

Proposition 13

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Definitions

- **Mortgage:** loan to buy a house, which are usually paid off in 30 years
- **Property value:** price of a land (usually a house)
- **Property taxes:** paid annually based on the current market value of your house
 - Chicago 2.009% — New York 1.925%
 - SF 0.683% — Palo Alto 0.794% — Oakland 0.866%
- **Federally subsidized:** supported (financially) by government

What is Proposition 13?

- Passed in 1978 by about 60% during Gov. Jerry Brown's first term
- What were the main aspects of the legislation?
 1. Property tax is capped at 1% cash value
 2. Property values cannot increase more than 2% a year (for tax purposes)
 3. Rolled back assessed property values to what they were worth in 1975
 4. Property only reassessed upon new ownership or new construction
 5. All local and state taxes need two-thirds majority vote
- Short-term gains for taxes, but long-term pain for cities

Pros and cons of the legislation

- **Pros**

- Absolute amount pain in property taxes is capped from year to year, so you can budget easily
- Continues the lifestyle you were “promised” when you first moved to the suburbs

- **Cons**

- Municipal service funding was really hurt — these budget cuts were most noticeable in public schools
- Lower income communities had no way of making up for the lost income, so their school districts suffered, which, in turn, limits the opportunities for many prospective scholars

Why was it necessary?

- Many new blue-collar, middle-class homeowners began buying houses. We call this the suburban pull during the 1940-1970s
- Even though tax rates were not increasing at the time, property values were increasing, which means residents were paying more than they expected
- When residents moved to their respective suburbs, they were promised low taxes, so this is as much an emotional revolt (don't want to pay) as a financial revolt (can't pay)

Promises of suburbanization

- Started during the 1940s, but really picked up during 1950-70s
- Created a trend of incorporation, annexation, and expansion. Strategies that attracted white homeowners out of inner city **and also** industrial/commercial investments
- Bigger tax base and resulted in lower taxes and led to expectations of low taxes as “fair”
- Suburbs were created as “industrial garden” cities: great industries (jobs), great neighborhoods (property value), and great municipal services (schools)
- Competed with inner cities, such as San Francisco, Los Angeles, and Oakland, for attracting new businesses to create these industrial gardens

What is an industrial garden?

- "all the advantages of the most energetic and active town life, with all the beauty and delight of the country."
- Benefits of living in a big city include:
 1. **Great industries**, such as the aircraft and automotive industries, electronics factories, rubber factories, etc. provided a sense of employment security and convenience, and occupational diversity
 2. **Low taxes**, which were made possible by having a large tax bases and business taxes
 3. **Great municipal services**, created by high tax revenue (even though taxes were low)
 4. **Ideal living spaces**, which tended to feel quaint and retain consistent "neighborhood character"
 5. **Affordable housing**, financed by federal government sponsored mortgages, through HOLC
- Oakland became the first city to use this urban development strategy as a way to attract both businesses and people, which became a gold mine for property developers (realtors and construction)
- Suburbs competed with inner cities, such as San Francisco, Los Angeles, and Oakland, for attracting new businesses to create their own industrial gardens, after the model grew increasingly attractive

Examples of industrial gardens?

- San Leandro: Chrysler manufacturing (some businesses relocated to Oakland!)
- Milpitas: Ford manufacturing plant
- Fremont: GM manufacturing plant (NUMMI, now owned by Tesla!)
- Los Angeles suburbs: aircraft, electronics, and rubber manufacturing

How was this made possible?

- During the Great Depression, FDR created the New Deal program, which created the opportunity for middle-class families to afford homes
- National Housing Act 1934
 - Created the Federal Housing Administration (FHA) which created affordable mortgages
 - Created the Home Owners Loan Corporation (HOLC) that distributed these mortgages
 - Mortgages were a bit shaky, so they required that they only be handed out for “safe investments” which meant you had to live in a good neighborhood. Reasonable, right?

Why did people want a home?

- Standard State Zoning Enabling Act 1922 (Hoover)
 - Created the ideal American Dream of owning a single family house with space for the children, which became the ideal
 - Advocated scientific basis for restriction, private property, and compatible land use. Basically don't blend neighborhoods with industry.
 - Local property owners best qualified to decide "neighborhood character" and "appropriate use of private property"
 - [Euclid vs. Amber 1926] "the blighting of property values and the congestion of population, whenever the colored or foreign races invade a residential section, are ... well known"

FHA and HOLC: Redlining

- Government economists would have a map of neighborhoods and areas in the city, and they boxed out “sketchy” neighborhoods in red (hence redlining)
- These “redlined” neighborhoods were places to not invest and finance through HOLC mortgages
- Minority neighborhoods (black and hispanic) were all redlined, which meant minority families weren’t able to receive the mortgages to buy their own homes