

PROPERTY TAXES: WHY SOME LOCAL GOVERNMENTS GET MORE THAN OTHERS

UC UC Cooperative Extension
CE Land Use Fact Sheet Series

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All of the funds generated by the 1% property tax rate stay in the county, though not all in county government.



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With permission, this fact sheet is adapted from several public documents and has been reviewed by professionals in the tax industry.

Property taxes are a major source of revenue for local communities. They have been part of California's tax structure since 1849.

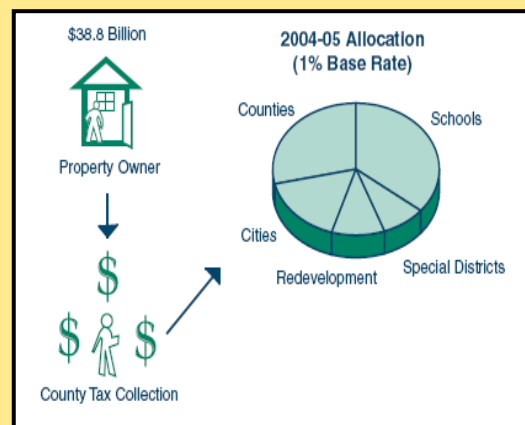
In 2005-06, the property tax raised \$38.3 billion. This amount includes \$34.9 billion under the 1 percent property tax rate and \$3.4 billion in additional property taxes levied to pay bonded indebtedness. Annually, property taxes raise about as much as the state's income tax or the combined state and local sales tax.

Property taxes are used exclusively for local purposes, unlike income and sales taxes. All property taxes are allocated within the county where they are collected. Taxes are distributed to schools (K-12 & community colleges), counties, cities, special districts and redevelopment agencies.

The distribution of property taxes for several counties (2005-06) is on page 3. Knowing the distribution percentage of the dollar helps but the other issues are the amount of money generated by the total valuation in the county, the percentage of the county which is privately owned and therefore possibly available for development or increased value, the kinds of services provided by government, the resident population vs. the second home population and their expectations of the services that should be available. Also, there are increasing costs of those services due to state or federal government regulations where local government

has no control - landfills as a big example. Economies of scale have to be considered, the impact of providing services in a rural vs. urban environment are different.

Property Taxes Are Distributed to Many Entities Within a County



(source: California Legislative Analyst's Office and LAO's Cal Facts 2006)

- Property taxes are collected by each county government. Revenues are then distributed only to entities within that county: school districts, county government, redevelopment agencies, cities and special districts.
 - The property tax rate is limited to 1 percent by the Constitution, plus any additional rate necessary to pay for voter-approved debt.
 - In 2005-06, the average tax rate across the state was 1.098 percent. Until the state's deficit-financing bonds are completely paid off, about one tenth of the schools' share of property taxes is redirected to cities and counties to repay some lost revenue from the sales tax shift. The state backfills the school loses. This triple flip was approved by voters 3/2004
- Assessment practices and property

Some communities provide a full array of services and others cities and counties rely upon special districts to provide some or all of these services.



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tax rates are uniform across the state yet there are significant differences between communities in how this money is distributed.

There are four major factors influencing this variation:

1. The number and value of homes and businesses in the area.
2. The extent to which a local government provides municipal services.
3. The extent to which land is included in a redevelopment area.
4. State laws governing the sharing of property taxes by entities serving a community.

All local governments are not the same. Communities with more land development and higher-value land developments receive more property taxes. Assessed value is generally the market value of a property at the time of purchase adjusted annually by a maximum of 2% for inflation. Typically, communities with more land developments require more public services, such as streets, water systems, and police and fire protection. Not all California cities, counties, and special districts have the same responsibilities. Some communities provide a full array of services and others cities and counties rely upon special districts to provide some or all of these services.

In addition to variations in program responsibilities, counties also differ in the number of people living in cities. In some counties, like

Alameda and Los Angeles, most of the people live in cities and receive many municipal services from their city government. Other counties have few or no cities. These counties have relatively more responsibilities.

Property Tax Base

The property tax applies to all classes of property—residential, commercial, industrial, agricultural, open space, timberland, vacant land and certain personal property.

Real property includes land, buildings, fixtures, mineral rights and other components.

Personal property includes things like equipment, machinery, and aircraft and is generally limited to businesses. Property owned by governments or charities, household personal property, automobiles, securities, and business inventories are exempt from property tax.

Possessory Interests are private interests in publicly owned lands and are taxable. Some examples include: US Forest Service property like ski resorts, stores, and cabins; boat slips at public marinas; tie-downs at public airports; grazing land permits; and mineral rights in public lands. This interest exists as a result of possession, exclusive use, or a right to possession or exclusive use of land and or improvements without outright ownership of the land or a life estate in the property.

Property Assessment

Most property (real and personal) is

California Property Tax Allocation					
<i>(Dollars in Billions)</i>					
Fiscal Years ^a	Revenue	Tax Distribution			
		Schools	Counties	Cities	Other ^b
1977-78	\$10.3	53%	30%	10%	7%
1979-80	5.7	39	32	13	16
1994-95	19.3	52	19	11	18
2005-06	38.3	55	17	10	18

^a Information for 1977-78 includes debt levies.
^b Redevelopment agencies and special districts.

Source of Figures: *California Tax Primer*, 2007 and http://www.boe.ca.gov/annual/pdf/2006/table14_06.pdf

assessed locally by the county assessors, although some property—including railroads and utilities—is assessed by the state.

Prior to the passage of Proposition 13, local governments were authorized to levy individual property tax rates. In 1978, Prop 13 imposed assessment restrictions on the property tax that limit local government’s ability to raise revenues from this tax.

Property tax is an *Ad Valorem Tax* meaning the tax assessed is based on the dollar value of an item or activity. Sales tax is another example. Ad valorem taxes contrast with per-unit taxes, such as California’s alcoholic beverage and cigarette taxes, which are assessed at a fixed dollar amount per unit of the item purchased.

Tax Collection

Secured Roll locally assessed - residential, commercial, all private property & State Board Rolls---utilities, railroads, communications, pipelines, etc.

Unsecured Roll is primarily tenant-owned personal property and fixtures such as office or mining equipment and machinery, boats, aircraft and possessory interests.

Supplemental Roll (most variable) assesses changes in ownership and new construction.

The State determines how property taxes are shared. The responsibility for allocating the property tax was assigned to the state by Prop 13.

Property Tax Rate

Under Proposition 13, the countywide property tax rate is limited to 1% of assessed value. Additional levies are permitted for voter-approved general obligation debt. For 2005-06, the average California countywide tax rate was 1.098%, with the highest at 1.159% for the County of Alameda.

Property Tax Allocation

The share of the 1 percent property tax rate received by individual local governments varies significantly throughout the state. This table shows the distribution of property taxes within a few selected counties.

Most of the variation reflects differences in property tax rates and assessed values during the mid-1970s, the period used as the basis for the state’s mandated tax allocation formulas. The share of property tax allocated to education agencies (schools and community colleges) versus other local governments has changed over time (see table pg 2).



2005-06 General Property Tax Dollar^a for Select California Counties

County	City	County Govt ^b	School ^b	Other Districts	Total
Butte	.05	.12	.62	.21	1.0
Los Angeles	.16	.21	.45	.18	1.0
Orange	.10	.06	.64	.20	1.0
Plumas	.01	.20	.69	.10	1.0
Sierra	.01	.50	.35	.14	1.0
All Counties	.10	.17	.55	.18	1.0

- a. Includes ad valorem levies for debt service on land and/or improvements only, but excludes special assessments levied on other than an ad valorem basis (e.g. per parcel).
- b. County levies for school purposes such as junior college tuition and countywide school levies are included with school levies. http://www.boe.ca.gov/annual/pdf/2006/table15_06.pdf

Before 1978, local agencies determined their property tax rate and the distribution of these revenues. In 1978, Proposition 13 set the 1% maximum rate and legislation determined how property taxes are shared. Beginning in 1979, the state basically prorated property tax revenues among local agencies based on property taxes received in 1978 and backfilled the reduced tax revenues to schools with State aid.

In the early 1990s, the State shifted property tax proceeds from local government to schools to pay the State General Fund obligation to fund education. These are in a special fund (Educational Revenue



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Augmentation Fund) called ERAF that is distributed to local schools.

In 2004, the State shifted property taxes from ERAF to cities and counties to partially offset revenue losses from 1) the ongoing reduction in the vehicle license fees and 2) the redirection of some local sales tax revenue for payment of the state's deficit-financing bonds (the "triple flip").

Each year, the State Board of Equalization calculates the CPI percentage and notifies the County Assessors of the increase or decrease (up to 2%) for valuation of most properties.

There are additional charges that show up on some people's tax bill. These are associated with special district or county user fees or voter approved bond debt, etc.

Property Tax Policy Issues

The property tax has numerous issues associated with it, including:

Fairness of Tax. Under current assessment methods, owners of identical properties can pay vastly different taxes based solely on when they purchased their property.

Variation in Property Tax Shares.

Individual local governments vary greatly in the share of the property tax they receive. Most of this variation reflects differences in local property tax rates and values during the mid-1970s. Local governments have no authority to modify the tax allocation formulas in response to modern needs and preferences. State authority to modify these

allocation formulas was greatly reduced due to voter approval of Proposition 1A in 2004.

Administrative Complexities.

The property tax's complex allocation formulas and many statutory provisions regarding assessment practices make it one of the state's most difficult taxes to administer.

Property Tax Burden Borne by

Homeowners. The total share of the property tax paid by homeowners (versus business and other property owners) has increased modestly over the last three decades. The economic factors underlying this change are not known, but could include different rates of investment in homes vs other properties and different ownership transfer rates.

Resources

County Auditors, Assessors and Tax Collectors are excellent local resources.

The Legislative Analyst's Office (LAO) is a nonpartisan office which provides information to the California Legislature. To request publications call 916/445-4656 or www.lao.ca.gov

Cal Facts 2006, California's Economy and Budget in Perspective http://www.lao.ca.gov/2006/cal_facts/2006_calfacts_state_local.htm

California's Tax System: A Primer, April 2007 http://www.lao.ca.gov/2007/tax_primer/tax_primer_040907.aspx

Demystifying the California Property Tax Apportionment System: A Step-by-Step Guide through the AB 8 Process, March 2006, <http://www.ac.ocgov.com/dcptas.pdf>

California Property Tax an Overview, Publication 29, California State Board of Equalization, Sept 2005. <http://www.boe.ca.gov/proptaxes/pdf/pub29.pdf>

The Board of Equalization has lots of tax information <http://www.boe.ca.gov/>

Compiled and Edited by Holly George. <http://ucanr.org/landusefactsheets>