem property tax sufficient to service and retire debts or liabilities of the State authorized or outstanding on the effective date of this Article; and provided, further, no subordinate taxing agency shall levy an ad valorem property tax for the purpose of paying the costs of social welfare services.

Section 3. From and after the effective date of this Article, for all purposes, except as provided in Sections 4 and 5 hereof, subordinate taxing agencies may levy ad valorem property taxes only within the following limitations:

(a) The tax levied by each county shall not exceed TWO DOLLARS ($2.00) per ONE HUNDRED DOLLARS ($100) of assessed valuation of taxable property within such county.

(b) The tax levied by any consolidated city and county shall not exceed FOUR DOLLARS ($4.00) per ONE HUNDRED DOLLARS ($100) of assessed valuation of taxable property within such city and county.

(c) The tax levied by each city shall not exceed TWO DOLLARS ($2.00) per ONE HUNDRED DOLLARS ($100) of assessed valuation of taxable property within such city.

(d) The tax levied by or on behalf of all intra-county taxing agencies, the boundaries of which are wholly within one county, or one city and county, shall not exceed in the aggregate FIFTY CENTS ($0.50) per ONE HUNDRED DOLLARS ($100) of assessed valuation of taxable property within each such county, or city and county. In the event the budgets of all such agencies would require an aggregate tax in excess of the maximum permitted by this Section, and unless the Legislature provides a uniform procedure for allocation, the Board of Supervisors for each county and city and county shall apportion the said maximum tax rate.

(e) The tax levied by inter-county taxing agencies, the boundaries of which include all or portions of two or more counties, shall not in the aggregate exceed FIFTY CENTS ($0.50) per ONE HUNDRED DOLLARS ($100) of assessed valuation of taxable property within all such inter-county agencies. The assessed valuation of taxable property shall be determined without duplication of the value of taxable property lying in whole or in part within the boundaries of more than one inter-county taxing agency. In the event the aggregate budgets of all such agencies would require a tax in excess of the maximum permitted by this Section, the Legislature shall apportion the said maximum tax rate among such agencies in accordance with procedures established for that purpose.

(f) To the extent that the tax limits established for subordinate taxing agencies by paragraphs (a), (b), (c), (d) and (e) of this Section 3 have been exceeded for the fiscal year 1971-1972, the rate of property taxes levied in the fiscal year 1971-1972, exclusive of the rate or rates attributable to the costs of education, the costs of social welfare services, and payments on account of debts or liabilities, shall be the limit for a period of time not to extend beyond the 1976-1977 fiscal year. Commencing in the 1977-1978 fiscal year, the tax limits set forth in said paragraphs (a), (b), (c), (d) and (e) shall be the limits for all such subordinate taxing agencies without exception.

Section 4. For the support of public schools, grades kindergarten through 12, each county or city and county shall levy an additional ad valorem property tax of TWO DOLLARS ($2.00) per ONE HUNDRED DOLLARS ($100) of assessed valuation of taxable property within each such county or city and county. The State from its General Fund shall allocate and apportion to each county or city and county in each fiscal year, a total base amount of EIGHT HUNDRED TWENTY-FIVE DOLLARS ($825) per pupil in average daily attendance in all of the schools within each county or city and county, grades kindergarten through 12, during the preceding fiscal year as certified by the Superintendent of Public Instruction, less the sum per pupil in average daily attendance to be derived from the ad valorem property tax to be levied in accordance with this Section. The base amount may be changed from time to time by the Legislature; provided, further, that the base amount shall be adjusted annually to reflect changes in the cost of living index in a manner to be established by the Legislature. Unless the Legislature provides otherwise, the aggregate amount herein made available for the support of public schools, grades kindergarten through 12, shall be apportioned among the school districts within each county or city and county by the Board of Supervisors of each county or city and county.

Section 5. From and after the effective date of this Section, subordinate taxing agencies may levy ad valorem property taxes for the payment of debts or liabilities provided the proposition for incurring each debt or liability of each subordinate taxing agency shall have been approved by a two-thirds' majority of the votes cast on such a proposition within the subordinate taxing agency at a statewide primary or general election, or if the subordinate taxing agency is uninhabited, by a petition approved by a two-thirds' majority of property owners within such agency. This Section shall not limit the levy of ad valorem taxes to pay debts or liabilities authorized or outstanding on the effective date hereof, nor be construed to invalidate debts or liabilities outstanding on the effective date hereof. No subordinate taxing agency shall create, incur, or become liable for, any debts or liabilities for payment of operating and maintenance expenses, it being the intent hereof that debts or liabilities shall

Section 6. For the purpose of this Article:

(a) "Ad valorem property taxes" means taxes, assessments, levies, service charges, or charges of any nature levied by the State or any subordinate taxing agency in respect of and determined according to the value of property. The term "ad valorem property taxes" does not mean or include such other taxes and fees imposed pursuant to Parts 1 through 14 of Division 2 of the Revenue and Taxation Code as the same exists on the effective date hereof or as the same may be hereafter modified or amended.

(b) "Assessed valuation" means twenty-five per cent (25%) of the full cash value of taxable property, or twenty-five per cent (25%) of the value of taxable property as to which a different standard of value is required under the Constitution. "Assessed valuation of taxable property" means the value of property after the deduction of the value of all exemptions.

(c) "Cost of education" means: (i) all costs and expenses incurred in connection with the acquisition, construction, maintenance, expansion, operation and administration of all kindergarten schools, elementary schools, high schools and technical schools, and all public higher education as defined on January 1, 1971, in Section 22500 of the Education Code; (ii) all costs of every kind and character incurred or expended for any other educational purpose authorized by the Constitution and the Education Code as of the effective date of this Article; and (iii) the cost of establishing and conducting any new educational program, if the costs of such programs are, in whole or in part, to be borne by the expenditure of public funds. The term "costs of education" does not mean or include costs incurred by public agencies other than school districts to provide public library services.

(d) "Costs of social welfare services" means all costs of programs and services authorized by Division 9 of the Welfare and Institutions Code as it reads on January 1, 1971, and any other existing or subsequent statutory provisions relating to the same or similar subject matter, including, without limitation, all costs and expenses incurred in the maintenance, operation and administration of such programs and services, as well as the costs of acquiring capital assets or making capital improvements.

(e) "Debts or liabilities" means indebtedness, the term of which is two (2) years or more, evidenced by (i) bonds, (ii) notes, (iii) loans, (iv) other indebtedness incurred for the purpose of acquiring capital assets or making capital improvements, to the extent the ways and means for the payment thereof shall be from ad valorem property taxes. The term "debts or liabilities" also includes (v) aggregate unpaid rent under lease agreements between subordinate taxing agencies, or between the State and subordinate taxing agencies, the term of which, including options, is two (2) years or more, (vi) obligations arising from terms and conditions of annexation of territory to subordinate taxing agencies, and (vii) obligations arising from contracts between subordinate taxing agencies and other subordinate taxing agencies, the State or Federal Government or departments or agencies of either, all to the extent the ways and means for the payment thereof shall be from ad valorem property taxes.

(f) "Intra-county taxing agency" or "inter-county taxing agency" means any subordinate taxing agency except counties, cities, city and counties, and school districts.

(g) "School districts" means all Elementary School Districts, High School Districts, and Unified School Districts (serving grades kindergarten through 12) authorized by the statutes of this State.

(h) "Statewide primary or general election," for the purpose of this Article, shall be considered to include any local election which is consolidated with and held at the same time as an election held throughout the State.

(i) "Subordinate taxing agency" means any department or subdivision of the State or any public entity therein, including, without limitation, each county, city and county, city, school district, district, authority, or other public corporation or entity, and any taxing zone, district, or other area therein, which is supported in whole or in part by ad valorem property taxes or which has the power to levy ad valorem property taxes.

Section 7. The rate of State sales and use taxes imposed pursuant to Part 1 of Division 2 of the Revenue and Taxation Code shall be Six Per Cent (6%). The rate of local sales and use taxes imposed pursuant to Part 1.5 of Division 2 of the Revenue and Taxation Code shall be One Per Cent (1%). Said rates may be increased by an Act passed by not less than two-thirds' vote of all members elected to each of the two houses of the Legislature, or may be decreased by an Act passed by not less than a majority of all members elected to each of the two houses of the Legislature. No tax shall be imposed on the retail sale of any prescription medicine or food products which were exempt from such taxation on January 1, 1971. The Legislature may provide for the administration and collection of sales and use taxes at the county level. To the extent not inconsistent herewith and unless otherwise modified or amended by the Legislature, the provisions of Part 1 and 1.5 of Division 2 of the Revenue and Taxation Code shall continue in full force and effect.

Section 8. From and after the effective date of this Article, any changes in the Personal Income Tax Law enacted for the purpose of increasing revenues collected pursuant thereto, whether by virtue of increased rates, changes in methods of computing taxable income, changes in deductions, exclusions or credits, or otherwise, must be imposed by an Act passed by not less than two-thirds' vote of all members elected to each of the two houses of the Legislature.

Section 9. From and after the effective date of this Article:

(a) The aggregate tax imposed by the State on the distribution of cigarettes shall be not less than ONE CENT ($0.01) per cigarette.

(b) The excise tax imposed by the State on the distribution of distilled spirits shall be not less than TWO DOLLARS FIFTY CENTS ($2.50) per wine gallon on all distilled spirits of proof strength, or less, and FIVE DOLLARS ($5.00) per wine gallon on all distilled spirits in excess of proof strength and at a proportionate rate for any quantity.

(c) A severance tax shall be imposed by the State on every person severing or extracting hydrocarbon substances and other minerals, other than water and steam, from the earth and the territorial seas and waters of this State, measured by the full cash value of the product severed or extracted, at a rate equal to the combined rate for state and local sales and use taxes. Any person paying such severance taxes may deduct from the severance taxes so paid the amount of ad valorem property tax paid in the preceding fiscal year on the taxable mining or mineral right in the product or in the property from which the product taxed under this Section has been produced or extracted. This Section shall not be deemed to preclude cities from levying a license tax on the business or activity of extracting or producing such substances, whether measured by value, by quantity or otherwise.

Section 10. From and after the effective date of this Article, the exemption of property, in whole or in part, from ad valorem property tax, or the classification of property resulting in a reduced tax on such property, must be approved by a majority of the votes cast on such a proposition at a statewide primary or general election.

Section 11. From and after the effective date of this Article, household furnishings and personal effects shall be exempt from taxation.

Second, that Section 16 of ARTICLE XIII be amended to read:

The Legislature shall provide by law for the uniform taxation of corporations, including insurance companies and State and National banking associations, their franchises, or any other franchises, by any form of taxation not prohibited by this Constitution or the Constitution or laws of the United States. To the extent not inconsistent herewith and unless otherwise modified or amended by the Legislature, the provisions of Part 11 of Division 2 of the Revenue and Taxation Code shall continue in full force and effect. Taxes according to or measured by net income imposed pursuant to Part 11 of Division 2 of the Revenue and Taxation Code shall be computed, except as herein provided, commencing January 1, 1972, at a uniform rate of Eleven Per Cent (11%). The net income of insurance companies shall be the taxable income described for such companies in the Internal Revenue Code, as amended, allocated to this State by the ratio of premiums received in this State to all premiums received. Taxes according to or measured by net income imposed on insurance companies shall be computed commencing January 1, 1973, at a uniform rate of Eleven Per Cent (11%). The rates herein provided may be changed by an Act passed by not less than two-thirds' vote of all members elected to each of the two houses of the Legislature.

Third, that Section 14 4/5 of ARTICLE XIII is repealed.

Fourth, that this Article shall be liberally construed to carry out its purposes, and the Legislature shall pass all laws necessary to carry out its provisions. To the extent that the Legislature shall fail to enact such laws, the appropriate officers of the State and each subordinate taxing agency therein are authorized and directed to proceed to carry out the provisions of this Article, and the action of such officers may be compelled by any citizens of this State by mandamus. If any section, part, clause, or phrase hereof is for any reason held to be invalid, it is intended that all the remainder shall continue to be fully effective.

Fifth, that except as herein provided, the effective date of this Article shall be the beginning of the fiscal year immediately following approval by a majority of the votes cast therefor. For the 1972-1973 unsecured property tax roll only, the effective date of this Article shall be one year from the beginning of the fiscal year immediately following approval by a majority of the votes cast therefor. Section 14 4/5 of ARTICLE XIII shall be repealed at 11:59 p.m. on December 31, 1972

STATE TAX RELIEF (In Millions)

Property Tax Relief	1968-69	1969-70	1970-71	1971-72	1972-73	Total
Homeowner's Property Tax Relief Program	$174.7[1]	$200.1	$218.0	$232.5	$254.8[2]	$1,080.1
Business Inventory[3] Property Tax Relief Program	-0-	48.9	90.6	131.4	143.5	$414.4
Senior Citizens' Property Tax Assistance Program	7.8	7.8	8.6	8.8	55.2	$88.2
Income Tax Rebate (10% credit and 20% forgiveness)	-0-	82.1[4]	-0-	235.0[5]	-0-	$317.1
Open-Space Program	-0-	-0-	-0-	-0-	13.0	$13.0
Double Standard Deduction	45.0	47.0	49.0	51.0	53.0	$245.0
TOTAL TAX RELIEF	$227.5	$385.9	$366.2	$658.7	$519.5	$2,157.8

Note: Costs for Homeowners, Business Inventory, and Senior Citizens' Programs reflect original Controller's Reports and subsequent prior year adjustments.

[1](Proposition 1A)

[2]Includes cooperative housing units per SB7, 1972 RS, amounting to $2.5 million

[3]Includes movie and wine state subventions

[4]10% special credit on 1969 income

[5]20% forgiveness credit on 1971 income

Tax Reform (Moretti Proposal)

Is Sales Tax Regressive?

2 to 1 Against Moscone!

"It is necessary to change government's reliance on static regressive taxes (and that includes sales taxes) to a more elastic base with a high capacity for growth and equity."

--State Sen. George Moscone, D-San Francisco
Chamber of Commerce Legislative Tax Conference, Sacramento, California
March 9, 1971

"(Assembly Speaker Bob)....Moretti argues that the California sales tax is not as regressive as Democrats used to believe because it exempts food, utility services, housing and prescription drugs."

--Los Angeles Times, May 28, 1972
(Article on Moretti Tax Proposal)

"Although it is traditionally described as a 'soak the poor' tax, our studies have shown that, in California, the sales tax can be considered a proportional tax if a person's net resources are used as the criterion of ability to pay. The basic necessities of life--food, shelter, and medical services and drugs--are exempt from the sales tax in this State. With these items removed from the tax base, this revenue source loses much of its regressive character . . . . . By using the sales tax to substitute for a portion of the property tax, we can improve California's entire revenue system."

--Former Assembly Speaker Jesse Unruh
San Diego Open Forum, San Diego, Calif.
January 8, 1967

Los Angeles Times, May 28, 1972

The Moretti Proposal---

Early Effort for a Massive Tax Shift

THE TAX reform effort of the 1972 Legislature is directed at a massive tax shift that would increase sales, personal income and business taxes in California nearly $1.4 billion by 1974-75.

Assembly Speaker Bob Moretti (D-North Hollywood) is the principal author of the proposal but it basically is a program put together by the County Supervisors Assn. of California.

In return for the huge increase in state taxes—the immediate tax rise would be $734 million in fiscal 1972-73—the Moretti bill promises more than $700 million in immediate direct property tax relief to homeowners.

It offers more than $200 million in income tax credits to persons who rent their homes and another $25 million to counties and school districts for revenues lost through open space agreements.

And it would provide $500 million in new state revenues during fiscal 1973-74, still one year away, for school finance reforms under the Serrano vs. Priest decision.

The Moretti package passed the Assembly on a 56-16 vote on May 18 and rests now in the Senate Revenue and Taxation Committee. But the bill, as passed by the Assembly, was really nothing more than a skeleton of what it has to be if it is to be written into law.

In the first place, only the tax levies are in the bill as it stands today.

Property tax relief provisions—the way the new money is to be spent—were taken out to get around a constitutional prohibition against passage of any appropriation bills until after the pending budget becomes law.

Secondly, there is no provision in the Moretti bill—and there has never been one—that spells out how the more than $500 million in so-called school equalization money is to be allocated.

Moretti originally intended that this decision be put over until the 1973 legislative session. But interest in trying to solve the dilemma raised by Serrano vs. Priest has mounted both in the Legislature and in the Reagan Administration. (Reagan, too, initially talked about waiting for another year to tackle the school finance issue.)

Now Moretti says he will amend his bill, in the Senate or in a later conference between the two houses, tax, the personal income tax and the bank and corporation tax.

to include definite school finance features. Lacking this, he says, he will tie it to a separate school finance measure.

But to date he has no specific plan. The Moretti bill now raises more than $500 million a year for school purposes which, if nothing further is done, apparently would simply be allocated to school districts on the basis of existing and out-of-date formulae.

The Moretti bill would increase state revenues by substantial raises, in three basic state taxes—the sales

The sales tax, now 3.75% at the state level plus another 1.25% for local government, would be raised an-

Speaker Bob Moretti
Times drawing

other 1 cent on the dollar as of May 1, 1973.

This would produce $34 million in new state revenue in fiscal 1972-73; $601 million in its first full year of operation, fiscal 1973-74, and an estimated $643 million by 1974-75.

Moretti argues that the California sales tax is not as regressive as Democrats used to believe because it exempts food, utility services, housing and prescription drugs.

Personal income taxes would be increased by narrowing present $3,000 tax bracket for married couples to $2,400 and the $1,500 bracket for singles to $1,200. In addition, new brackets would be put on top of the scale to increase the maximum tax from 11% to 15%.

A 12% tax would hit a single person with a taxable income of $14,250 or more. The same person would have to pay 15% if his income rose to more than $17,850.

The same rates would apply for married taxpayers at double the income levels.

The income tax provisions of the Moretti bill would become effective for the 1972 income year. They would increase revenues to the state by $860 million in fiscal 1972-73; drop them to $720 million in 1973-74 when the renter's relief bite would be felt for the first time, and build them back up to $825 million in 1974-75.

It is a big bite, particularly in the middle and high income brackets. But Moretti argues the income tax payer in California has it easy. Of 38 states which levy an income tax, he says, the couple with a taxable income of $17,500 pays a tax that ranks 27th in the nation. At the $7,500 income level, the California tax bite ranks 37th.

Corporation taxes would be increased from the present 7.6% rate on Dec. 31, 1972, to 9% under the Moretti bill. The tax on banks and other financial institutions would be raised from 11.6% to 13%.

This combination of boosts would increase state revenues by $40 million in fiscal 1972-73, $130 million in 1973-74 and $135 million in 1974-75.

Moretti argues that the impact of this tax increase on the business community is greatly reduced by the fact that it is deductible from the federal income tax. Studies indicate, he said, that the effective rate is less than half of the nominal rate.

DIRECT property tax relief would be provided by increasing the present $750 homeowner's assessment exemption to $2,000 plus 10% of the remaining assessed value. This would cut property taxes by $708 million in 1972-73, $174 million in 1973-74 and by $759 million by 1974-75.

The Moretti plan contains no limitations or ceilings other than existing ones on any local agency's tax levying authority. Moretti insists that his program is balanced and provides actual dollar tax reductions, overall, for most Californians. Hypothetical tax impact tables bear this out. At the $10,000 annual adjusted gross income level, for example, a married homeowner with two children and a $20,000 market value home would pay $40 more in personal income taxes, $39 more in sales taxes and receive a $191 a year reduction in his property taxes for a net savings of $112.

The reduction conceivably could increase if the $500 million in school aid money were used to further reduce school district property taxes.

Some net tax savings would continue, according to the tables, at least through the $20,000 adjusted gross income level. At about $25,000 level the family would experience a $34-a-year net increase in tax payments. At $50,000 the net tax increase would be $788 a year.

Moretti points out that 89% of the married homeowners in California have family incomes below $20,000.

While discussing a massive income tax increase, Moretti neglects to mention that California's total tax burden now is third in the nation. It was second when Governor Reagan took office, but has dropped back a notch as a result of the efficiencies and economies introduced by Governor Reagan.

Los Angeles Times, May 28, 1972

The Reagan Proposal—One Package to Tackle Two Issues

GOV. REAGAN was a late starter in this year's legislative "tax reform" scramble. His program, to be presented to the Legislation in bill form this week, was delayed, he said, because he wanted to tackle both property tax relief and Serrano vs. Priest school financing (see article above) in the same package.

Critics in the education establishment and in the Legislature say he doesn't succeed in either area. But his proposal is, nevertheless, the first concrete effort to solve the two issues in a single package.

And, like every other "tax reform" plan that has come before the Legislature in recent years, it would accomplish its goals by shifting huge sums of money from one tax base to another.

The Serrano vs. Priest school financing requirements would be approached by providing $650 million in state funds to replace the same amount now collected from local school district property taxes. At the same time, the Reagan plan would add $210 million in new state funding for poor school districts.

This $860 million total is expected, as tax yields increase, to grow to $995 million by fiscal 1975-76.

The Reagan plan would use the funds to guarantee to any elementary school district that levies a local property tax rate of $1.88 per $100 of assessed value enough money to spend at least $745 per pupil per year. If the local tax did not raise that much the state would provide the difference.

Any high school district that levies a local property tax rate of $1.11 per $100 of assessed value would be guaranteed enough to spend at least $930 per pupil.

Any unified school district with a combined tax rate of $2.99 per $100 of assessed value would be guaranteed $745 per elementary pupil and $930 per high school pupil.

The state presently gives all school districts—rich and poor—at the elementary level, for example, $125 per pupil in basic state aid each year.

Under the Reagan plan, wealthy school districts that can raise enough money at the specified local property tax rate to provide the full guaranteed amount per pupil would get no state aid, not even this basic amount.

(A Reagan spokesman said the Los Angeles school district would get $107 million in state money and would be required to reduce the local tax rate by $1.02 per $100 of assessed value. The district would get no state money to enrich its educational program.)

Many districts already tax themselves at more than $1.80 per $100 of assessed value at the elementary level and provide a richer program than the $687 the Reagan proposal would guarantee.

They could continue to do so. But they would be required to roll back their tax rates by an amount equivalent to any state aid they received.

School district tax rates would be frozen at existing or mandate levels under the program for two years. At the end of that time they could be increased, but only by a vote of the people in the district.

Gov. Reagan
Times drawing

Other local taxing agencies—counties, cities and special districts—also would have to get voter approval of any increase in property tax rates above the 1972-73 level. But they would not have to wait for two years.

The tax base shift in Reagan's proposal adds up to about $1.3 billion in 1973-74, its first full year of operation, and climbs to just over $1.5 billion by 1975-76.

But only $957 million of it would come from new tax levies. The balance would be taken, if Congress obliges him, from a combination of federal revenue sharing ($240 million) and expected continuing surpluses from existing state taxes ($100 million).

Should Congress not pass the pending revenue sharing legislation, Reagan proposes to use on-going state surpluses for that $240 million, too.

And if Congress does pass revenue sharing, his bill contains provision for a $240 million cut in state personal income taxes beginning in fiscal 1973-74.

Reagan's plan relies on increases in sales, business, motor vehicle and so-called "sin" taxes to raise its $957 million in needed new revenues.

The sales tax would be increased 1 cent on the dollar on May 1, 1973, and would produce, according to Reagan's estimates, $585 million in fiscal 1973-74.

The bank and corporation tax would be increased from its present 7.6% to 9% on Jan. 1, 1973, and would yield, in 1973-74, an estimated $125 million in new revenue.

Reagan would add 5 cents to the existing 10 cents per pack tax on cigarets as of Dec. 1, 1972, for an estimated yield of $118 million in new money in 1973-74.

Taxes on distilled spirits would be increased 50 cents a gallon on July 1, 1973, and would yield an estimated $26 million revenue increase during 1973-74.

Finally, the governor would increase the so-called motor vehicle in-lieu tax from its present 2% rate to 2.85% beginning in 1973, to add $103 million to the new revenue pot.

The money each year is returned to cities and counties on a pro rata basis. School districts now get nothing.

Reagan proposes to give one-third of the money produced by the increase—about $34 million—to the school districts. This would not happen, however, until fiscal 1973-74 when major school benefits called for in the program also would take effect.

REAGAN does propose to give an immediate $232 million in direct property tax relief to homeowners during fiscal 1972-73. This money would come from the few months of revenues collected during 1972-73 from the sales, business and cigaret tax increases plus the first $100 million in surplus.

Property tax relief would be accomplished by an immediate increase in the existing $750 homeowner's assessment exemption to $1,250.

This direct relief would increase to $242 million in 1973-74 and to $298 million by 1975-76 by adding $100 to the exemption each year through 1975-76.

A $6 million cut in personal income taxes for singles and heads of households also would become effective in 1972-73 through some minor changes in tax status. This cut would increase to $13 million in fiscal 1973-74, its first full year, and to an estimated $15 million by 1975-76.

The Reagan plan also would give some tax relief to those who rent their homes by providing a sliding scale of credit on income tax payments of up to $40 for singles and $50 for married couples.

The Reagan plan has one other feature. It would place on the November election ballot a proposal that would make voting requirements in the Legislature the same for all tax changes.

Currently the state Constitution requires a two-thirds vote of both houses to raise or lower bank and corporation taxes. A simple majority can change any other tax law.

The Reagan ballot proposal would give the voters a choice of either reducing the bank and corporation requirement to a simple majority or making the two-thirds rule apply to all tax levies.

Please discard previ
outdated copy.

Tax Reform

Analysis of Governor Reagan's Responsible
Tax Reform and School Finance Plan

vs.

Speaker Moretti's Irresponsible
Guaranteed Tax Increase Program

Governor Ronald Reagan's responsible tax reform and school finance program accomplishes goals which the State has been seeking for years: comprehensive, guaranteed and permanent simplified way of providing equal educational opportunity for our schools, meeting the major requirements of the Seranno court decision to equalize the school tax burden. It achieves a 50-50 state-local sharing of basic school costs. It does all this without raising income taxes.

Speaker Moretti's rival program is nothing but a massive tax increase in the guise of "tax relief," the same deceptive sham that has been introduced before. Moretti's program contains no spending controls and thus, there is no guarantee that anyone will get a cent of tax relief. Even worse, Moretti's plan increases income taxes $840 million, by adding higher maximum tax rates and narrowing tax brackets to squeeze more millions from the income tax--a step that hits every taxpayer!

Furthermore, it does nothing to solve the school financing problem in California. It merely sets aside a "floating $500 million" to be used later, but does not specify how this is to be spent. It is totally irresponsible to raise taxes without a specific plan on how those revenues are to be used. The danger here is that the Legislature, dominated by spending blocs, could simply use up this revenue for other programs, including welfare, and leave the school finance problem to be dealt with later--at a price of even higher taxes than his $1.5 billion program would impose right now.

Governor Reagan's program is the responsible, realistic way of providing tax relief and equal educational opportunity.

Governor Reagan's Plan	Speaker Moretti's Plan
Property Tax Relief	
Guaranteed homeowner tax relief of $650 million; homeowner exemption raised from $750 to $1,250 in 1972; $1,350 in 1973; $1,450 in 1974; $1,550 in 1975.	Alleged increase of exemption to $2,000 plus 10% of assessed value. But because there are no spending or local tax rate controls, NOT A CENT OF TAX RELIEF is guaranteed!
Total Property Tax Relief	
$892 million, Guaranteed.	$708 million (No guarantees)
School Finance Solution	
Governor Reagan's program increases state aid to 50% of current basic school costs, plus cost of living factor. Achieves 50-50 sharing ratio of basic school costs sought for years, but never achieved during previous administration.	No specific program to meet Serrano decision implications; sets aside a "floating $500 million." In short, raises taxes, but doesn't specify how money is to be spent. Ignores 50-50 goal.
Renter Tax Relief	
Up to $60 state income tax credit for renters; tax relief for taxpayers.	Up to $80 income tax credit, rebates for non-taxpayers. But this could be offset by higher personal income taxes on all brackets.

Spending Controls

RR's Program	Moretti's Program
Freezes local non-school 72-73 property tax rates; taxes could not thereafter be raised without a vote of the people! This is to assure that the benefit of the state program would go to taxpayers, not to finance other spending.	None! Any alleged tax "relief" could be wiped out by higher local tax rates, starting immediately.
Rolls back school taxes a total of $650 million.	
Requires State to pay for any new or increased state-mandated programs.	No requirements. Even the $500 million supposedly earmarked for solving school finance could be wiped out by increased state spending.
Constitutional Amendment to let people decide if 2/3 or a majority vote of Legislature should be required for raising income and sales taxes as well as bank and corporation tax.	No controls. Leaves 2/3 requirement for raising bank and corporation taxes, but only a simple majority for increasing individual income taxes, sales tax, etc.

School Aid Distribution

RR's Program	Moretti's Program
Simplifies complex state aid formula to guarantee: $745 minimum aid for every elementary school child (ADA); $930 for every high school student in California	Leaves present complex school financing formula as is, an inequity to poor districts. No specific plan for solving Serrano.
95% of California's school children would have more state support to finance basic education program; only 5% in wealthiest districts would get less. Wealthy districts now enjoy expensive programs at low tax rate.	Preserves all the inequities, complexities of present out-moded system which discriminates against poor districts; favors wealthy districts, which have low tax rate, but expensive school program.

Simplified Tax Returns

RR's Program	Moretti's Program
Allows taxpayers to simply attach carbon of federal tax return in paying state income taxes; eliminates separate return. (Constitutional Amendment to be voted on by People)	Preserves separate return requirement for state income taxes; leaves the double return.

Other Benefits

RR's Program	Moretti's Program
Reserves $240 million in anticipated federal revenue sharing for equalizing school aid; any state general fund surplus to be used for property tax relief. If federal revenue sharing plan is not adopted, State will <u>rebate</u> as it did when Governor Reagan sponsored a 10% state income tax credit in 1970 and a 20% income tax credit in 1972 when the State switched to withholding.	None!

Replacement Revenue

RR's Plan	Moretti's Plan
Income Taxes	
NO INCREASE!	Increase of $840 million which hits low and middle income taxpayers hard; narrows individual and married couples' tax brackets; Lowers tax brackets to squeeze more millions from California taxpayers; adds to present 11% maximum rate.
Sales Taxes	
One cent increase	One cent increase
Bank and Corporation Taxes	
1.4% increase	1.4% increase
Other Revenues (Taxes)	
Cigarettes 5 cents a pack increase. Distilled Spirits, 50 cents a gallon increase.	
Vehicle In-Lieu Property Tax increase from 2.0 to 2.85%; additional revenue goes equally to cities, counties, and school districts.	

Note: The "tax reform" originally introduced by Speaker Moretti included a 5% telephone user's tax and an increase in the inventory tax exemption from 30 to 50%. Both these items were deleted from the program before it left the Assembly. The inventory tax exemption would remain at 30% permanently under both plans.

(Farm Management Bulletin dated 7-27-72) TAX REFORM

REALISTIC TAX REFORM AND SCHOOL FINANCE PROGRAM

Under Governor Ronald Reagan's strong leadership, a compromise solution to tax reform and school finance is in sight. With time running out in the 1972 legislative session, Governor Reagan's administration and Assembly Speaker Robert Moretti reached tentative agreement on a concensus program which includes the key reforms Governor Reagan insists must be part of any realistic tax reform and school finance program.

These are:

-- Guaranteed and permanent homeowner property tax relief (a total of $719 million in the first year - $404 million through higher homeowner exemptions and $315 million through the rollback in school taxes).

--Increased state aid to schools along with a greatly simplified assistance formula that guarantees every California school child equal educational opportunity.

-- Tax rate limitations on local government to protect homeowners against having their state-financed property tax relief eroded through higher rates at the local level.

The School aid formula, endorsed by State School Superintendent Wilson Riles, represents the most far-reaching reform ever proposed in California's school financing program. If the program is adopted the State will be guaranteeing an estimated $1.8 billion of additional state aid over the next three years.

-- Ninety per cent of California's school children would be guaranteed additional state support.

-- The program focuses on the major implications of the Seranno court opinion.

Reasons why the consensus tax reform/school finance package should be passed:

1. Unless tax reform is adopted, the Watson amendment may pass and force the State to consider massive increases in income, sales and most other taxes. A doubling of the state income tax could be required.

2. If the State's school financing system is not reformed, court opinions may force a massive tax increase to meet the requirements of potential court action.

3. The consensus program is realistic, has gained widespread bi-partisan support, and CAN BE PASSED AT THIS SESSION.

4. Most important, the program authorizes genuine, guaranteed homeowner property tax relief while meeting the school financing problem.

GUARANTEED PROPERTY TAX RELIEF

Under the program, the homeowner's property tax exemption would be increased from the current $750 to $1,750 of assessed value for the 1972-73 tax year. There would be a further increase to $1,825 if revenue sharing is adopted. The exemption would be $1,850 in 1974-75 and thereafter.

Combined with the increased school funding (which eliminates any necessity for local tax rate increases), this amounts to a total of $719 million in guaranteed property tax relief.
Example of Tax Relief: (with REVENUE SHARING--No Income Tax changes)

A married homeowner with two children and an adjusted gross income of $10,000 a year (average $20,000 home value) would receive $210 in total property tax relief -- a $136 homeowner tax reduction through the increased property tax exemption and an additional $74 through the combined impact of the school tax rollback and property tax limitations. Even with the sales, vehicle in-lieu, and other tax adjustments, this $10,000 a year homeowner would receive a NET TAX REDUCTION OF $158!

(Without Revenue Sharing)

A married homeowner with two children and an adjusted gross income of $10,000 and a $20,000 value home would receive a total of $175 in property tax relief or a NET TAX REDUCTION of $98 even if revenue sharing is not adopted by January 1, 1973.

Single homeowners and low to moderate income renters would have proportionately lower total tax obligations.

LOCAL GOVERNMENT (TAX LIMITS)

The consensus program Governor Reagan supports would include a freeze on property tax rates at the 1972-73 level, with adjustments allowed if increases in the Consumer Price Index and population exceed the growth of assessed value or for bond costs; otherwise, it would require a majority vote of the people to raise local tax rates. In addition to rolling back school property taxes $315 million, the tax rate limitations would apply to cities, counties, and special districts.

MORE INCOME TO LOCAL GOVERNMENT

To help make sure that local property tax rates stay down, the State would assume the full cost of any new programs or executive regulations which impose new or expanded costs on local government. The State also will provide reimbursement for any sales or property tax exemptions enacted in the future which reduce local revenues.

Finally, the increased revenue (approximately $103 million in 1973-74) from raising the vehicle in-lieu property tax rate from 2 to 2.85% will be divided equally between cities and counties. This will provide local government with additional revenue during the transition period.

These three changes are designed to assure that the property tax relief granted under the program will be <u>permanent</u> and guaranteed.

SCHOOL FINANCE/NEW MONEY FOR SCHOOLS

The program meets Governor Reagan's requirement of increased financial aid for schools, focusing on the major implications of the Seranno court opinion on equalizing school tax burdens. A total of $545 million for schools would be provided, including $175 million for the lowest wealth school districts, a $30 million urban factor to assist schools with significant enrollments of disadvantaged students (effective in 1972-73) and $25 million to help implement the Early Childhood Education program. This $25 million would increase to $40 million in 1973-74.

SIMPLIFIED AID FORMULA

The revised Reagan/consensus program achieves what the Governor has sought for years: a simplified school aid formula. <u>Each</u> student would be <u>guaranteed</u> at least a $770 per student per year educational program in the elementary grades and $955 at the high school level, in virtually every district.

Under this plan, no youngster would lose any state aid; and ninety (90) per cent of California's school children would receive <u>additional</u> state support for their education!

RENTER TAX RELIEF

Starting with the 1973 calendar year, renters would receive a refundable tax credit of $25 to $45, annually, depending on their income and marital status. The renter relief would total about $125 million in 1973-74.

If revenue sharing is not adopted and the 35-hundredths of one per cent increased income tax goes into effect, the renter relief would go up from $25 to $55 for single persons and from $25 to $75 for married couples. This would help offset the increased state income tax rates.

BUSINESS INVENTORY TAX EXEMPTION

The program increases the business inventory tax exemption from 30 to 40% in 1973-74 and to 45% in 1975-76 and thereafter. For many years, there has been bi-partisan agreement that the inventory tax places California business and agriculture at a disadvantage with surrounding states which do not tax inventories. It will help California's job market and overall economy by discouraging the flight of warehouse jobs and facilities to nearby states which do not tax inventories. The State will provide reimbursement income to local government for revenues lost as a result of the increased exemption.

OPEN SPACE REIMBURSEMENTS

An additional $7 million is provided under the program to more fully reimburse local government for revenue losses resulting from reduced tax assessments on agricultural and "open space" lands.

PUBLIC ASSISTANCE ADJUSTMENT

Provides reimbursement of the sales tax increase for low or no-income homeowners and renters dependent on public assistance.

HOW THE PROGRAM IS FINANCED

SALES TAX

One cent increase effective January 1, 1973. Provides $205 million in 1972-73 fiscal year and $600 million in 1973-74 -- the first full fiscal year.

BANK AND CORPORATION TAXES

Increases bank and corporation tax rate by 1.4%, to 9% for corporations and 13% for banks.

REVENUE SHARING (INCOME TAX)

Earmarks the State's estimated $240 million share of Federal Revenue Sharing funds to help pay for the property tax relief-school finance program. If revenue sharing is adopted by January 1, 1973, there will be no increase in state income taxes. The first $198 million of revenue sharing would go to finance the overall program in place of income tax revenues, the next $35 million would increase the urban factor school aid formula to $65 million. Remaining funds would go to reduce taxes.

If revenue sharing is not adopted by January 1, 1973, state personal income tax rates would be adjusted proportionately by .35% (thirty-five hundredths of one per cent) in each bracket, effective in the 1973-74 fiscal year. This slight increase in rates will be eliminated if revenue sharing is adopted prior to January 1, 1975. When revenue sharing goes into effect, the income tax rates would be reduced downward by .35% (thirty-five hundredths of one per cent).

VEHICLE IN LIEU

Increased the vehicle in-lieu tax rate from 2.0 to 2.85%, effective in the 1974 license year. This tax is in lieu of local personal property taxes; current rate was established in 1948 and at that time, was higher than prevailing property tax rates. All of the income from this adjustment will be divided equally among cities and counties.

STATE SURPLUS

An anticipated state surplus from existing tax rates will be used to make up any additional revenues necessary to provide a financially balanced program. This amounts to an estimated $158 million in 1972-73 and $161 million in 1973-74.

director's newsletters

pledge - second round of employee pay raises.

- pay board

RR emps should ~~know~~ their staff went back to pay board & if CSEA were to report back the emps. would find we made an all out effort before the pay board -

Safety

taxes - cost of govt.

For your information:

Attached is the more current (i.e. re-typed) version of the background materials on the Reagan Tax Initiative.

Since SB 90 is in conference, it may not be necessary; but you may want to keep this in your files, just in case.

ART AZEVEDO

TAX REFORM

Summary

---Pledges a basic minimum financial base for the education of each child regardless of his place of residence.

---Provides homeowner relief by increasing the present homeowners' property tax exemption and reducing the school property tax rate.

---Homeowners receiving tax relief will be assured of retaining that benefit because of a constitutional property tax rate "freeze".

---Renters will be eligible for a credit on their income tax reflecting a property tax element contained in rent.

---Requires a two-thirds vote to increase all taxes.

---Increases the exemption of business inventories from property taxation to reduce the impact of this discriminatory tax on local businesses.

---The present proportionate share of the tax burden paid by individual and business will be maintained.

---Requires state subventions to local government to protect local independence and local control for the costs of future property tax exemptions and state mandated additional local spending.

---Provides an ongoing across-the-board reduction in the state income tax because of savings and cutbacks made in welfare and Medi-Cal spending.

---Sets property tax restraints on local government to prevent future increases in the property tax.

---Devises a system of revenue controls for local schools which provides property tax relief and tends to equalize the wide-wealth disparities between school districts.

---Provides funds for further reimbursement to local government for open space land protection (Williamson Act).

---Apportions the federal revenue-sharing funds received by the State to the most urgent need--local schools.

---Proposes increases in the sales tax and the bank and corporation tax to fund the portion of the program not funded by the savings in government spending, surpluses, or federal revenue-sharing funds received by the State.

---Establishes a system of revenue controls for schools to grant program improvement to low-spending schools, and to achieve property tax rate reduction in other districts; provides for an annual adjustment in state aid to eliminate "slippage"; and eliminates the use of all permissive overrides, except debt service. Retains the right of the electorate to authorize an increase in tax rates for school support.

---Beginning in the 1973 income year, and each year thereafter, a 10% across-the-board reduction in net income tax liability would be required.

---Requires that property be assessed for taxation at 25% of full cash value (excludes personal property and open space lands).

Provisions of the Reagan Tax Amendment

---Increases the present homeowners' property tax exemption from $750 to $1,500 of assessed value in the 1973-74 fiscal year and each year thereafter.

---Provides tax relief to renters by granting a $25-$45 renters' income tax credit on their tax returns.

---Allocates $454 million to schools in the 1973-74 fiscal year for program improvement and/or property tax rate reductions by providing a minimum foundation program for all schools of $765 per student for elementary schools, and $950 per student for high schools, adjustable each year by a cost-of-living increase.

---Federal revenue-sharing funds are required to be deposited in the State School Fund for support of California's schools.

---Increases from 30% to 45% the business inventory tax exemption in the 1973-74 fiscal year and each year thereafter.

---Requires a two-thirds vote of the Legislature to increase taxes. A reduction in the rate of a tax would require a majority vote.

---Increases the bank and corporation tax rate by 1.0% to 8.6% for corporations and 12.6% for banks and financial institutions operative after July 1, 1973.

---Proposes a 1¢ increase in the state sales tax, commencing July 1, 1973.

---Provides that the State will reimburse local government for property tax exemptions which are enacted subsequent to the effective date of the Amendment.

---Requires that local government be reimbursed for increased costs of additional services mandated by the State in an existing program, or the costs of a new program mandated by the Legislature.

---Imposes a property tax rate "freeze" on cities, counties, and special districts; any increase in property tax rates in excess of the 1972-73 rate requires a vote of the electorate; authorizes the Legislature to make adjustments in local tax rates for population increases, the cost-of-living, and emergencies or special situations.

---Provides the funds ($7 million) to more fully reimburse local government, including schools, for losses under the Williamson Land Conservation Act.

HOMEOWNERS' EXEMPTION

A. Proposal:

(1) Increases the present homeowner's property tax exemption from $750 to $1500. The exemption will be effective for the 1973-74 fiscal year.

Included in the exemption under present law are:

a. All owner-occupied single family homes

b. All owner-occupied condominiums

c. Multiple dwelling units, such as a duplex: The value of the portion of such structure occupied by the owner

d. The proportionate value of the dwellings of cooperative housing corporations, such as Rossmoor, occupied by the owner.

(2) A statutory provision will require counties to furnish homeowners who have their taxes paid by financial institutions a copy of the tax bill.

Existing law also requires that the tax bill provide the taxpayer with understandable information relating to assessed value and state relief granted by the homeowners' exemption (AB 1/Bagley, 1971, 1st Exec. Session).

B. Fiscal Implications:

	73-74	74-75	75-76
	(In millions)		
Homeowner's exemption	285	289	292

Because this program provides substantial new state revenues to schools, including an inflation factor, and adopts maximum tax rate limits for local government and school districts, it is contemplated that the growth in property tax rates will not be as steep as would otherwise be anticipated. Decreases in rates, and commensurate property tax relief, would be granted to homeowners by the $250 million roll-back in school tax rates. This would be in addition to this exemption.

C. Support:

(1) The defects of the property tax have been known for many years. It is regressive, inequitable, and impossible to administer with precision. It does not respond to growth, and community planning and land use decisions are distorted by the property tax.

(2) To compound these inequities, government in California relies heavily on this revenue source. The property tax produces more tax revenue than the sales tax or the state income tax. For example, a family of four earning

$10,000 living in Los Angeles pays the following taxes to state and local government:

Income tax	$ 64
Sales tax	$151
Property tax	$550

(3) Greater direct tax reductions for homeowners can be achieved through the homeowners' exemption. Used in combination with general property tax reduction programs, it is an effective tool to provide meaningful homeowner relief. It is extremely visible.

(4) An increase in the exemption will reduce the reliance on such a regressive tax on homes and make the total tax structure more reflective of the ability-to-pay concept of taxation.

(5) Homeowner tax relief will be long lasting relief when combined with an effective "freeze" in tax rates through maximum property tax rates.

(6) By using a flat $1500 exemption, we can extend more tax relief to lower valued homes than wealthy homes. This is where the relief is needed.

(7) Studies by the Board of Equalization and the Legislative Analyst indicate that a $1500 exemption substantially reduces the regressivi

of the property tax to middle-income taxpayers, but does not create the administrative problems which accompany a higher exemption, or a removal of homes from the property tax. Note the following provided by the Legislative Analyst:

Property Taxes As a Percentage of
Adjusted Gross Income with Different
Values of Homeowners' Exemption*

AGI Class	$750	$1,500
$7,500	(5.1)%	(3.9)%
10,000	(5.0)	(4.1)
15,000	(4.7)	(4.1)
20,000	(4.4)	(4.0)
30,000	(4.5)	(4.2)
40,000	(4.4)	(4.1)
50,000	(4.0)	(3.8)
100,000	(3.3)	(3.2)

* Property tax rate of $11.82 for 1972-73. Married couple with two children.

BUSINESS INVENTORIES

A. Proposal: Increases the property tax exemption for business inventories to 45% in 1973-74.

B. Fiscal Implications:

1972-73	1973-74	1974-75	1975-76
	(In millions)		
--	$64	$63	$66

C. Present Law: Present law provides for a 30% exemption for business inventories.

Inventories are defined by present law to include:

1. Goods intended for sale or resale in the ordinary course of business.
2. Raw material and work in process with respect to such goods.
3. Animals and crops held for sale or resale.
4. Animals used for the production of food or fiber and feed for such animals.

D. Support: (1) Business inventory taxation has long been viewed as undesirable. Studies by the Assembly Committee on Revenue and Taxation, National Tax Association and recently by the Advisory Commission on Intergovernmental Relations have all condemned this tax.

(2) Inventory taxes place California at a definite disadvantage in competing with other states for new industries and jobs. California needs both. Arizona, Nevada, Oregon and Hawaii all give tax advantages to inventories. California is isolated by her neighbors.

(3) Inventory taxes cause an annual slow-down in business activity prior to March 1 that causes a loss in warehouse occupancy in California, fewer goods available to consumers, loss in business income and jobs, and loss in tax revenue to state and local government.

(4) Inventory taxes are inequitable. They produce serious tax inequities between businesses requiring inventories and those that do not, and even a disparity of tax burdens between businesses requiring inventories due to differences in turnover, seasonal fluctuations, etc.

(5) Inventory taxes hinder the efficient operation of free markets and reduce income from other tax sources.

(6) Inventory taxes are regressive. They are passed on to the consumer and are imposed on such items as food, medicine, clothing, etc.

(7) This provision provides for a "balanced program" granting some relief to the business community and recognizing that they will pay an increased bank and corporations tax rate, part of the federal revenuing sharing and surplus funds, and a portion of the sales tax increase.

RENTER CREDIT

A. Proposal: Beginning in 1973 (Calendar year), renters will be provided an income tax credit on a scale of $25-$45 for single and married couples. The credit would apply to the net tax imposed under the present law, less tax credits. The credit cannot exceed the amount of the renters' net tax liabilities. A qualified renter is an individual who, on March 1 of the taxable year, was a resident of the state and who, rented and occupied premises in this state constituting his principal place of residence. The Legislature is authorized to further define the scope of the credit. The credit can be changed by a two-thirds vote of the Legislature.

The amount of the credit allowed is in accordance with the following schedule:

If adjusted gross income is:	The credit is:
Less than $5,000	$25
$5,000 - 5,999	$30
$6,000 - 6,999	$35
$7,000 - 7,999	$40
$8,000 - and up	$45

B. <u>Fiscal Implications</u>

73-74	74-75	75-76	76-77
	(Millions)		
$80	85	90	97

C. <u>Present Law</u>

Present law does not provide for such a tax credit. A recent ballot proposition (Propsoition 14) did not make allowance for such a credit.

D. <u>Support</u>

1. It is accepted that renters do pay some portion of the apartment house owner's property tax liability in their rental payments as taxes are a cost of doing business that owners of rental property will attempt to recover. However, other factors are also important in determining rental charges; for example, supply and demand conditions in rental housing can determine how much rent can be charged in a given area. Nevertheless, it is generally agreed that renters do pay a portion of the owner's property tax in their rent.

2. Renters should not be called upon to fund the homeowners' exemption, or the reduction in school tax rates. Therefore, this credit is appropriate since part of the property tax reli is funded by surpluses from withholding, or from federal revenue-sharing funded by federal income taxes paid by renters.

INCOME TAX CREDIT

A. Proposal:

The Amendment provides for an income tax credit of 10% of the tax imposed on each income taxpayer. This credit would be computed on the taxpayer's net tax liability. The credit would be granted beginning in the 1973 income year, and each year thereafter unless reduced or eliminated by the Legislature The Legislature is authorized to change the credit by a two-thirds vote. However, the Legislature cannot increase the income tax rate schedules without first modifying the tax credit. If the revenue from the tax schedule increase exceeds the amount of revenue rebated to the taxpayer by the credit, the credit must be eliminated.

B. Fiscal Implications: The following amounts would be returned to California's income taxpayers:

1973-74	1974-75 (Millions)	1975-76
$286	239	271

C. Support

1. This income tax credit is a recognition that savings made in the costs of government should be returned to the taxpayers in the form of tax reductions.
2. These funds were derived from savings in California's Welfare and Medi-Cal program. In past years, these programs were financed by California's income taxpayers. Therefore, the income tax credit is an appropriate vehicle of relief.
3. The tax credit method of refunding excess revenues is the most efficient and effective method to return tax funds to the people. The income tax has been substantially relied upon as a revenue source during the past 10 years. A heavy burden has been placed on California's taxpayers through the adoption of a system of withholding. Therefore, equity justifies the granting of this tax credit.

OPEN SPACE REIMBURSEMENT

A. Proposal: The Amendment provides an additional $7 million to more fully reimburse local government for revenue losses attributable to reduced assessments on agricultural and open space lands. Statutory implementation would be required.

Existing law, and proposed statutory changes provide for the following reimbursement mechanisms:

Schools

School districts where the assessed value per ADA, adjusted by inflation, has declined, receive reimbursement by computing:

--the difference between the adjusted assessed value of land in the district prior to the implementation of the Conservation Act and the current assessed value in the District.

--and applying that portion of the tax rate in the district in excess of the following rates against the loss of assessed value of land in the District:

Elementary	$2.23
High School	1.64
Community College	.25
Unified (K-12)	3.87

Counties

Counties are reimbursed on a per acre basis as follows:

--50¢ for nonprime land of more than local importance

--$2.00 for prime land

--$4.00 for prime land inside a city, within 3 miles of a city with more than 1500 voters, or within one mile of a boundary of a city of 1500 registered voters.

B. Fiscal Implications:

1973-74	1974-75 (In millions)	1975-76
$7	$7	$7

C. Support:

(1) County implementation of the Land Conservation Act has resulted in a reduction of assessed valuations in a number of counties. AB 1 (Bagley) of the First Extraordinary Session reimbursed local jurisdictions for a portion of the loss in tax revenues due to the Land Conservation Act under formulas similar to the ones above. The purpose was to provide an incentive for counties to implement the Conservation Act. This proposal adds to the local reimbursement and the incentive to provide tax relief to farmers.

(2) Rural governmental entities, in particular certain school districts, have suffered serious

revenue losses from an implementation of the Act. This would help mitigate that inequity.

BANK AND CORPORATION TAX

A. Proposal: Operative July 1, 1973, the corporate franchise tax is increased from 7.6% to 8.6% and the tax on banks and financial institutions from 11.6% to 12.6%.

B. Fiscal Implications: (In Millions)

1973-74	1974-75	1975-76
$75	$103	$112

Present Law: AB 1 of the 1971 First Extraordinary Session increased the bank and corporation tax rate from 7% to 7.6%.

C. Support

1. The impact of the state corporate tax is greatly reduced because it's deductible from the federal income tax. Studies indicate the effective rate is less than half of the nominal rate.

   Although California does have a high corporate tax rate, other major industrial state's have corporate tax rates higher than California's:

Minnesota	11.5%
New York	9%
Pennsylvania	11%

2. The business community will receive general property tax relief from the tax rate reductions from schools as well as more specifi releif in the form of an increased business inventory exemption. Therefore, it is appropriate for the business community to fund this increased relief from their corporate

SALES TAX INCREASE

A. Proposal: Increases the state sales and use tax from 3 3/4% to 4 3/4%, after July 1, 1973.

B. Fiscal Implications: Revenue Increase: (In Millions)

1973-74	1974-75	1975-76
$220	$650	$695

C. Present Law: The state sales tax under present law is 3 3/4% and the local sales tax is 1 1/4%.

D. Support:

1. Rate increase: although many object to the rise of the sales tax on the grounds that it is a regressive tax, the sales tax in California exempts food, utility services, housing and prescription drugs from taxation and by doing so, becomes a nearly proportional tax. Recent studies indicate that the California sales tax has an index falling somewhere between .81 and .98 (1.00 indicates a proportional tax and less than 1.00 a regressive tax.)
2. The sales tax is a means of insuring that tourists and those with a large amount of income not subject to income taxes contribute their share to the tax program.
3. The sales tax strengthens California's economy because imports are taxed but exported goods are not.

4. The impact of this tax increase on low income people is minimal. The impact on renters who pay some income tax is more than offset by their income tax credit.

TAX RATE LIMITATION

A. Proposal: For counties, cities and special districts, the property tax rate limits are based on 1972-73 tax rates. The Legislature is authorized to increase rates and Adjustments are allowed by the Amendment if increases in the cost of living and in population exceed the growth of assessed value, or an emergency arises.

Property tax rates in excess of the rates provided may be levied for the payment of bond principal and interest. The rate may also be changed by a majority vote of the voters in an election.

The state will reimburse local entities for the cost of bills or executive regulations which impose new programs or increase the required level of existing mandated services. In addition, revenues lost due to property tax exemptions which are enacted after the effectiv date of this act, will be replaced by the state

B. Fiscal Implications: The provision insures that the property tax relief provided by the Legislature will be meaningful and long-lasting by slowing the growth in property tax rate increases.

C. Present Law: Currently, counties do not have tax rate limitation

SUPPORT

1. The tax rate limits imposed by this program are designed to be flexible enough to allow local governments to continue to provide existing programs.

2. Voters in each local jurisdiction will have a more active role in the fiscal affairs of local government.

3. The state will guarantee the maintenance of the existing tax base by fully funding the costs of all future exemptions passed by the Legislature and further will relieve the county of paying for any new state-mandated programs.

4. There is ample evidence of the need for some rational means of limiting the rampant increase in local property tax rates. It has been demonstrated that the existing tax rate limits are not a rational or effective means of limiting the growth of property tax rates.

5. Without the adoption of this constitutional "freeze" in property tax rates, the homeowners' exemption will continue to be rapidly eroded. The tax rate limitations imposed in this Amendment are a method of assuring the homeowner that his property tax rates will cease to increase at rampant rates.

SCHOOL FINANCE

PROPOSAL:

1. The tax reform Amendment would provide $454 million for the school finance. The apportionment program to be effective in 1973-74 is as follows:

	Present	Proposed Elementary	Present	Proposed High School
Foundation Program / ADA	$355	$765	$488	$950
Computational Tax Rate/$100	$1.00	$2.23	$1.80	$1.64
Equalization Breading Points (proposed)		$28,923		$50,609

2. This foundation program support represents an additional state cost over that provided in the 1972-73 State Budget of:

   $220 million program (primarily for education program low-spending districts)

   $234 million property tax rate reduction.

3. The Amendment expresses an intent to establish a system of revenue controls to achieve property tax rate reductions. School districts at or below the foundation program may increase their program at a rate equal to the annual inflation factor, while those with programs in excess of the foundation program may increase their program level by a more limited factor.

   Under SB 90 (1972 Regular Session), the districts' spending program would increase each year by an inflation factor jointly derived by the Department of Finance, the Department of Education, and the Legislative Analyst.

State of California

Memorandum

Tax Reform

To : All Concerned with the Tax Reduction Task Force Conference

Date : November 29, 1972

Subject: Briefing Memo

From : **Governor's Office** – Tax Reduction Task Force

We look forward to your participation Friday in our Tax Reduction Task Force Conference in Los Angeles. The following information should prove useful in anticipation of the Conference.

Our Task Force has enlisted the aid of some of the brightest thinkers on taxation and government spending available in California and across the Nation. So that you will be familiar with some of them, a partial list has been attached (Attachment A).

We are at an approximate mid-point in the life of our Task Force in terms of data collection, progress on research projects and development of proposals for tax reduction. This is a propitious time to bring the key decision makers in the Administration together with our resource people. Our objective is to provide you with a perspective on the taxation/government spending problem and to outline preliminary tax reduction plans, and alternatives, so that we may have the benefit of your comments, criticisms, recommendations, etc. We are convinced that only through this process will the recommendations and work product of our Task Force be truly useful and effective.

Our Conference will begin Friday morning (see attached schedule – Attachment B) and run through lunch to 2:30 p.m. The Governor will be with us from approximately 12:00 to 3:00 p.m. The number of resource people who will participate in this phase is being kept relatively small to facilitate discussion and general exchange.

At 2:30 p.m., a Conference on taxation and government spending will commence under the auspices of the Foundation for Research in Economics and Education. As you can see from the Conference Agenda (Attachment C), many other facets of our effort will be discussed or expanded upon. Following the Friday afternoon session, there will be a cocktail hour and dinner. At the conclusion of dinner, several of the top economists of the Economics Department at UCLA will address the topic of government regulation of business. We urge you to participate through the conclusion of the evening.

On Saturday, the Foundation's Conference continues in a general workshop session. You are invited to remain for the Saturday portion, if your schedule permits.

Lewis K. Uhler

LEWIS K. UHLER
Special Assistant to the Governor

TAX REDUCTION TASK FORCE

CONFERENCE PARTICIPANTS

Milton Friedman, Ph.D., University of Chicago Department of Economics;

Peter Drucker, Ph.D., author and management consultant, now affiliated with Claremont Graduate School;

James Buchanan, Ph.D., Chairman of the Center for the Study of Public Choice, Virginia Polytechnic Institute, Blacksburg, Virginia;

Roger Freeman, Senior Fellow, Hoover Institution on War, Revolution and Peace, Stanford;

J. Clayburn LaForce, Chairman of the Department of Economics, UCLA;

Norman Ture, consultant on taxes and tax policy to the U.S. Chamber of Commerce, National Association of Manufacturers and many other organizations, Washington, D.C.;

William A. Niskanen, Ph.D., Professor, Graduate School of Public Policy, Berkeley;

C. Lowell Harriss, President of the National Tax Association, Professor of Economics at Columbia University, affiliated with The Tax Foundation, Inc., New York;

Harold Demsetz, Ph.D., Professor of Economics, UCLA;

Craig Stubblebine, Ph.D., Professor of Economics, Claremont Men's College;

Patrick M. Boarman, Ph.D., Director of Research, Center for International Business (affiliate of Pepperdine);

Anthony Kennedy, Attorney, Professor of Constitutional Law, McGeorge School of Law;

Procter Thomson, Ph.D., Lincoln Professor of Economics, Claremont Men's College;

Howard Marylander, Vice President of Haug Associates, Inc., market research firm affiliated with the Elmo Roper organization;

Phoebus Dhrymes, Ph.D., Professor of Economics, UCLA;

Armen Alchian, Ph.D., Professor of Economics, UCLA;

Sam Pelzman, Ph.D., Professor of Economics, UCLA;

John M. Martin, Ph.D., Professor of Economics, California State University, Hayward

TAX REDUCTION TASK FORCE

CONFERENCE AGENDA
FRIDAY, DECEMBER 1, 1972
CENTURY PLAZA HOTEL
LOS ANGELES, CALIFORNIA

9:30-10:00 a.m. (Brentwood Room)	Registration; Continental Breakfast
10:00-10:20 a.m.	Welcome; Introductions; Background of Task Force (LaForce, Walton, Uhler)
10:20-10:45 a.m.	Analysis of Government Spending Explosion (Friedman - tape)
10:45-11:00 a.m.	Taxation/Government Spending Projections (Dhrymes, Hobbs)
11:00-11:20 a.m.	Public Attitudes Toward Taxation/Government Spending (Stubblebine, Marylander)
11:20-12:00 Noon	What Motivates Government Spending; How Public Spending Decisions are Made; What Must be Done to Curb Taxation/Government Spending (Buchanan)
12:00- 1:00 p.m. (Westwood Room)	Luncheon Meeting Begins; Introduction of Governor to Participants; Commence Lunch (summarization of morning's presentations for Governor during lunch)
1:00- 2:00 p.m.	Limitation Plan with Variations (Friedman - phone, Drucker, Niskanen, Harriss, Kennedy, Hobbs)
2:00- 2:30 p.m.	Implementation of Limitation Plan (Walton, J. Hall, Kazen, Uhler)

CONFERENCE ON GOVERNMENTAL FINANCE

SPONSORED BY THE
FOUNDATION FOR RESEARCH IN
ECONOMICS AND EDUCATION (FREE)

DECEMBER 1-2, 1972
CENTURY PLAZA HOTEL
LOS ANGELES, CALIFORNIA

FRIDAY, DECEMBER 1

2:30- 2:50 p.m. (Bel Air Room)	Registration; Coffee
2:50- 3:05 p.m. (Brentwood Room)	Welcome; Opening Remarks (LaForce, Governor Reagan, Walton, Uhler)
3:05- 3:35 p.m.	Government Spending and Taxation - Past, Present and Future (Dhrymes, Hobbs)
3:35- 4:35 p.m.	Significant Considerations in Taxation (Taxes on Business Entities; Taxes and Savings and Investment/Economic Growth; Taxes and California's Competitiveness Between the States and in the Pacific Trade Area; Tax Neutrality and Visibility; Value Added Tax; Consumption Taxes; Taxes on Real Property - Variations; Tax Credits and Other Changes in Financing Education; Federal Tax Reform) (Harriss, Ture, Freeman, Boarman, Thomson, Uhler)
4:35- 4:45 p.m.	Break
4:45- 5:30 p.m.	Changing the Incentives at Work in Government (Why Government Continues to Grow; Techniques for Change in the Bureaucracy; Decision-Table for Revising Incentives) (Buchanan, Niskanen, Martin, Hobbs)
5:30- 6:00 p.m.	People's Perceptions of Taxation and Government Spending (Stubblebine, Marylander, Uhler)
6:00- 7:00 p.m.	Free Time
7:00- 8:30 p.m. (Bel Air Room)	Cocktails
8:30 p.m. (Brentwood Room)	Dinner - followed by panel discussion: Government Regulation of Business (Alchian, Demsetz, Pelzman and other members of the UCLA Economics Dept. faculty)

SATURDAY, DECEMBER 2

9:30- 9:45 a.m. (Brentwood Room)	Continental Breakfast
9:45-12:00 Noon	General Workshop Session (Group and individual discussions and consultations expanding upon Friday discussion topics, as well as other appropriate topics)

May 15, 1973

STATE TAX RELIEF DURING REAGAN ADMINISTRATION 1967-73*

(In Millions)

	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	Total Tax Relief
HOMEOWNERS' PROPERTY TAX EXEMPTION	$175.9	$199.9	$217.9	$232.2	$242.8	$647.3	$1,716.0
Business Inventories[1]	---	48.9	106.7	122.2	133.0	208.0	618.8
Senior Citizens	7.8	7.9	8.6	8.3	60.0	62.0	154.6
Open Space Reimbursements	---	---	---	---	13.0	22.0	35.0
RENTER RELIEF (Direct Payment)	---	---	---	---	---	40.0	40.0
Tax Credit	---	---	---	---	---	70.0	70.0
(Double Standard Deduction)	45.0	47.0	49.0	51.0	53.0	55.0	300.0
School Tax Rate (Add'l Homeowner Relief)	---	---	---	---	---	234.0	234.0
Income Tax Rebate (10% credit and 20% forgiveness)	---	82.1	---	241.1	---	---	323.2
							Grand Total Tax Relief
TOTAL TAX RELIEF	$228.7	$385.8	$382.2	$654.8	$501.8	$1,338.3	$3,491.6 (Biln.)

* Based on Controller's reports and budget estimates.
1 Including movies, wine and brandy and livestock exemptions.

Does not include 1973 surplus or Governor's long range tax limit plan

TAXES

February 1974

STATE TAX RELIEF DURING REAGAN ADMINISTRATION 1968-69 THROUGH 1974-75*

(In Millions)

	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	Total Tax Relief
Senior Citizens Property Tax Assistance	$ 7.8	$ 7.9	$ 8.6	$ 8.3	$ 59.1	$ 62.0	$ 60.1	$ 213.8
Personal Property Tax Relief	---	48.9	106.7	121.7	134.1	221.9	261.5	894.8
Homeowners Property Tax Relief**	177.5	199.7	217.3	231.6	242.9	651.0	668.2	2,388.2
Subventions for Open Space	---	---	---	---	13.0	13.0	20.0	51.0
Renters Tax Relief								
Refunds	---	---	---	---	---	45.0	45.0	90.0
Tax Credits	---	---	---	---	---	65.0	75.0	140.0
Payments to Local Govt. for Sales and Property Tax Revenue Loss	---	---	---	---	---	---	4.0	4.0
Income Tax Rebate								
10% Credit	---	82.1	---	---	---	---	---	82.1
20% Forgiveness	---	---	---	241.1	---	---	---	241.1
20-35% Special Credit	---	---	---	---	---	425.0	15.0	440.0
100% Credit-Low Income	---	---	---	---	---	5.0	5.0	10.0
Double Standard Deduction	45.0	47.0	49.0	51.0	53.0	55.0	57.0	357.0
Sales Tax Rate Reduction	---	---	---	---	---	355.0	---	355.0
School District Tax Rollback	---	---	---	---	---	229.0	265.0	494.0
TOTAL TAX RELIEF	$230.3	$385.6	$381.6	$653.7	$502.1	$2,131.9	$1,475.8	$5,761.0

* Based on Controllers Report and budget estimates.
**Excludes reimbursement to counties for administration.