PLANETIZEN

EXCLUSIVE

How We Pay For Growth

Monday, June 2, 2003 - 12:00am PDT by WILLIAM FULTON

California's Proposition 13 -- a citizen anti-tax initiative -- has turned out to be the most important planning law in the state. It has altered the nation's attitude about how to pay for growth, and, in the process, has been a major force in shaping the urban and suburban landscape we see throughout the country today.

Once upon a time, growth was good. Not just because there was a philosophy that more people improved a community -- or a state. But because there was a financial system based on the assumption that as communities grew, the value of their properties would grow commensurately. And so paying for the cost of new growth by taxing everybody -- or, at least, all the property owners -- was fair, because in the end everybody would benefit.

All that went out the window 25 years ago this week -- on Tuesday, June 6, 1978, when the voters of California passed Proposition 13, a citizen initiative that cut property taxes by more than half.

Prop. 13 is often credited with touching off a national tax revolt that has continued to this very day -- as evidenced by the Bush Administration's recent $350 billion tax cut. But as my fellow writers at *California*

Planning & Development Report and I point out in a new report commemorating this anniversary, Prop. 13 did much more than increase pressure to cut taxes. It altered the nation's entire attitude about how to pay for growth -- and, in the process, it has been a major force in shaping the urban and suburban landscape we see throughout the country today.

Very simply, the Prop. 13 psychology changed our view of growth from good to bad. New development that once helped us prosper now threatened to bankrupt us. As a result, the concept that "growth must pay for itself" became deeply embedded in our national psyche. And that has changed everything about the planning and development game.

Fiscal zoning and competition between municipalities for tax revenue is nothing new. Neither is the vigorous political jockeying within any community over who pays for new growth, nor the slow-growth desire to "pull up the drawbridge", nor even the practice of requiring two-thirds voter approval for local school bonds. All these things existed before 1978. But all were accelerated by the passage of Proposition 13.

Part of Proposition 13's intent, of course, was to reduce the size of government by reducing the amount of tax revenue available. But it is not the basic impulse of government to cut its own size. Rather than do that, local government agencies throughout the state have gone into survival mode in two different ways. First, they have intensified their competition with one another for the revenue sources available. Second, they have been endlessly inventive in finding new sources of revenue that are not subject to Prop. 13's limitations.

And because local government revenues sources are so closely tied to land and real estate development, this new "post-Prop 13" culture was quickly translated into tangible changes on the urban landscape, many of which were tied to post-Proposition 13 revenue-raising strategies.

The "auto mall" is now common throughout the United States, but it was invented in California -- not by the auto industry trying to sell cars, but by local governments trying to capture sales taxes. The plethora of outlet malls, entertainment retail centers, and regional malls is also partly the result of Proposition 13. So is the boomlet in the creation of new cities in the last twenty years -- because for the first time in history, a California community could incorporate by transferring money out of the county treasury rather than raising taxes. Many of California's sprawling regional development patterns are the result of Proposition 13 also. Well-located cities have been able to cherry-pick retail centers, high-end housing, and other tax "winners". Meanwhile, starter homes and other tax "losers" have been relegated to distant locations on the metropolitan fringe, often in unincorporated areas, where county leaders are desperate to generate any types of revenue they can get.

Similarly, California has become home to some of the most peculiar revenue-raising mechanisms in the history of American public finance. Parcel taxes, previously not permitted, are now common. Mello-Roos taxes were invented specifically to circumvent Proposition 13, and in the process created a municipal bonding mechanism that many on Wall Street still don't understand. Development impact fees are now a basic part of the California landscape -- as is the "nexus consultant," whose job it is to prove the relationship between the fee being charged and the problem being created by the project. The state has also seen creative use of many different types of assessment districts. The end result has been to shift most of the cost of new infrastructure from property taxpayers to developers and new homebuyers.

What is perhaps most surprising is that this basic model of California planning -- the Post-Prop. 13 model, we'll call it --has survived all the upheavals of the last 25 years. Slow-growth sentiment has chilled whenever the real estate market has tanked, but it didn't vanish. Even when there was nary a construction loan to be found in the whole state, land developers kept going after specific plans and development agreements, and slow-growthers kept suing them and putting their projects on the ballot.

Similarly, just when the fiscal zoning fad should have been fading into the background, the harsh financial realities of the 1990s gave it new life. In 1992 and 1993, the state government reminded the locals of who's boss by shifting 25% of the property tax in the state -- that's somewhere around $4 billion -- away from cities and counties to the schools. Housing and other property tax-oriented development projects have been a bad deal ever since Proposition 13 passed. Now they're a much worse deal. And it's pretty clear that when the dust settles from the current state budget crisis, local governments will be more desperate than ever for new revenue -- and will use land-use authority more aggressively than ever to pursue it.

In short, even in the 21st Century, we seem to be operating with more or less the same planning and fiscal architecture that we've had for close to two decades -- an architecture that has led to unnecessary competition among cities, ghettoizing of land uses, and regional imbalances in our large metropolitan areas.

As usual, a whole variety of incremental land-use reforms are inching their way through the California Legislature this year. But even if they pass, none of them will have a fraction of the impact of Proposition 13 -- a citizen anti-tax initiative that has turned out to be the most important planning law in California, and the bellwether of the most important shift in the psychology of growth politics that we have since in the United States in the last 25 years.

William Fulton is president of Solimar Research Group and editor and publisher of California Planning & Development Report. CP&DR's new special report on the 25th Anniversary of Proposition 13 is available for sale at www.cp-dr.com.

Prop 13

Submitted by DANIEL P. O'BRIEN (NOT VERIFIED) on 12 June 2003 - 11:47am

I think Prop 13 was less influental than CEQA in shaping California's developed landscape for the last 25 years. No doubt, Prop 13 dramatically changed the City's ablitity to pay for new growth, but CEQA with its uncomprising standards is the cause for sound walls enclosing subdivisions, high speed six-lane divided arterials, and greenfield pod-oriented