The Proposition 13 wave

Stephen Parsons surveys tax-cut referenda around the country and their consequences if passed.

On the fourth of November, voters in seven states will decide on taxation referenda modeled on the notorious Proposition 13 that carried in California two years ago, as well as on other tax limitations and repeals. At deadline, these votes appear to be extremely close. Most of those who favor these measures think they will get drastically lower property taxes and other tax relief, curtailment of apparently excessive government spending and of marginal programs, tax savings that will stimulate the economy, and renewed housing construction. What they will end up with is something quite different: a virtual collapse of state and local services, with depressing effects for the rest of the economy.

The proponents of the original Proposition 13 in California like to point out that the doomsayers have been wrong. But California has been able to mitigate the local revenue loss because it has had one of the nation's highest growth rates, which has increased flows of other funds to the government. A nearly $4 billion surplus in 1978 has enabled reimbursements to localities on a scale that would simply be impossible in other parts of the nation. Now the recession has caught up to California. As in other parts of the country, revenue in constant dollar terms is falling as business stagnates and unemployment increases. The extra billion for localities will just simply not be available.

The various "Prop 13" proposals generally include rollbacks of property tax assessments to the levels of two to five years ago, and a ceiling in the range of 2 percent on annual increases. This would cut property taxes 40 to 75 percent and put a lid on the inflationary spiral that in some areas has seen property tax rates increase 300-400 percent in recent years.

Since property taxes generally comprise the bulk of local revenues, towns and counties would face severe expenditure cutbacks. In most cases, the majority, or at least a high ratio, of these taxes fund public school systems that in urban areas especially have already suffered substantial cuts in personnel and programs.

Deep budget cuts, if not outright elimination, would take place in other areas as well, such as administration, highway maintenance, senior citizen programs, and community services. While efforts would undoubtedly be made to maintain vital safety services like police, fire, and ambulance, there is every indication that these too would be severely affected.

Most state government budgets would not be directly affected in a major way by these Prop 13s. Pressure would mount, however, to allocate state funds to compensate localities for their losses and prevent a complete breakdown in local services. In most states, the combination of high inflation with the current recession has caused a revenue shortfall, or at best stagnation, that either precludes major state aid or would force significant tradeoffs of existing state services for local exigencies. To the extent state aid is forthcoming, it will mean less control of services at the local level, especially of school systems, as demonstrated in California.

In general, the proposed referenda are not statutory proposals, but state constitutional amendments that carry with them provisions for limiting the power of state and local governments to increase taxes. In the best cases, it would take a two-thirds legislative majority to raise new taxes either locally or statewide, with permanent prohibitions against raising certain taxes .

More often than not, the only way revenues could be increased would be through ballot initiatives requiring a two-thirds vote. Legislatures would thus be effectively prevented from exercising their mandate to deliberate on and enact the programs they deem necessary.

A major consequence of these revenue-raising strictures would be a virtual halt to capital construction projects both locally and statewide. These projects, especially the larger ones, are generally funded through bond sales, which are often paid through the imposition of a special tax. The various Prop 13s would not only proscribe such new taxes, but would shut localities and states out of the long-term capital markets in the first place. It would not take many years before everything from highways to sewers begin to disintegrate.

Michigan: the Tisch Amendment

Modeled on Proposition 13 and the most radical of three property tax reduction proposals on the Michigan ballot, the Tisch Amendment is a clear example of what Prop 13 will mean for the nation.

Named for Shiawassee County Drain Commissioner Robert Tisch, the amendment ("Proposal D"), features a rollback in property assessments to 1978 levels followed by a 50 percent reduction in these assessments and a 2 percent ceiling on future increases. This would mean a 60 percent, or approximately $2.6 billion, reduction in property tax revenues, which in Michigan go only to county and municipal governments as well as school districts.

The Tisch Amendment then requires the state to reimburse localities for every dollar of property tax receipts. Combined with other tax reductions in the proposal, this would cost the state $2.5 billion—well over half of the state's current $4.5 billion general fund and 25 percent of its total budget. Neither the state legislature nor local governments could enact new compensatory taxes; statewide taxes could only be enacted by a 60 percent voter referendum approval, and local taxes by a voter majority. As Mayor Coleman Young of Detroit observes, the proposal is "an invitation to anarchy."

Because the bulk of the state's revenues are already earmarked by state and federal law for specified expenditures, the reimbursement could only come out of categories within the general fund. Governor William Milliken has prepared the following plan for that eventuality: Close most of Michigan's 84 state parks; close most state mental health facilities except those for the criminally insane. Transfer 7,000 to minimal care community facilities which provide only beds and no care; eliminate aid to 12 of the state's 15 colleges. Aid to Wayne State University, University of Michigan, and Michigan State University would be cut in half; close the State Board for the Blind and State School for the Deaf; eliminate statewide achievement level testing of elementary and secondary school students; lay off 75 percent of the uniformed state police—about 1,650 troopers; close all National Guard armories in the state; cut public assistance benefits by 40 percent; eliminate the Department of Licensing and Regulation; elimate the Commerce Department's health licensing functions.

A private study done by Public Sector Consultants of East Lansing actually gives a worse picture than the governor's plan by tracing out the effect on the private sector. This study adds the following effects:

- The loss of 40,000 state and local government jobs and 40,000 to 80,000 private sector jobs. Some of the latter unemployment would be directly related to the government cutbacks, but most would be due to the adverse impact on the state's economy.
- The closing of 10 of the state's 29 community colleges and 15 of the 54 private colleges because of lost state assistance.
- Drastic reduction or elimination of special and vocational education programs and related school expenditures.
- Elimination of all state Public Health Department services except "defense programs" like immunization.
- The Commerce Department "would no longer be able to support Michigan business and industry, hence further worsening the economic climate."

Although the Tisch Amendment was defeated in 1978, the severely depressed Michigan economy, with an unemployment rate over 12 percent, has generated a hue and cry for tax relief from an increasingly desperate population. The amendment has gained popular support in recent weeks, despite two more moderate property tax proposals on the ballot.

The first is the **Smith-Bullard Amendment (Proposal A)** which would virtually eliminate school funding through the property tax, and instead fund education almost exclusively through the state. Increases in the state income tax rate and business tax hikes of 10-20 percent would provide the revenue. Proposal A is backed by the Michigan Education Association and the League of Women Voters.

Proposal C, which is favored by government, most of labor, the press and business, is the most moderate. It is essentially a tax tradeoff, in which reduced property taxes would be offset by a $1\frac{1}{2}$ percent increase in the sales tax.

Massachusetts: Proposition 2-and-a-half

Proposition $2\frac{1}{2}$ would limit the property tax rate through Massachusetts to $2\frac{1}{2}$ percent of market value, with a similar limitation on yearly increases in assessments. Unlike most other states, property taxes are constitutionally the sole tax revenue permitted to localities. As in Michigan, the deepening recession is fueling the appeal of the proposal—spurred on by the politically inept actions of local officials like Boston Mayor Kevin White, who recently raised the city's millage rate from 25.2 to 27.1, a $7\frac{1}{2}$ percent increase.

These officials have heightened the taxpayers' rage by trying to curry their favor while simultaneously accelerating austerity measures. Thus, conservative Governor King pushed through a law last year limiting tax revenues to a 4 percent annual growth rate, even though that has meant sharp service reductions in older cities. In frustration, mayors in the Greater Boston area are attacking the governor for excessive spending in the state-run Metropolitan Boston Transit Authority and for caving in to the powerful Carmen's Union. And each week sees new charges of official corruption.

South Dakota: the Dakota Proposition

This ballot initiative would enact property tax limitations and rollbacks similar to the aforementioned referenda. It would also be a virtually permanent constitutional amendment, requiring a two-thirds popular vote to be repealed, as opposed to the current referendum requirement of a simple majority. In addition, new taxes could be enacted only through a two-thirds popular vote, with property tax rises fixed at 2 percent per year maximum.

The proposition would entail a 58 percent loss in local property tax revenues, or about $138 million. In South Dakota, 40 percent of the state's general fund already goes directly into localities and counties, and the state simply has no other funds for reimbursement. Sixty percent of all property taxes currently go for education, and these would be drastically slashed to maintain some semblance of vital services like fire, police, and ambulance.

Under the Dakota Proposition, the county-owned mental health system would be shut down. The county-controlled planning districts system would be eliminated. County fairs, 4-H, and senior citizen centers would disappear. And no one could issue bonds for capital improvement, both because of the near impossibility of getting new tax levies approved and because of inevitably lowered credit ratings.

Nevada: Question 6

This is one of three tax questions on the ballot next month. Property taxes here would be limited to a maximum 1 percent of market value, with yearly assessment increases of no more than 2 percent. New taxes (excluding, again, property taxes) could be enacted only by a two-thirds vote of legislative bodies. This would result in an estimated 40-50 percent loss in local revenues. Although the state is currently running a healthy budget surplus, that is expected to evaporate next year.

Ironically, passage of Question 6 would reinvoke two taxes that the legislature repealed this year after attaching a proviso automatically reinstituting them if Question 6 were passed. Referenda to abolish these two taxes, which are on food and personal property, are also on the ballot, but in Nevada it takes two successive votes to pass a constitutional amendment, and these are appearing for the first time. Question 6 already passed once, in 1978.

Oregon: Measure 6

Measure 6, which was defeated in 1978, is actually the forerunner of Proposition 13 in California, with similar provisions for the property tax levels as previously discussed, including subjecting all new tax proposals to two-thirds voter approval. Although Oregon already has enacted a law to reduce local property taxes by up to 26 percent with partial state reimbursement, Measure 6 would further reduce these taxes by a huge 75 percent, or $1.5 billion, in the 1981-83 biennium. Sixty-two percent of these taxes go for education.

State budget officials point out that one-third of these savings by taxpayers will be wiped out through loss of $195 million of state tax reimbursement funds (since properties would have much lower assessments), plus $300 million in higher state and federal income taxes due to those savings.

Arizona: Proposition 106

Again, this is very similar to Proposition 13. It provides for property assessments at 1975 levels, although the effective property tax rate for the state is already among the lowest in the nation at .75 percent of market value. Last June, voters repealed the sales tax and enacted limits to property assessment increases. Since 6 percent of the state's general fund revenue comes from the property tax, passage of Proposition 106 would directly reduce the general fund by around 3 percent, thereby precluding significant aid to localities.

Montana: Tax Indexing Initiative

This would index: 1) personal state income tax exemptions to the Consumer Price Index for a given fiscal year, as well as 2) the amount of the standard tax deduction. If inflation is figured at a very conservative 8 percent, it would mean a 10 percent drop in state income tax receipts at a time when the state is in deep recession and revenues are stagnant or falling. A more realistic 15 percent inflation rate would mean a 20 percent income tax revenue drop—about a 10 percent cut in general fund receipts and a 25-30 percent real cut. Income taxes destined for capital projects would probably be diverted toward operating expenses, thereby constricting the state's already meager long-term development plans. The School Foundation Fund would suffer a 10 percent reduction as well.

Ohio: The "Fair Tax" Initiative

This would eliminate many business tax breaks and increase taxes on larger corporations from 8 to 10 percent, while granting tax relief to low and moderate income homeowners, tenants, farmers, and senior citizens. It is sponsored by the left-wing Ohio Public Interest Campaign, headed by Ira Arlook, a crony of Tom Hayden from the old SDS days. Hayden and Jane Fonda have plugged extensively for this referendum.