Serrano and Proposition 13: The Importance of Asking the Right Question

by William A. Fischel

This report provides a brief overview of my scholarship connecting Proposition 13 with the decision in Serrano v. Priest, 96 Cal. Rptr. 601 (1971) (Serrano I), 135 Cal. Rptr. 345 (1976) (Serrano II) (1976). For sources to back up statements in this report, see my most recent comprehensive article on the subject (Fischel 2004). Table 1 offers a chronology of events that led up to Proposition 13.

The Serrano-Proposition 13 Hypothesis

Gary Fields, a Cornell economist and hiking buddy, used to tell me, “if you don’t ask the right questions, you won’t get the right answers.” I submit that the right question about Proposition 13 is not what caused individual Californians to vote for it by almost 2 to 1 in 1978. As the exhaustive efforts of Jack Citrin (1985, with David Sears) have shown, there are no convincing answers to that question. The right question is to ask why almost the same group of voters had a mere six years earlier rejected a similar property tax limitation by almost 2 to 1. That question requires that we look at what was different in California in 1978 compared with 1972 (or 1968, when another property tax limitation had also been rejected by a 2-1 margin).

My answer is that the implementation of the California Supreme Court’s Serrano decision by the 1977 Legislature was the most important difference

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<th>Table 1</th>
<th>Property Tax Initiative and School Finance Chronology</th>
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<tr>
<td>Nov. 5, 1968</td>
<td>“Watson I” initiative (Proposition 9) to limit property taxes defeated: 32 percent yes; 68 percent no.</td>
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<td>Aug. 30, 1971</td>
<td>Serrano I decided (6-1) and remanded to Los Angeles Superior Court.</td>
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<td>Nov. 7, 1972</td>
<td>“Watson II” initiative (Proposition 14) to limit property taxes defeated: 34.1 percent yes; 65.9 percent no.</td>
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<td>Mar. 21, 1973</td>
<td>San Antonio v. Rodriguez decided by U.S. Supreme Court (5-4), denying Serrano-style equal protection claims at the federal level.</td>
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<tr>
<td>Dec. 30, 1976</td>
<td>Serrano II decided in favor of plaintiffs (4-3), sustaining Judge Jefferson’s remedy.</td>
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<td>Sept. 2, 1977</td>
<td>AB 65, school finance bill intended to comply with Serrano II, passes legislature; property tax relief bill fails on same day.</td>
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<td>Mar. 3, 1978</td>
<td>Governor signs “Behr Bill” (SB 1), alternative to Proposition 13, tying its implementation to passage of Proposition 8, constitutional amendment allowing “split roll,” in which residential property could be taxed at a lower rate than other classifications.</td>
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<tr>
<td>June 6, 1978</td>
<td>Proposition 13 passes: 64.8 percent yes; 35.2 percent no; Proposition 8 (and thus the Behr Bill) defeated: 47 percent yes; 53 percent no.</td>
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between 1972 and 1978. *Serrano* found that California’s existing reliance on local property taxes to fund schools was unconstitutional. In 1972, voters in most of the school districts in California could still see a connection between what they paid in property taxes and the quality of their local public schools. Philip Watson’s 1968 and 1972 property tax limitations held few charms for the majority of voters because the initiatives would have disrupted that connection. Watson’s 1 percent limitation on taxes (which had been endorsed by Howard Jarvis) would have limited the ability of local districts to spend what they pleased on education. Even voters without children could gain because the value of their single largest asset — their homes — would rise (or at least not fall) with better local schools.

**Serrano broke the connection between local property taxes and local school spending.**

*Serrano* broke the connection between local property taxes and local school spending. This is not a tale of “unintended consequences.” The litigants and judges who fashioned *Serrano* deliberately sought to disconnect local tax rates from school spending. The Legislature dutifully responded with a bill in 1977 that “substantially complied” with that mandate. To not reduce the overall level of school spending, however, the Legislature needed to continue property taxation. Local school taxes were, in effect, requisitioned by the Legislature to finance education throughout the state. When home-value inflation pushed those local taxes beyond the voters’ endurance, the Legislature was unable to cut school taxes. Doing so would have been out of compliance with the mandate of *Serrano*.

**Proposition 13 Was Not a General Tax Revolt**

Here is evidence that it was local school taxes, not other property taxes, that voters suddenly found so objectionable. After the Legislature had passed AB 65, which was its attempt to comply with *Serrano*, it had to do something about the tax revolt that was brewing in 1977. Legislators knew their constituents were unhappy with rising taxes. The surprising ease with which the Jarvis-Gann initiative qualified for the ballot indicated that an alternative had to be offered. The alternative was known as the Behr bill, after its sponsor, Marin County Sen. Philip Behr. The Behr bill was a massive reduction in property taxes, almost as great as that offered by Proposition 13. Its implementation required that voters approve Proposition 8, placed on the same ballot as Proposition 13.

Proposition 8 would have amended the California Constitution to permit the Legislature to assess owner-occupied homes at a lower proportion of value than other components of the property tax base. Home values had been driven up disproportionately by the general inflation that began in the early 1970s, and Proposition 8 would have amended the state constitution to permit the Legislature to authorize taxation of commercial and industrial property at a higher effective rate than homes. The Behr bill also offered tax relief for renters, something Proposition 13 ignored entirely.

The Legislature designed Proposition 8 so that it deferred to Proposition 13. Proposition 8 (and hence the Behr bill) would not become law unless it was approved by a majority of the voters and that majority was greater than that of Proposition 13. Because of that condition, voters who sought a property tax reduction had nothing to lose by voting for both Proposition 13 and Proposition 8. Voters interested in maximizing their chance of getting property tax relief would vote for both initiatives.

Proposition 8 received 47 percent of the votes, compared with 65 percent for Proposition 13. That in itself is a puzzle for people who regard Proposition 13 as a general tax revolt rather than, as I do, a selective revolt against the *Serrano* reforms. If Proposition 13 was a general tax revolt, Proposition 8 should have passed, too. Perhaps not with as large a majority as Proposition 13, given its lesser tax reduction, but it should have done better.

**Voters in school districts that most favored Proposition 13 were those that were most adversely affected by AB 65 — the Serrano losers.**

More striking are the data showing votes on Proposition 13 (Jarvis) and Proposition 8 (Behr) arrayed by school districts shown in Figure 1. The 135 districts are those identified by Stark and Zasloff (2003) as having names that were the same as a city. (Votes in 1978 were tabulated by city, not school district, so not all school districts in California could be counted.) If Proposition 13 was a general tax revolt, the cities in which Proposition 13 got the most votes should also be the cities in which Proposition 8 got the most votes. That is, the general array of points in Figure 1 should suggest a positive slope. As can be seen, however, the city-districts that most favored Proposition 13 were most opposed to Proposition 8. The negative relationship is obvious. Indeed, the inverse relationship is so strong I initially thought I had made a sign error. Social scientists seldom see relationships that strong.

My explanation for the negative relationship between the Proposition 8 vote and the Proposition 13 vote hinges on a particular feature of Proposition 8. Proposition 8 applied to all property taxes except...
those for education. That exclusion was necessary to preserve the Legislature’s response to *Serrano*. AB 65 required that property taxation for schools continue, even though local discretion over school tax rates was largely eliminated. Without property taxes, AB 65 could not be implemented, and in fact once Proposition 13 passed, AB 65 became a nullity.

My hypothesis is that school districts that most favored Proposition 13 were those that were most adversely affected by AB 65, which I refer to as “*Serrano* losers.” Such districts had a large property value per pupil. Proposition 8 gave those districts almost no tax relief. Hence the districts that most favored Proposition 13 (in the upper left side of Figure 1) also most opposed the other form of tax relief, Proposition 8.

I readily concede there could be other reasons why the points in Figure 1 do not suggest a positive relationship between Proposition 13 and Proposition 8. Howard Jarvis and other proponents of Proposition 13 regarded Proposition 8 as the enemy and told supporters to oppose it. The Legislature had promoted Proposition 8 as a substitute for Proposition 13, not as a complement to it. If those factors played a role in the voting, there would be an imperfectly positive relationship between Proposition 13 and Proposition 8 voting, assuming (as I do not) that voters simply wanted a tax reduction, regardless of the source. They might have been so strong as to create a random relationship between the two. But there is nothing random looking about the array of points in Figure 1. Proposition 13 gave relief to districts that were *Serrano* losers, while Proposition 8 did not. The nearly perfect negative relationship between Proposition 8 and Proposition 13 votes by school district is consistent with my *Serrano* story and inconsistent with the idea that California voters in 1978 just wanted a tax break.

Academic commentary’s focus on the supposed irrationality of voters on Proposition 13 has been challenged by scholarship that suggests that voting is an accurate way to aggregate information and preferences. That is the implication of the median voter theory and political prediction markets. I cannot in this space elucidate those models — an accessible source is Cass Sunstein’s *Infotopia* (2006).
— but I do wish to point out a feature that makes those models’ application to the Proposition 13 vote more plausible.

For majority voting to converge on the correct outcome, voters must have access to information that is more likely true than false. Commentators on Proposition 13 have often focused on the extravagant claims of Howard Jarvis and others as a source of biased information. However, a large majority of voters had access to accurate information about the source of their tax troubles: their tax bills. Property tax bills do not simply present taxpayers a final sum to be paid. Taxes are broken down by taxing jurisdiction. Thus taxpaying voters in Arcadia (for example) could see whether it was the levies for the city of Arcadia, the Arcadia Unified School District, the county of Los Angeles, or a special-service district that accounted for the bulk of their tax increases. They did not have to deliberate about it or read the newspaper or watch TV to find out which of their taxes was going through the roof. All they had to do was compare the previous year’s tax bill with the current year’s tax bill. It was not at all implausible that voters in school districts that were Serrano-losers knew Proposition 8 would not give them much tax relief.

**Voters in High-Value Districts Turned Against the Property Tax**

Other evidence that supports the Serrano-Proposition 13 connection is summarized in Figure 2. (That is illustrative of multiple regression analysis undertaken in Fischel 2004 and 2008.) The vertical axis is the variable “swing,” which is the percentage increase in the vote for Proposition 13 in 1978 compared with the vote for the Watson initiative in 1972. Swing is calculated for cities in Los Angeles County that correspond to school districts. (Los Angeles County had a sufficiently large number of cities and school districts to do statistical tests within the county, which was important because the Watson initiative had features that varied by county.) The horizontal axis is the taxable value per pupil for the city’s school district in 1977-1978. The Serrano court regarded value per pupil as the source of unconstitutional spending variation, and leveling the supposed advantages that that conferred on a school district was the objective of the Legislature’s response to Serrano.

Consider, for example, the upper-right point in Figure 2, the city of El Segundo, which is located just south of Los Angeles International Airport. Its school district had a large amount of taxable property (mainly because of an oil refinery) and a relatively low student enrollment (because of an aging population), giving it the highest tax base per pupil of any district in Los Angeles County. Only 22.7 percent of the city’s voters favored the 1972 Watson initiative (compared with 34.1 percent of voters statewide). In 1978, however, El Segundo voted disproportionately in favor of Proposition 13, with 79.6 percent of voters favoring it (compared with the statewide 64.8 percent). El Segundo’s 1972 to 1978 swing was the largest in Los Angeles County, 250 percent. (That is, 79.6 minus 22.7, divided by 22.7, equals 250 percent.)

**Something changed between 1972 and 1978 to induce voters to change their view of local property taxes.**

Figure 2 suggests a strong, positive relationship between the 1972-1978 vote swing and value per pupil. That is consistent with the Serrano-Proposition 13 connection. Taxpayers in property-poor (low value per pupil) districts, such as Baldwin Park (on the lower left of Figure 2), were not as adversely affected by Serrano, and so their swing was among the lowest in Los Angeles County. (I attribute the negative swing of mostly African-American Compton, the only city in the county to have voted against Proposition 13, to Howard Jarvis’s racial insensitivity.) I should note, by the way, that Baldwin Park’s low swing does not mean its voters opposed Proposition 13. It actually favored Proposition 13 by a 70 percent majority. Its low swing was accounted for by its relatively strong support (44 percent) for the 1972 Watson initiative.

That is an example of why it is critical to examine the vote for Proposition 13 in the context of previous initiatives. Something changed between 1972 and 1978 to induce voters to change their view of local property taxes. Just asking voters why they favored or opposed Proposition 13 will overlook that crucial question.

**Why the Elderly Turned Against Local School Taxes**

When I wrote my first article about the Serrano-Proposition 13 connection in 1989, the theory was regarded as a considerable novelty, to put it charitably. I had thought of it soon after Proposition 13 had passed (as had a handful of other economists), but I did not pursue it. I was sure some more obvious, less subtle explanation would come forward. But none did, and I accumulated evidence besides what I summarize here that supports it (Fischel 1989; 1996). Over time, my explanation seems to have become the conventional wisdom within public economics. That is not necessarily an enviable position. The conventional wisdom is always something to be challenged. Two thorough and resourceful challenges are articles by Kirk Stark and Jonathan Zasloff (2003) and by Isaac Martin (2006). Each raises a number of different issues, but
Figure 2.
SWING and VALUE/PUPIL for 46-city Los Angeles County Sample

Fischel sample 46 LA County cities

(The simple correlation between SWING and VALUE/PUPIL is 0.72. If Beverly Hills and El Segundo are excluded, the correlation is 0.55.) (Source: Fiscel 2008).

their common element is skepticism of my exclusive focus on value per pupil as a marker for the impact of the Serrano decision on voter decisions.

Stark and Zasloff found that the percentage of elderly residents in the population had a larger and more statistically significant effect in explaining the vote swing from 1972 to 1978. In their regressions (and in my replication of them), using the variable “seniors” (percent of city residents over age 65) as an independent variable to explain the vote swing eliminates the significance of value per pupil. They conclude from this that my indicator for Serrano-losers, districts with high value per pupil, is a red herring. In their view, some combination of elderly voters, the rich, and Republicans accounted for most of the shift.
My original response to Stark and Zasloff was to point out that “seniors” and “value per pupil” were actually closely correlated. It turns out that much of the variation of value per pupil among school districts was not accounted for by the personal wealth of the residents, but by how many of their children attended public school. Districts with many elderly people simply had fewer kids in school, and so the “per pupil” number was small and hence “value per pupil” was large. Stark and Zasloff’s result was, I submitted, a simple case of multicollinearity.

Multicollinearity, however, is not the only issue. Suppose “seniors” really is the critical variable. That still requires us to address what I think is the crucial question: What was it that changed so radically between 1972 and 1978 that induced California voters to switch from property tax defenders to property tax rebels? The fraction of the population that was over age 65 had not changed much in six years. Inflation in home values was new, but that was a condition everywhere, and anyway, the Legislature knew how to deal with that. Proposition 8 would have allowed it to reduce homeowner assessments — except for school taxes.

Serrano disconnected local taxes from school spending, and homeowners without children in school became indifferent to local school quality and more sensitive to tax increases.

So Stark and Zasloff’s insightful critique of my work directs me back to the question of why older voters first opposed (in 1972) and then favored (in 1978) a property tax limitation. The answer is that the major asset of most older voters is their home. Home values are much influenced by the quality of local schools, and study after study shows that older voters are supportive of local education spending when it will enhance the value of their homes. That is a subtle distinction, however. Increasing school spending across the state, which was the (ultimately failed) objective of the Serrano litigants, would not have excited much interest on the part of elderly voters. The value of one’s home is enhanced by having schools that are relatively better than those in nearby districts. If all schools improve at the same rate, there is no special reason for home buyers to favor one district over another, and thus no special reason for elderly voters to support local education spending.

I thus conclude that the variable “seniors” actually captures the effect of Serrano better than value per pupil alone. The correlation with seniors and value per pupil is supplemented by the behavioral effect: Seniors were once strongly inclined to oppose tax limitations that would have undermined their local schools. Serrano disconnected local taxes from school spending, and homeowners without children in school became indifferent to local school quality and more sensitive to tax increases.

The only way to test whether Serrano had anything to do with the success of Proposition 13 is to examine votes by school districts.

Isaac Martin’s critique of my work also focuses on the issue of seniors versus value per pupil, but his concern is that the aggregated data that I (and Stark and Zasloff) use cannot distinguish among their effects. Martin attempts to overcome that by painstakingly recovering individual data on respondents to surveys of voters in the Proposition 13 era. My main problem with his attempt is that I don’t think it makes much difference whether voters responded positively to Proposition 13 because of value per pupil or because they were elderly. Either response ignores why six years earlier voters with those characteristics were not eager to limit the property tax. Something changed between 1972 and 1978 to alienate both the “property rich” and the elderly communities from school property taxes. The only logical candidate was the Serrano decision and the inflation-driven property values the Legislature requisitioned to fund its response to it.

Martin’s quest for individual voters from statewide polls is also complicated by what I see as the main reason that so many observers have missed the Serrano-Proposition 13 connection. The Field Poll and other statewide polls have repeatedly and extensively asked voters about their support for Proposition 13. The sample of voters for all those polls has been weighted toward the largest population centers. That makes perfectly good statistical sense. If one wants to predict a statewide election in which each vote counts the same, regardless of location within the state, a properly random sample will have most respondents from the Los Angeles and San Francisco areas.

The problem with that procedure is that it does not facilitate a test of the Serrano-Proposition 13 connection. The California Supreme Court directed its Serrano remedy toward school districts, not toward individuals. The issue was fiscal and spending differences between school districts, not inequalities within individual school districts. That residents within the Los Angeles Unified School District, for example, might have different opinions about their school taxes or school spending was of no importance to the Serrano court. Thus the only way to test whether Serrano had anything to do with the success of Proposition 13 is to examine votes by
school districts. But the Field Poll and others draw most of their observations from only a handful of large school districts, making it nearly impossible to get a representative sample of voters for most of the districts in the state. That is reflected in Isaac Martin’s data. Fully half of his 369 voters that he was able to extract from the Field Poll lived in only two school districts, Los Angeles and San Francisco. Of the 39 districts represented in his sample, more than half are represented by fewer than four voters. That is not a useful way to infer districtwide votes.

**Conclusion:**

**The Importance of Asking the Right Question**

Statewide polls have not asked the right questions about Proposition 13. That is not merely an academic issue. By persistently asking the wrong questions, polls have misled scholars and public officials about the causes of Proposition 13. California voters are thought to be irrational or excessively selfish or systematically misled by demagogues like Howard Jarvis. Therefore, officials despair of fixing the adverse effects of Proposition 13. But if the Serrano story has more than a grain of truth, voters might be willing to modify Proposition 13. A modification of Serrano to allow local property taxes to connect more closely to local school spending could convince voters to accept modifications of Proposition 13. But we will not know that until there is more widespread understanding of the true causes of Proposition 13.

**References**


State Tax Notes Correspondents

Alabama: Bruce Ely, Bradley Arant Rose & White LLP
Alaska: Bob Tkacz, David Shaftel
Arizona: Pat Derdenger, Steptoe & Johnson LLP; Michael G. Galloway, Quarles & Brady; Chris Kelling
Arkansas: Rob Moritz
California: Lenny Goldberg, California Tax Reform Association; Chris Micheli, Snodgrass & Micheli LLC; Kathleen K. Wright, California State University, Hayward; R. Scot Grierson, Grant Thornton LLP
Colorado: K.C. Mason
Connecticut: Charles H. Lenore, Day Pitney LLP
Delaware: Nancy Charron
District of Columbia: Kenneth H. Silverberg, Nixon Peabody LLP; Jacquelyn V. Helm
Florida: Joe Follick
Georgia: Peter Stathopoulos, McGuireWoods LLP; Tim L. Fallaw and Ethan Miller, Alston & Bird LLP
Guam/Northern Mariana Islands: Stephen A. Cohen, Taitano and Cohen LLP
Hawaii: Lowell Kalapa, Tax Foundation of Hawaii
Idaho: John McGown Jr., Hawley Troxell Ennis & Hawley LLP; Dave Wasson
Illinois: J. Fred Giertz, Institute of Government and Public Affairs, University of Illinois; Garland Allen
Indiana: Niki Lohrmann; Jennifer Whitson
Iowa: Jack Hunt, Iowa Legislative News Service
Kansas: Chris W. Courtwright, Kansas Legislative Research Department
Kentucky: Mark F. Sommer, Jennifer S. Smart, and Mark A. Loyd Jr., Greenbaum Doll & McDonald PLLC; Charlie White
Louisiana: William M. Backstrom Jr., Jones, Walker, Waechter, Poitier, Carrère & Denègre LLP
Maine: James G. Good, Pierce Atwood; Douglas Rooks
Maryland: Herman B. Rosenthal and Stephanie W. Ketchum, Whiteford, Taylor & Preston LLP
Massachusetts: Tom Moccia; Linda Rosencrance
Michigan: Suzette Hackney
Minnesota: Dale Busacker, Grant Thornton
Missouri: John Barrie, Bryan Cave LLP; Janette Lohman, Thompson Coburn LLP
Montana: Greg Tuttle
Nebraska: George Kilpatrick, Nebraska State Legislature
Nevada: Richard Mason, University of Nevada, Reno; John S. Bartlett
New Jersey: Michael A. Guariglia, McCarter & English LLP; Margaret C. Wilson, McDermott, Will & Emery; Jeff Pillets
New Mexico: Curtis W. Schwartz and Timothy R. Van Valen, Modrall, Sperling, Roel, Harris & Sisk, P.A.; Barry Massey
New York State: Craig Fields, Morrison & Foerster LLP
New York City: Irwin Slomka, Morrison & Foerster LLP
North Carolina: Jack Cummings, Alston & Bird LLP; Kay Miller Hobart
Oklahoma: Kenneth L. Hunt, Hall Estill
Oregon: Tim Christie
Pennsylvania: Joseph C. Bright, Wolf, Block, Schorr & Solis-Cohen LLP; Thomas Fitzgerald
Puerto Rico: Donald J. Reiser, Martinez, Odell & Calabria
Rhode Island: Neil Downing
South Dakota: William Koupal, Koupal Communications
Tennessee: Michael D. Sontag, Bass, Berry & Sims PLC; Tom Humphrey
Utah: Dan Harrie
Vermont: Paul Hanlon
Virgin Islands: Marjorie Rawls Roberts, Globalvest Management Co., L.P.
Virginia: Craig Bell, McGuire Woods Battle & Bothe LLP
Washington: Dave Wasson
West Virginia: Thomas D. Miller
Wisconsin: Todd A. Berry, Wisconsin Taxpayers Alliance
Wyoming: Erin Taylor, Wyoming Taxpayers Association