Proposal A

In July of 1993, the legislature voted to eliminate property taxes as the source of school funding due to the increasing reliance on property taxes for K-12 funding and the wide variation of per pupil spending between districts.

In March of 1994, the voters approved Proposal A which replaced most of the school property taxes with an increase in the sales tax from four (4) to six (6) cents per dollar. This was the first successful statewide tax proposal in 20 years.

The primary components of Proposal A are as follows:

1. School operating property taxes in all districts were reduced to 18 mills or the number of mills levied in 1993 for school operating.
2. Principle residence property and qualified agricultural property are exempt from the 18 mills.
3. Assessments are capped and a new value "taxable value" was created. Taxable value is the lower of the properties state equalized value (SEV) or "capped value". Property values for taxes were capped at the 1994 value and for tax purposes would only increase at the rate of inflation or 5%, whichever is less. When a property sells, it is uncapped and the SEV and the taxable value are the same for the next year and then the taxable value is recapped (subject to the increase limitation) until it sells again.
4. Sales tax was increased from four (4) to six (6) cents per dollar. A statewide 6-mill State Education Tax was levied on all property. Taxes were increased on alcohol and tobacco. Real estate transfer taxes (RETT) were also increased.
5. The Constitution was amended to exempt school taxes from the uniformity provision of the Constitution and any increase in school operating taxes now requires a ¾ vote of both houses of the legislature.
6. Each school district receives a per pupil allotment from the state that is funded by the increase in sales and other taxes.

The results of Proposal A were immediate. Property taxes went down dramatically for homestead (principle residence) property and to a lesser degree for non-homestead properties. Per pupil spending increased in many school districts. Property taxes were held at a lower rate even in the face of increasing property values.

Capped Value:

One of the main components of Proposal A is the cap on assessments and creation of a new "taxable value". Taxable value is the lower of the properties state equalized value (SEV) or "capped value" (See Annual STC Bulletin on the Inflation Rate Multiplier available on the STC website). Property values were initially capped at the 1994 value and thereby property taxes would only increase at the rate of inflation or 5%, whichever is less. When a property transfers ownership it is uncapped and the taxable value becomes that state equalized value. Please see the STC Publication Transfer of Ownership for more detailed information on uncapping, available on the STC website.