A protection when the housing market tanks

By Teresa Casazza
August 23, 2007

It's no secret that the housing market has gone down the tubes in recent years. But property tax revenue, a primary source of money for cities, counties, school districts and special districts, is increasing at a steady clip despite the downturn in the housing market. How can this be?

The answer: Proposition 13. An often-overlooked benefit of the historic tax reform initiative is that it provides stability in local property tax revenue during otherwise unstable times. Through each economic cycle over the past 29 years, the property tax has been the most stable large tax revenue source in California.

Under Proposition 13, property is reassessed when it is sold or when there is new construction. So let's assume that a hypothetical seller has owned her home since the '80s, when it was purchased for $100,000. That is her “base year” value for property taxes, with no more than a 2 percent increase every year. When she sells the home this year for $400,000, there is a reservoir of roughly $300,000 in assessed value that now will be taxed.

Because there is a large turnover of residential property each year in California, the reservoir factor means local government sees an increase in property tax revenue each year, even when the housing market is headed in the wrong direction.

Under the system used prior to Proposition 13, property was taxed based on its market value – an amount that could change dramatically from year to year – so a downturn in the housing market meant property tax revenue could drop below the previous year's collections.

Stable property tax growth from year to year means local governments are not forced to cut back on police and fire protection every time the housing market drops 10 percent or more. Without the mitigating effects of Proposition 13, the swings in home values in recent years would have produced massive headaches for local agencies.

Since Proposition 13, local governments have collected higher tax revenues every year, even during slow times in the real estate market. Through economic ups and downs, property tax revenue has increased an average of 7.5 percent a year since voters approved the initiative.

County assessors recently reported that the statewide value of assessed properties is 9.6 percent higher than it was last year. Los Angeles County, by far the state's largest, reported an increase of 9.3 percent in the value of property that will be taxed, while Riverside County reported a 16.6 percent increase. In San Diego, the value of assessed properties increased 9.4 percent, and now totals $391.4 billion – a $33.5 billion increase over last year, despite the slow housing market.

It's true that the old system would produce massive increases in taxing – and a resulting temptation for more government spending – based on the sometimes amazing growth in the value of homes in California. But that is without regard to the plight of fixed-income seniors who would be taxed out of their homes, as they were before Proposition 13 was enacted.

The tax revolt of 1978 showed us that most Californians are more thoughtful, and prefer the current system that protects homeowners from massive tax hikes and provides revenue stability for local governments.

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