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# California's Property Tax

LEGISLATIVE ANALYST'S OFFICE

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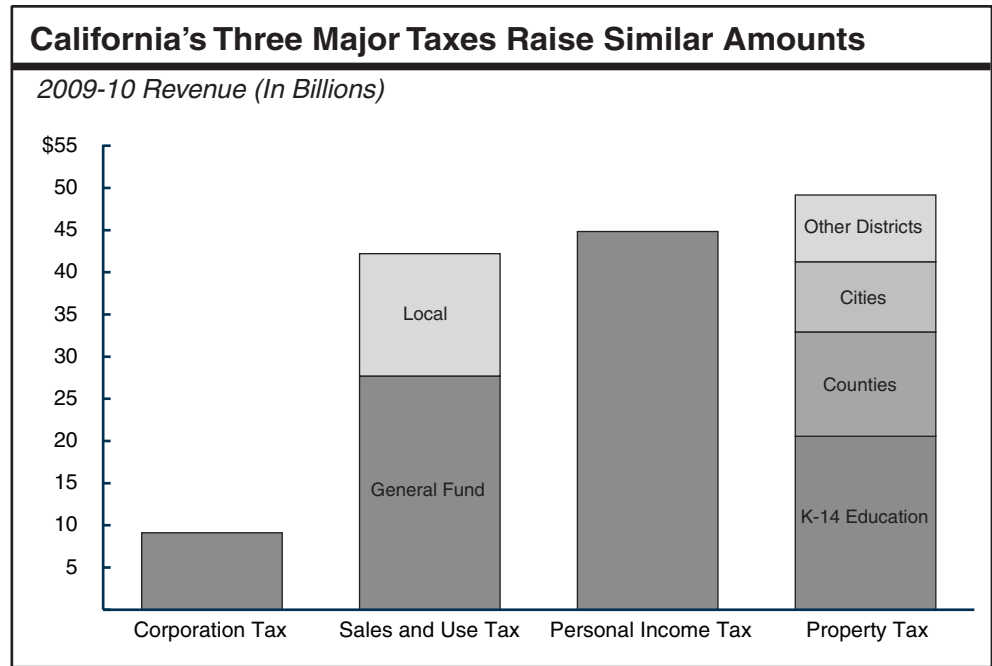
## Overview of the Property Tax

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- Annual 1 Percent Tax.** The property tax is levied on the assessed value of real property (land and buildings) as well as personal property (boats, aircraft, equipment, and machinery). With voter approval, local governments may levy additional property taxes to repay locally issued debt for infrastructure.
- Real Property Is Assessed at Acquisition Value.** Most properties are reassessed to market value when (1) a change-in-ownership occurs or (2) new construction takes place. Only the improved portion of the property is reassessed to market value following new construction.
- Assessed Value Increases by Up to 2 Percent Annually.** Assessed value increases each year by the lower of inflation or 2 percent. Inflation has averaged 4.1 percent each year since 1978.
- Personal Property Is Assessed at Market Value.** Personal property (primarily equipment, machinery, boats, and aircraft) is assessed each year at market value, adjusted for depreciation.
- Many Properties Are Exempt.** Most real property owned by schools, religious organizations, charities, hospitals, and governments is exempt from the property tax.
- Proposition 8 (1978) Provides Temporary Tax Relief.** When market values fall below assessed values, assessors adjust property values downward. The property's assessed value then changes each year according to its market value. When a property's market value becomes greater than its acquisition value (adjusted by the Proposition 13 inflation factor), the property is governed again by Proposition 13.
- Property Tax Payments Are Deductible From Other Taxes**



## Property Tax Revenue



***The Property Tax Raises Significant Revenue for Local Governments.***

Property taxes are collected at the county level and distributed to local governments—cities, counties, schools, special districts, and until recently, redevelopment agencies. Tax revenue generated from property within a county does not leave that county. County property taxes allocated to schools generally offset state General Fund spending for K-14 programs.



## Property Tax Revenue Allocation

Allocation of Property Tax Has Varied Over Time <sup>a</sup>					
<i>(Dollars in Billions)</i>					
Selected Years	Revenue	Tax Distribution			
		Schools	Counties	Cities	Other <sup>b</sup>
1977-78	\$10.3	53%	30%	10%	6%
1979-80	5.7	39	32	13	16
1993-94	19.1	51	21	11	18
2009-10	49.2	38	25	17	20

<sup>a</sup> Information includes debt levies.  
<sup>b</sup> Redevelopment agencies and special districts.

- Prior to Proposition 13.** Each local government determined its property tax rate.
- Proposition 13 and the State's Response.** Proposition 13 shifted authority over the distribution of property tax revenue to the state. State legislation created formulas ("AB 8 shares") to allocate property tax revenues in proportion to the share of property taxes received by a local government prior to Proposition 13, except that it gave a smaller share to schools and backfilled the schools' losses with state aid.
- State Made Various Modifications to Property Tax Revenue Allocation Since 1979.** Since 1979, there have been some significant changes to the original property tax shares. Some of these changes have benefited the state fiscally, while others have benefited local governments.
- Voters Placed New Limits on State's Authority Over Property Tax Allocation.** Voters have passed two constitutional initiatives limiting the state's authority to change property tax allocation laws.



## Complexity and Variation in Local Property Tax Allocation

Allocation of Property Tax Revenue in Select Counties <sup>a</sup>				
<i>2009-10</i>				
	Schools	Counties	Cities	Other <sup>b</sup>
Alameda	31%	20%	25%	24%
Los Angeles	29	30	23	19
Orange	49	11	18	22
Riverside	31	19	13	37
San Bernardino	21	21	16	43
San Diego	47	20	19	14
Santa Clara	50	20	15	15
<b>Statewide Average</b>	<b>38</b>	<b>25</b>	<b>17</b>	<b>20</b>

<sup>a</sup> Information includes debt levies.  
<sup>b</sup> Special districts and redevelopment agencies.

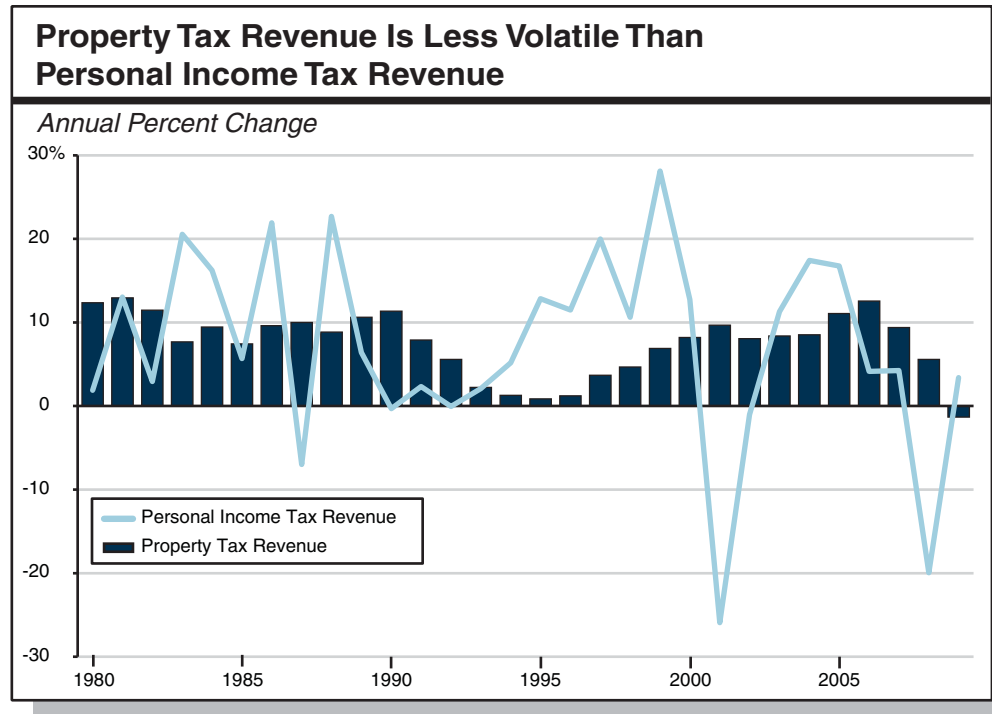


The allocation of property tax revenues among local governments varies significantly across the state. These differences are the result of various factors including:

- The amount of property tax revenues a local government received in the mid-1970s.
- The level of services provided by cities, counties, and special districts.
- The use of redevelopment.



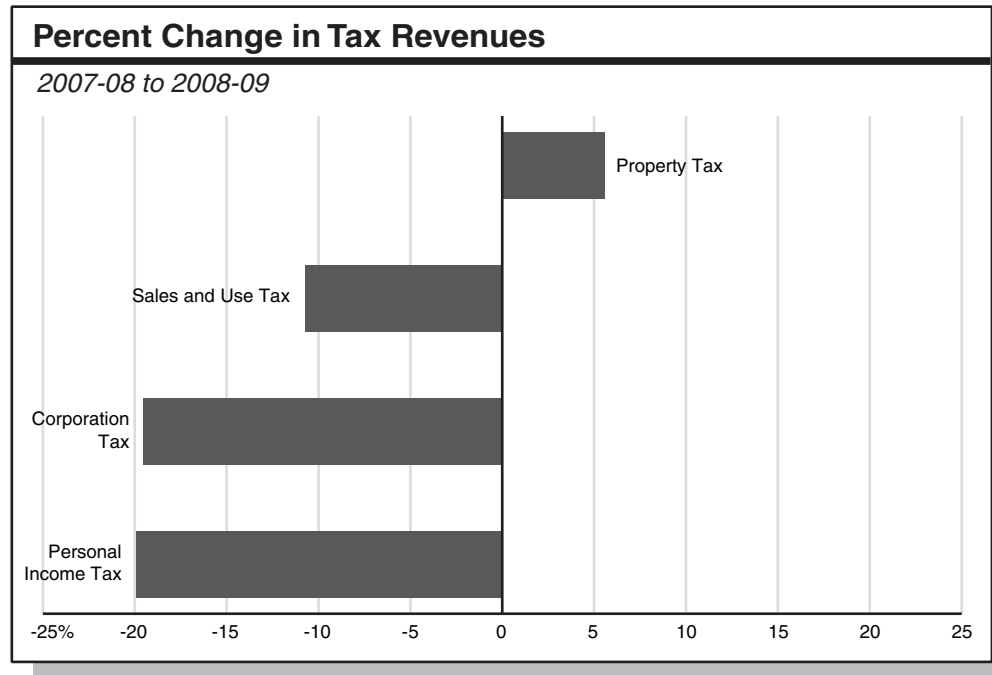
## Revenue Stability



***Acquisition Value Taxation Contributes to Revenue Stability.*** Property tax revenues fluctuate less from year to year than other major revenue sources. Because only a fraction of properties change ownership each year, only a small number of properties are reset to market value each year. The assessed value of other properties increase by up to 2 percent. During real estate slumps (and booms), these two provisions tend to dampen the short-term impact of changes in the real estate market.



## The Property Tax and the Recent Recession



***Despite Recession, Property Tax Revenues Remained Stable.*** Property tax revenues increased throughout the recession while other major revenue sources declined significantly.



## How Has the Property Tax Performed in the Bay Area?

Percent Decline in Bay Area Counties' Assessed Value		
County	2010-11 Assessed Value (In Billions)	Percent Decline Since Peak
San Francisco	\$159	—
Napa	27	—
Marin	56	-1%
San Mateo	143	-1
Santa Clara	300	-2
Sonoma	68	-3
Alameda	197	-4
Contra Costa	144	-10
Solano	41	-13
Bay Area Counties	1,135	-2
California	4,371	-4

- Assessed Valuation in Bay Area Counties Has Been More Resilient Than in California as a Whole.** Total assessed value throughout the Bay Area declined 2 percent from its peak in 2009-10, whereas California's assessed valuation fell 4 percent.
- Assessed Values in East Bay Counties Have Declined More Than the Rest of the Bay Area.** Assessed value in Contra Costa and Solano Counties declined by more than 10 percent. Alameda County assessed value declined by 4 percent.
- San Francisco and Napa Counties Are Among the Six California Counties That Have Not Experienced Declines in Assessed Valuation.** Others include Colusa, Humboldt, Santa Barbara, and Trinity Counties.





## Assessed Value of Various Property Types

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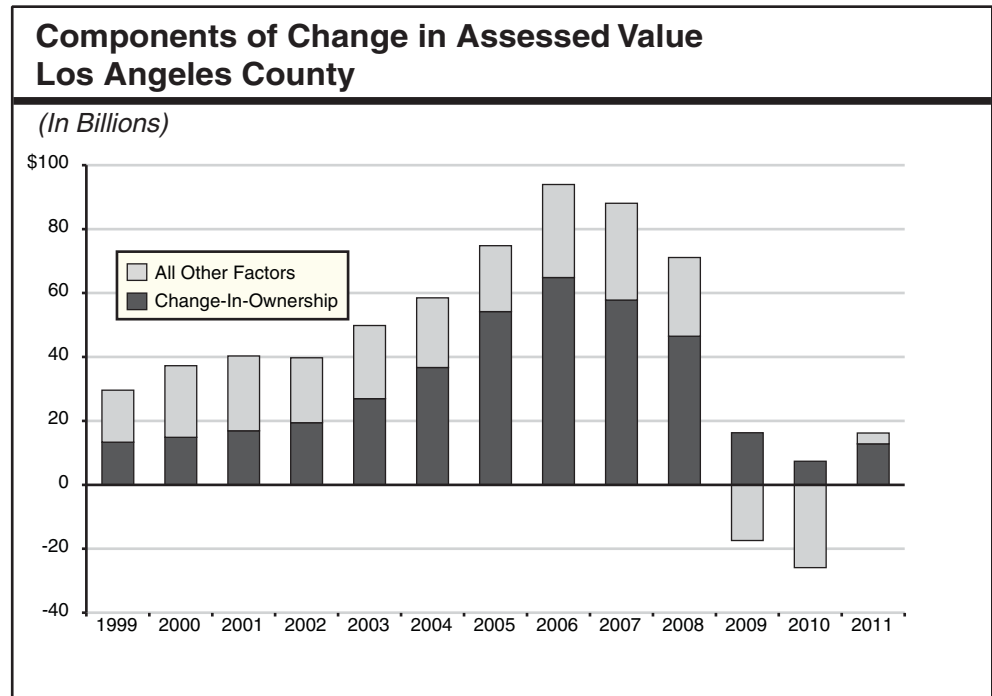
### 2010-11

Property Type	Assessed Value (In Billions)	Percent of Total
Single-Family Homes	\$2,209	53%
Multi-Family and Other Residential	770	19
Commercial/Industrial	891	22
Agricultural and Other Non-Residential	272	7
<b>Total</b>	<b>\$4,141</b>	

- The Total Assessed Value of “Business Property” Depends on How We Define Non-Owner-Occupied Residential Property**
  
- Not All Single-Family Homes Are Owner-Occupied.***  
 Approximately 24 percent of single-family homes in California are rental properties or non-primary residences (second homes).



## Change-in-Ownership



- Total assessed valuation changes each year based on a number of factors, including: change-in-ownership, new construction, Proposition 13 inflation adjustments, and Proposition 8 decline-in-value adjustments.
- Change-in-ownership appears to represent the bulk of year-to-year growth in countywide assessed valuation.
- Evidence from Los Angeles and Santa Clara Counties suggests change-in-ownership accounted for somewhat more than one-half of the change in countywide assessed valuation each year.



## Proposition 8 May Reduce Local Government Revenue Stability Over the Near Term

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- Number of Proposition 8 Properties Has Increased.***  
In 2005-06, about 1 percent of all properties in California were assessed at market value under the provisions of Proposition 8. In 2010-11, more than one in four properties were under Proposition 8.
- Number of Proposition 8 Properties May Have Leveled Off.***  
Between 2006-07 and 2007-08, the number of properties under Proposition 8 increased 250 percent. Last year, in contrast, the number of Proposition 8 properties grew by 3 percent.
- Proposition 8 More Closely Links Local Government Property Tax Revenue to the Local Economy.*** Proposition 8 properties are assessed at market value. Counties with many Proposition 8 properties, therefore, have a greater share of their tax base linked to local real estate markets.