

The Evolution of Proposition 13

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No one looks the same as they did 30 years ago. Neither does Proposition 13. It has evolved as a result of changes made by voters, and through interpretation by the legislature, the State Board of Equalization, and the courts. Most of the provisions of the proposition have changed to some degree, but the core elements of a general 1% tax rate limit and an acquisition value assessment system for local real property remain basically the same.

This presentation will focus on the changes in the allocation of property tax revenue, the changes in the definition of change of ownership and new construction, the evolution of a fiscal tool stabilizing property tax revenue, and whether it caused any shift in tax burden over time. But first, a brief look at the property tax prior to June 6, 1978.

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The Property Tax before Proposition 13

In reviewing the evolution of Proposition 13, it is instructive to look at the *ad valorem* property tax system that existed prior to the passage of the initiative. It is not a pretty picture. The property tax was a major political issue from 1965 to 1978. Ronald Reagan made property tax reform one of the central issues in his campaign for governor. Some of the problems:

- **Favoritism and Corruption.** During the 1965-1978 period, two assessors from major counties were sent to prison, one major county assessor under investigation committed suicide, and another assessor from a major county resigned under investigation and was not indicted. What helped favoritism flourish was that property was assessed on a subjective basis, on an opinion of value. Proposition 13 ushered in a more objective standard, with local real property generally assessed on sales price.
- **Assessment Inequities.** During this period, the Assembly Revenue and Taxation Committee periodically obtained the result of samplings of individual local assessments in various counties by the State Board of Equalization, as part of the board's intercounty equalization responsibility. These samples showed properties being assessed at from 2% to 200% of value. Coefficients of dispersion, which is a way of measuring assessment uniformity, ranged from 7% to 37% in the three years prior to 1978. If all properties were assessed uniformly, the coefficient of dispersion would be zero. Only one county, Marin, had a coefficient of dispersion below 10. In San Francisco, it was 21.
- **Assessment Levels Well Below Statutory Requirements.** Prior to the passage of Proposition 13, state law required property to be assessed at 25% of value. This practice was to fool most of the voters, who were unaware of the legal requirement, to make it look like they were getting a good deal. In fact, the State Board of Equalization found actual assessed values well below the 25% level. In 1977, the average statewide assessment ratio was 23% (which would be 92% on a full value basis). Currently, the board is finding most assessors to be assessing between 98% and 100% of statutory value, under the acquisition value assessment system. San Francisco still lags, at just above 95%.
- **Property-Based School Funding Declared Unconstitutional.** In 1971, the California Supreme Court declared the property tax-based school finance system unconstitutional because some schools could raise more revenue than others with equal tax effort. *Serrano v. Priest*, 487 P. 2d 1241 (1971). In a second decision in 1976, the court ruled that a legislative fix did not solve the problem. Before a second legislative fix (AB 65 of 1977) could be tested in court (John McDermott, an attorney for the plaintiffs, said it did not comply), it was superseded by the passage of Proposition 13.
- **Property Tax Rates Higher in Urban Core Areas.** Prior to the passage of Proposition 13, property tax rates varied widely between urban areas and other regions of the state. Up to 2-1 disparities could be found. As urban core areas gen-

erally had higher tax rates, this led to another form of fiscalization of land use, by encouraging investment and housing outside the central cities.

- **Heavy Tax Burden.** Perhaps the most significant property tax problem from 1956 to 1978 was the heavy tax burden on property owners. Table 1 illustrates this burden in today's terms. If the median value home in 2006 was taxed using 1977's average tax rate and assessment ratio, the tax would be over \$13,000, rather than just over \$3,000. Compounding this problem was the cyclical reassessment plan used by most assessors that could cause property taxes to more than double in one year. Even worse, if a home was on land not zoned for homes, the assessor often would be valuing the property under the "highest and best use" theory of assessing then in use, as a site for a gas station or apartment house. This would result in a huge property tax bill, forcing the homeowner to sell.

In view of these problems, it is not surprising that a widespread cross-section of Californians came to believe a quote offered by University of California Economics Professor Malcolm Davisson to the Assembly Revenue and Taxation Committee, to wit: "The general property tax has only two faults: first, it is wrong in theory; and second, it doesn't work in practice."

Changes in the Allocation of Property Tax Revenue

Section 1 of Proposition 13 required the property tax to be "apportioned according to law." The legislative counsel advised lawmakers that the phrase "according to law" gave the legislature the responsibility for allocating the property tax (Opinion 17388, dated December 29, 1977). (See Revenue and Taxation Code Sections 95 through 100 for provisions allocating the property tax.)

As a practical matter, the state had to allocate the property tax. Requiring all local jurisdictions to agree on a formula was too cumbersome to be practical. Jurisdictions with little dependence on the property tax would be able to hold others hostage unless they received a large share.

If one local government agency (such as a county) had the responsibility, the allocating agency likely would take more than its fair share, considering the competition among local units for scarce property tax dollars. As it was, some counties took more than the state formula provided. State audits caught and corrected this practice. At one point, the Department of Finance found Los Angeles County giving itself \$25 million a year more than it was entitled.

In designing the allocation formula, the legislature looked at alternative models. One plan would have divided the property tax equally among various levels of government (for example, counties would get 30%, cities would get 12%, schools would get 53%, etc.). This idea was rejected by the Proposition 13 conference committee after loud protests from local jurisdictions that would have lost a substantial amount of property tax. This formula also would have resulted in some local jurisdictions getting more than they lost from the passage of Proposition 13.

Table 1. Comparison of Property Tax Bill Under Pre-Proposition 13 and Post-Proposition 13 Assessments*

	2006-07 Using Pre-Prop. 13 Method	2006-07 Using Post-Prop. 13 Method
California Median Home Value	\$ 556,430	\$ 556,430
Assessment Ratio	92.0 %	51.3 %
Assessed Value	\$ 511,915	\$ 285,448
Average Tax Rate	2.7 %	1.1 %
Annual Property Tax Bill	\$ 13,668	\$ 3,129
Monthly Property Tax Bill	\$ 1,139	\$ 261

*The assessment ratio for the "Pre-Prop. 13" column is from the 1976-77 State Board of Equalization Annual Report, Table 13 (the BOE percentage was multiplied by a factor of four to account for full-value assessment). The assessment ratio for the "Post-Prop. 13" column is calculated by dividing the assessed value of homeowner-occupied properties (as determined in the State Board of Equalization Assessed Value of Homeowner-Occupied Properties report) by the market value of homeowner-occupied property (the market value can be determined by multiplying the number of Homeowner-Occupied Properties by the California Median Home Sales Price).

During discussions of the issue, Senate President Pro Tem James Mills was very critical of legislative staff for even suggesting this alternative.

The only politically feasible allocation scheme, and the one adopted in SB 154 of 1978, was to give all local jurisdictions the same proportionate share of the property tax that existed before Proposition 13 passed. (For cities, counties, and districts, the average percentage in the prior three years was used, at the request of Senator Mills, who wanted to help jurisdictions in his San Diego County district.)

This allocation formula was justified on the basis of "need," and jurisdictions levying high property taxes prior to 1978 got a proportionately larger share than those that levied low property taxes. The formula has come under criticism for giving some counties a much larger share of the property tax than other counties.

The allocation formula has been the subject of more legislation than any other feature of Proposition 13. However, there have been few court decisions on this part of the initiative.

In 1979, the legislature, with AB 8, made two significant changes in the allocation formula. Allocation was shifted to a "*situs*" basis for growth, so fast-growing jurisdictions would get a greater share of the property tax to pay for the costs of growth. This change was accomplished by allocating the property tax proportionally based on pre-1978 shares for the property tax in each tax rate area, rather than the prior proportionate share of total countywide property tax revenue.

Provisions also were included to allocate revenues when there is a jurisdictional change (such as an annexation or creation of a new city) or a transfer of services.

The second change made by AB 8 in the allocation formula was to shift a portion of property tax revenues allocated to schools in 1978 to cities, counties, and districts for 1979 and thereafter. For cities, the amount shifted equaled 82.91% of the funds that cities received in the 1978 “bailout.” For counties, the shift equaled 100% of their “bailout,” adjusted for specified health and welfare costs. Special districts got 95.24% of their “bailout” in shifted property tax revenue, subject to further allocation by counties. These shifts reduced the schools’ share of the property tax from 54% to 32%.

The legislature also included in AB 8 a provision known as “the deflator.” The deflator was designed to work if state revenue, as estimated by the Organization Responsible for Accurate and Comprehensive Long-Range Estimates (ORACLE), fell below a specified level. In that event, local subventions would be reduced. The deflator was never activated, and it was repealed in 1984 by AB 1849 (Assembly Committee on Local Government).

Almost immediately, a group of cities that did not levy property taxes in 1977 or before began agitating for a share of the property tax. Since the property tax had been allocated based on historical shares, and these cities had no historical share, originally they did not receive any of the allocated property tax revenues.

These cities argued that the situation was unfair, because the residents of these cities were paying the same 1% tax rate as residents of other cities. However, allocation of the property tax is a “zero sum” game—for every jurisdiction that gets a larger share, others have to lose an equal amount. After several unsuccessful tries, these cities finally gained a share of the property tax. In 1984, the legislature and governor enacted SB 794 (Senate Committee on Local Government) to allocate a share of the property tax to Yorba Linda, a nonproperty-tax city in Orange County, based on a 0.1% property tax rate. In 1987, SB 709 (Lockyer) allocated a share of the property tax, also based on a 0.1% property tax rate, to all “no and low” property tax cities, phased in over 10 years. In 1988, the formula was refined by shortening the phase-in period (AB 1197, Brown).

As a result, more than 30 small- to medium-sized cities (mostly in Los Angeles County) ended up with more property tax revenue than they received prior to passage of Proposition 13.

In 1992 and 1993 the legislature shifted back to schools approximately the same percentage of property tax that had been shifted from schools to other local agencies in 1979. This shift, known as the Education Revenue Augmentation Fund, or ERAF, was done to reduce the state’s budget deficit, because schools need less state support when they get added property tax revenue.

This reverse shift was highly controversial and was fought vigorously by local agencies. After agonizing over her vote, Assemblywoman Debra Bowen cast the deciding vote to approve the 1993 shift. Legislation to reshift revenue—in whole or in part—from schools back to other local agencies failed in every session from 1993 through 1998.

In 1999, the legislature gave cities and counties \$150 million in one-time ERAF relief as part of the budget agreement (AB 1661, Torlakson) and asked the legislative analyst to conduct a study of property tax allocation (AB 676, Brewer).

To help balance the deficit-ridden 2004-05 and 2005-06 state budgets, the legislature again raided local coffers and shifted \$1.3 million each year from local agencies to schools. Cities, counties, and special districts were hit up for \$350 million each per year, and redevelopment agencies had to shift \$250 million (SB 1096, Senate Budget and Fiscal Review Committee). Also, state subventions to replace revenue losses to local governments due to a car tax reduction (from 2% to 0.65% of a vehicle's value) were replaced by a shift of school property taxes from schools to cities and counties.

In exchange for all this shifting, the legislature placed SCA 4 (Torlakson) on the ballot to prevent further shifting of city and county property tax revenue. Approved by voters as Proposition 1A in November 2004, the measure prohibits the legislature from passing a bill reducing any local agency's share of the property tax, except for two years out of 10 under specified conditions. Proposition 1A won in a landslide, with 83.7% of the voters in support.

For a number of years, San Diego County worked to get a legal challenge of the property tax allocation formula to court. The county argued that it was unfair for the state to allocate more property tax to some counties than to others.

However, a case from Rancho Cucamonga reached the courts first. In 1991, the Fourth District Court of Appeal sustained the constitutionality of the allocation system in *Rancho Cucamonga v. Mackzum*, 46 Cal. Rptr. 2d 448 (4th Dist. 1991).

Evolution of the Definition of Change of Ownership

Change of ownership became the primary reappraisal trigger under Proposition 13. Determining what is and what is not a reassessable change of ownership is not an easy task due to myriad transfer techniques and the complexity of the change-of-ownership law. Initially, the Task Force on Property Tax Administration, which developed the basic implementation plan adopted by the legislature in 1979, set out to distill the basic characteristics of a change of ownership and to embody them in a single three-part test.

The task force concluded that a change of ownership is a transfer that has all three of the following characteristics:

- It transfers a present interest in real property;**
- It transfers the beneficial use of the property; and**
- The property rights transferred are substantially equivalent in value to the fee interest.**

The legislature adopted this verbatim from the Task Force Report (see Revenue and Taxation Code Section 60).

For corporations, the legislature added a second change-of-ownership trigger (Revenue and Taxation Code Section 64). Even though shareholders have no legal

rights to corporate real property, all corporate property was reassessed when a corporation or single person gained control of more than 50% of the voting stock of another corporation.

To further clarify whether transactions were or were not changes of ownership, a number of examples of each were added to statute (Revenue and Taxation Code Sections 61, 62, and 63). For example, a lease (including renewal options) for 35 years or more became a change of ownership. Transfers of property between spouses were not. Transfers into trusts were not changes of ownership if either the trust is revocable or the creator of the trust is the sole beneficiary during his or her lifetime.

The creation or renewal of a possessory interest also was a change of ownership. The original definition included sublease portions of possessory interests. Taxpayers, such as Pier 39 in San Francisco, objected, arguing that the sublease didn't meet the general test of a change of ownership.

As a result, the legislature revised the definition, providing that a sublease of a taxable possessory interest may or may not trigger a change-of-ownership reassessment, depending on the length of the sublease (SB 44, Kopp, of 1996).

Proposition 13 has been changed several times to remove types of property from a change-of-ownership reassessment. Proposition 58 of 1986 placed in the state constitution the original 1978 statutory interspousal exemption, and excluded from reassessment transfers between parents and children of dwellings and up to \$1 million of other property. Voters approved Proposition 193 in 1996 to extend the parent-child transfer exclusion to grandparents and grandchildren whose parents are deceased.

In 2003, the Board of Equalization adopted a rule (462.240)—over the objections of county assessors, who asserted the board did not have authority—exempting transfers between registered domestic partners from change-of-ownership reassessments. Proponents argued that registered domestic partners should be treated the same as married couples. In 2005, the legislature codified this exemption in statute (SB 565, Migden). Again, assessors claimed that the exemption was illegal, and they went to court. In *Michael V. Strong v. State Board of Equalization*, 66 Cal. Rptr. 3d 657 (3d Dist. 2007), the Third District Court of Appeal said the legislature can ratify illegal regulations, and that Proposition 13 was a limitation to tax, and thus the legislature had the authority to create the domestic partners exclusion by statute rather than by constitutional amendment. In 2007, the legislature made this change-of-ownership exclusion retroactive to 2000 (SB 559, Kehoe).

In 2007, the parent-to-child change-of-ownership exemption was extended to foster children (AB 402, Ma).

A change-of-ownership issue unresolved as of mid-2008 was whether a transfer of a life estate in property is a transfer subject to reassessment. While the 1978-79 Task Force and the legislature said the transfer of property with a reserved life estate is not a change of ownership, they were silent on the transfers of life estates. However, they provided that a lease of less than 35 years is not a change of ownership.

The Board of Equalization and assessors have been operating as if all transfers of life estates are changes of ownership. However, in *Steinhart v. County of Los Angeles*, 155 66 Cal. Rptr. 3d 458 (2d Dist. 2007), *cert. granted*, 172 P.3d 400 (Dec. 10, 2007), the Second District Court of Appeal ruled that such transfers are not changes of ownership. In December 2007, the state Supreme Court agreed to review the decision.

It is often incorrectly presumed that changes of ownership will always produce more revenue for government due to a higher assessment. This is not true. A rule of thumb: If the market value is higher than the base-year value, the government will get more money. Conversely, if the market value is less than the Proposition 13 base-year value, government will lose money. This will occur because the transfer creates a new (and in these transfers, a lower) base-year value. Thus, the assessed value will not be allowed to increase to the original Proposition 13 base-year value.

Amendments were added in 1986 (Proposition 60) and 1988 (Proposition 90) to allow homeowners over the age of 55 to move to comparable dwellings and transfer their base-year value to the new residence within a two-year period. The right was unconditional for intracounty moves, but must be authorized by the receiving county for moves from one county to another. Severely disabled homeowners of any age also were covered by this exclusion.

In addition, change of ownership does not include the acquisition of property comparable to that taken in eminent domain proceedings (Proposition 3 of June 1982), acquisition in the same county of property comparable to that damaged by a disaster (Proposition 50 of 1986) and acquisition in a different county (if allowed by the county) of property comparable to that damaged by a disaster (Proposition 171 of 1993).

Without constitutional authorization, the legislature exempted transfers of a mobile home park to a nonprofit corporation formed by the tenants of the park and, under certain conditions, of transfers of spaces in a mobile home park to the tenants occupying those spaces (Revenue and Taxation Code Section 62.1).

The courts also have been busy attempting to define what is and is not a reassessable change of ownership. Some key decisions:

In *Sav-On Drugs, Inc. v. County of Orange*, 236 Cal. Rptr. 100 (4th Dist. 1987), an appellate court said a Section 64 change of ownership occurred when there was a corporate merger where shareholders of the acquired corporation became minority shareholders in the merged corporation.

In *E. Gottschalk and Co., Inc. v. County of Merced*, 242 Cal. Rptr. 526 (5th Dist. 1987), an appellate court stated that the provisions of Sections 61 and 62, providing that the creation of a lease of 35 years or more was a change of ownership, were a reasonable interpretation of Proposition 13. At issue was a 30-year shopping center lease with two 10-year options to renew.

In *Title Insurance and Trust Co. v. County of Riverside*, 767 P.2d 1148 (1989), the California Supreme Court, in a decision written by Justice Stanley Mosk, ruled that when a corporation acquires control of another corporation, prop-

erties owned by subsidiaries of the acquired corporation are subject to a change-of-ownership reassessment.

In *Kraft, Inc. v. County of Orange*, 268 Cal. Rptr. 643 (4th Dist. 1990), an appellate court held that reassessment of property of a corporation is triggered upon acquisition by another corporation, notwithstanding the fact that stockholders of the acquired corporation have a majority interest in the acquiring corporation. The case stemmed from the merger of Kraft and Dart Industries into a new corporation, Dart and Kraft, Inc. (DKI), with former Kraft shareholders controlling 51.5% of DKI stock. Kraft contended that no change in corporate control occurred, because Kraft shareholders became majority shareholders of DKI and continued to control Kraft indirectly. The court said: "Kraft misses the point. The same shareholders did maintain control, but a new corporation obtained direct control."

In *Howard v. County of Amador*, 269 Cal. Rptr. 807 (3d Dist. 1990), an appellate court rejected Amador County's contention that the transfer of long-term fixed mineral interests in a property requires a reassessment of all interests in a property. However, the court found that the transfer of fixed-term mineral rights is a change of ownership for the specific mineral right transferred.

In *Shuwa Investments Corp. v. County of Los Angeles*, 2 Cal. Rptr. 2d 783 (2d Dist. 1991), an appellate court found that a complicated step transaction by which Shuwa Investments Corporation gained full control of the ARCO Plaza complex in Los Angeles triggered a full change of ownership.

Prior to the transaction, ARCO and Bank of America each owned 50% of a partnership that owned ARCO Plaza. Shuwa Investments gained control of the property in a three-step transaction in which: (1) ARCO sold its partnership interests to Shuwa; (2) Shuwa and Bank of America liquidated the partnership and received 50% undivided interests in the property; and (3) Bank of America sold its 50% interest to Shuwa.

In *Pacific Southwest Realty Co. v. County of Los Angeles*, 820 P.2d 1046 (1991), the California Supreme Court reversed a lower court decision and held that sales and leaseback transactions are changes in ownership. At issue was the reassessment of the Security Pacific Bank building in downtown Los Angeles after its sale and leaseback in 1984. The \$310 million sale of the building included a reservation of an estate of 73% of the property for a specified number of years.

In discussing Section 60's "transfer of a present interest in real property" test, Justice Stanley Mosk wrote: "Plaintiff's contention that it did not convey a present interest in real property is simply incorrect and cannot forestall a conclusion that a transfer of a present interest in real property occurred. Plaintiff did not retain the same interest when it sold its fee and reserved an estate for years. The entire fee was transferred to Metropolitan Life. The simultaneous creation of a different interest in plaintiff will not defeat the first prong of Section 60."

In 1997 and 1998, the State Board of Equalization revised its change-of-ownership rules to make them clearer and easier to understand. For example, Rule 462.180, which clarifies various aspects of legal entity transfers, was amended to include limited liability companies.

Evolution of the Definition of New Construction

Since Proposition 13 did not define “new construction,” the matter of what type of “new construction” should trigger a new assessment remains an issue at this writing. There was no question that any addition to land would give rise to a new assessment. But what about remodeling?

Initially, the State Board of Equalization, by Rule 463, took the position that any alteration of an existing improvement that extended the economic life of the property triggered a reassessment.

In 1979, the legislature specifically rejected the BOE approach, and provided that only a major rehabilitation of an improvement would create a “reassessable event.” A major rehabilitation was defined as a renovation that converted an improvement to the equivalent of a new improvement (see Revenue and Taxation Code Section 70).

For multi-year new construction, the construction in progress on the lien date is appraised at its full value, and on the date of completion, the entire property is reappraised.

Voters adopted several amendments to Proposition 13 that provided for or authorized exclusions from a “new construction” reassessment. These exclusions included specified reconstruction after a disaster (Proposition 8 of November 1978), specific seismic reinforcements (Proposition 23 of 1984), fire extinguishing systems (Proposition 31 of 1984), and construction for making a dwelling more accessible to disabled people (Proposition 110 of 1990, and Proposition 177 of 1994).

In 1998, voters approved Proposition 1, authorizing the legislature to exempt from new construction the replacement or repair of a structure on substantially environmentally damaged property, after remediation of the problem.

An unusual incident involving the interpretation of what constitutes new construction occurred in the early 1980s, when Los Angeles County Assessor Alex Pope sued the State Board of Equalization over advice given by BOE Assessment Standards Chief Verne Walton in 1980 in Assessors’ Letter 80-77.

Since advice by the board to assessors through letters and assessment manuals does not have the same force of law as a board rule, it was surprising for an assessor to sue over an assessors’ letter.

At issue was the treatment of construction in progress. Revenue and Taxation Code Section 71 provided that construction in progress be appraised each year, and that upon the date of completion, the entire portion of newly constructed property would be reappraised. In Assessors’ Letter 80-77, the BOE stated that when a large project is completed in distinct stages, with some portions available for occupancy prior to completion of the total project, it is proper to assign a base year to the completed portions. Pope disagreed, saying there should be a final reappraisal of all phases when the total project is completed.

The Second District Court of Appeal in 1983 sided with the board, saying the board's interpretation of its rule was consistent with legislative intent. *Pope v. State Board of Equalization*, 194 Cal. Rptr. 883 (2d Dist. 1983).

Proposition 13 Adds Stability to Property Tax

One of the features of Proposition 13 that was not apparent when it passed was the long-term stabilization of property tax revenues. No one mentioned this as an advantage in the campaign, nor was it mentioned in any analysis of the measure. Under an *ad valorem* system, revenues are much more volatile, growing fast when real estate values boom, and falling in real estate downturns, such as the one we're in now.

Proposition 13's acquisition value assessment system acts in a countercyclical manner to provide stability in the flow of property tax revenue to local government. Acquisition value assessments have worked in the nature of a reservoir by keeping an untapped reserve of value that will accrue to local entities upon changes in ownership.

In years of high inflation of real estate values, Proposition 13 acts as a brake, holding back money that otherwise would have been generated by rapidly growing assessments under an *ad valorem* tax. Conversely, in times of falling property values, assessment growth continues under an acquisition value system, since the new, substantially higher values from changes of ownership, new construction, and the 2% inflation factor are likely to exceed the Proposition 8 decline-in-value assessments.

For example, assume that there is a 10% drop in market values, and a property worth \$300,000 falls to \$270,000 in value from one year to the next. Assume that the property's base-year value is \$100,000. When it changes ownership, the value on the roll goes up \$170,000 under the acquisition value system, rather than falling \$30,000, as it would under the *ad valorem* system.

Table 2 illustrates the "reservoir effect" of Proposition 13. During economic downturns, when real estate market values declined—at times as much as 4.5% (1993-94)—because of Proposition 13, the average assessed value of an individual homeowner-occupied property grew for that same time period (3.9% in 1993-94, see Table 2).

A Shift in Tax Burden?

Has the evolution of Proposition 13 caused a shift in the tax burden among classes of properties? When Proposition 13 passed, there was concern that the initiative would result in a shift of the property tax burden to homeowners. The Property Tax Administration Task Force, formed to implement the assessment

Table 2. Comparison of Proposition 13 Homeowner-Occupied Property and California Median Home Sales Price

Year	Assessed Value of a Single Homeowner-Occupied Property ^a	Percent Increase by Year	California Median Sales Price ^b	Percent Increase by Year
1979-80 ^c	\$ 11,357	-	\$ 84,150	-
1980-81 ^c	\$ 13,076	15.1	\$ 99,550	18.3
1981-82	\$ 57,120	9.2	\$ 107,710	8.2
1982-83	\$ 61,610	7.9	\$ 111,800	3.8
1983-84	\$ 64,282	4.3	\$ 114,370	2.3
1984-85	\$ 69,258	7.7	\$ 114,260	(0.1)
1985-86	\$ 74,326	7.3	\$ 119,860	4.9
1986-87	\$ 79,712	7.2	\$ 133,640	11.5
1987-88	\$ 86,551	8.6	\$ 142,060	6.3
1988-89	\$ 93,318	7.8	\$ 168,200	18.4
1989-90	\$ 103,768	11.2	\$ 196,120	16.6
1990-91	\$ 113,488	9.4	\$ 193,770	(1.2)
1991-92	\$ 121,777	7.3	\$ 200,660	3.6
1992-93	\$ 130,412	7.1	\$ 197,030	(1.8)
1993-94	\$ 135,503	3.9	\$ 188,240	(4.5)
1994-95	\$ 139,164	2.7	\$ 185,010	(1.7)
1995-96	\$ 142,154	2.1	\$ 178,160	(3.7)
1996-97	\$ 145,133	2.1	\$ 177,270	(0.5)
1997-98	\$ 147,888	1.9	\$ 186,490	5.2
1998-99	\$ 155,314	5.0	\$ 200,100	7.3
1999-00	\$ 165,278	6.4	\$ 217,510	8.7
2000-01	\$ 176,946	7.1	\$ 241,350	11.0
2001-02	\$ 190,478	7.6	\$ 262,350	8.7
2002-03	\$ 203,404	6.8	\$ 316,130	20.5
2003-04	\$ 221,313	8.8	\$ 371,520	17.5
2004-05	\$ 235,854	6.6	\$ 450,770	21.3
2005-06	\$ 260,525	10.5	\$ 522,670	16.0
2006-07	\$ 285,024	9.4	\$ 556,430	6.5
Average	-	7.1	-	7.5

^aData calculated by dividing the total value of homeowner-occupied property (see Appendix 1) by the total number of homeowner exemptions as reported in the BOE Annual Reports, Table 9.

^bSource: Data from the California Association of Realtors.

^cUntil 1981-1982, property was assessed at 25% of “full” value. Above “Percent Increase by Year” accounts for assessment changes.

provisions of the initiative, was one of the groups worried that there might be such a shift.

For a number of years, critics of Proposition 13 have alleged that such a shift occurred. They now cite the latest figures from the State Board of Equalization that owner-occupied homes represented 34.3% of total property tax assessed values in 1979-80 and 39.3% in 2006-07.

Those figures are misleading. According to a more in-depth analysis of BOE data, published by Cal-Tax in 2008, Proposition 13 did not cause this shift, and in fact has prevented a more substantial shift to homeowners.

Further refinement of the data shows that values of owner-occupied homes grew an average of 8.3 percent a year since 1979, while values of other property subject to Proposition 13's acquisition value assessment system grew an average of 8.5% a year (Table 3).

Why are both homeowner and nonhomeowner properties subject to Proposition 13 assessment a larger percentage of the assessment roll by 2006-07? Ironically, the properties that still are assessed on an *ad valorem* basis at 100% of their value are very slow-growing. Locally assessed personal property values have grown only 4.2% a year on average, and the value of state-assessed property other than railroad property has grown only 3.4% a year. State-assessed railroad property's average growth rate has been 0.7%.

The share of the total of nonhomeowner locally assessed property subject to Proposition 13's acquisition assessment system grew from 47.4% in 1979-80 to 55.0% in 2006-07 (Figures 1 and 2). To put it another way, of property subject to Proposition 13's acquisition value assessment, the owner-occupied home share actually declined from 41.99% in 1979-80 to 41.64% in 2006-07 (Figures 3 and 4).

If Proposition 13 had not passed, the share of property tax paid both for homeowner-occupied and nonhomeowner properties (currently subject to Proposition 13) would have been greater than it is today.

Another way of looking at the comparative tax burden is to determine the percentage of market values at which properties are being assessed. Since the late 1980s, the BOE has been determining the ratio of acquisition value to market value for commercial and industrial property. This is required by federal law (the 4-R Act) to adjust the value of state-assessed railroad property. Table 4 shows this ratio for each year. Commercial and industrial property assessment averaged 75.1% of market value from 1988-89 to 2006-07.

For owner-occupied property, the average for the same period is 66.3% (Table 5). Thus, if all properties were assessed on an *ad valorem* basis (the assessment system prior to Proposition 13), homeowners would be paying a much larger percentage of the total property tax burden.

Table 3. Comparison of Growth in Assessed Value of Homeowner-Occupied Property and Nonhomeowner-Occupied Property Subject to Proposition 13 Assessment Provisions

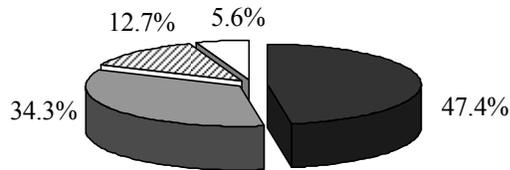
Year	Homeowner Occupied Property*	Percent Increase by Year	All Locally Assessed Nonhomeowner Property Subject to Prop. 13**	Percent Increase by Year
1979-80	\$ 45.6	-	\$ 63.0	-
1980-81	\$ 53.7	17.8	\$ 74.7	18.6
1981-82	\$ 238.1	10.8	\$ 345.7	15.7
1982-83	\$ 259.6	9.0	\$ 392.7	13.6
1983-84	\$ 273.6	5.4	\$ 429.9	9.5
1984-85	\$ 295.2	7.9	\$ 479.0	11.4
1985-86	\$ 321.1	8.8	\$ 529.9	10.6
1986-87	\$ 349.9	9.0	\$ 578.2	9.1
1987-88	\$ 386.5	10.5	\$ 641.8	11.0
1988-89	\$ 424.3	9.8	\$ 705.2	9.9
1989-90	\$ 477.1	12.4	\$ 780.3	10.6
1990-91	\$ 528.1	10.7	\$ 878.8	12.6
1991-92	\$ 573.7	8.6	\$ 955.1	8.7
1992-93	\$ 625.3	9.0	\$ 990.1	3.7
1993-94	\$ 664.7	6.3	\$ 1,000.8	1.1
1994-95	\$ 699.8	5.3	\$ 991.7	-0.9
1995-96	\$ 722.9	3.3	\$ 978.1	-1.4
1996-97	\$ 739.8	2.3	\$ 980.5	0.2
1997-98	\$ 759.8	2.7	\$ 1,004.2	2.4
1998-99	\$ 800.4	5.3	\$ 1,046.7	4.2
1999-00	\$ 856.9	7.1	\$ 1,127.3	7.7
2000-01	\$ 921.4	7.5	\$ 1,250.7	10.9
2001-02	\$ 1,001.7	8.7	\$ 1,351.7	8.1
2002-03	\$ 1,080.2	7.8	\$ 1,516.5	12.2
2003-04	\$ 1,193.1	10.5	\$ 1,543.0	1.7
2004-05	\$ 1,281.7	7.4	\$ 1,698.1	10.1
2005-06	\$ 1,422.3	11.0	\$ 1,903.7	12.1
2006-07	\$ 1,559.4	9.6	\$ 2,185.2	14.8
Average	-	8.3	-	8.5

Note: Dollar amounts in billions.

*Source: From the State Board of Equalization Assessed Value of Properties Receiving the Homeowners' Exemption as a Percentage of Total Assessed Value.

**Sources: See Appendix 1 for a complete explanation of this table.

Figure 1. Percentage of Overall Property Taxes Borne by Homeowners and Nonhomeowners during the 1979–1980 Assessment Period

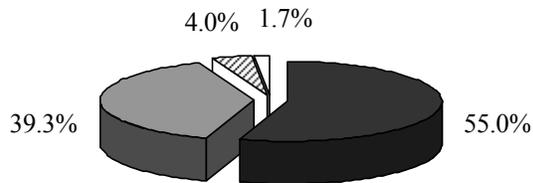


- All Locally Assessed Nonhomeowner Property
- Homeowner Occupied Property
- ▨ Locally Assessed Tangible Personal Property–Non-Prop. 13
- State Assessed Property–Non-Prop. 13, Including Railroad Values

Note: Percentages are for the 1979–1980 assessment period.

Source: State Board of Equalization; Dave Doerr, *California's Tax Machine*, 559–62: 2008.

Figure 2. Percentage of Overall Property Taxes Borne by Homeowners and Nonhomeowners during the 2006–2007 Assessment Period



- All Locally Assessed Nonhomeowner Property Subject to Prop. 13
- Homeowner Occupied Property
- ▨ Locally Assessed Tangible Personal Property–Non-Prop. 13
- State Assessed Property–Non-Prop. 13, Including Railroad Values

Note: Percentages are for the 2006–2007 assessment period.

Source: State Board of Equalization; Dave Doerr, *California's Tax Machine*, 559–62: 2008.

Figure 3. Share of Property Tax Values for Properties Subject to Proposition 13 Acquisition Value Assessments, 1979–1980

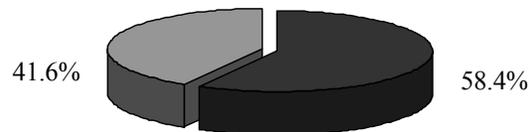


- All Locally Assessed Nonhomeowner Property Subject to Prop. 13
- Homeowner Occupied Property

Note: Percentages are for the 1979–1980 assessment period.

Source: State Board of Equalization; Dave Doerr, *California's Tax Machine*, 559–62: 2008.

Figure 4. Share of Property Tax Values for Properties Subject to Proposition 13 Acquisition Value Assessments, 2006–2007



- All Locally Assessed Nonhomeowner Property Subject to Prop. 13
- Homeowner Occupied Property

Note: Percentages are for the 2006–2007 assessment period.

Source: State Board of Equalization; Dave Doerr, *California's Tax Machine*, 559–62: 2008.

Table 4. Commercial and Industrial Property Assessments as a Percentage of Market Value

Year	Assessment Ratio
1988-89	70.4
1989-90	71.1
1990-91	74.2
1991-92	74.9
1992-93	81.9
1993-94	84.9
1994-95	87.6
1995-96	86.7
1996-97	86.1
1997-98	80.6
1998-99	76.2
1999-00	75.6
2000-01	71.7
2001-02	74.9
2002-03	72.7
2003-04	71.5
2004-05	65.6
2005-06	61.0
2006-07	59.9

Notes: See Appendix 2. All Business Property Assessed values are based on BOE Roll Year assessments. Data from the State Board of Equalization Ratio of Assessed Value of Commercial/Industrial Property to Market Value as adopted by the BOE each May, which is known as the "4-R Act." (Federal law requires railroad property to be assessed at the same ratio of market value as all other business property.) Legislation requiring the BOE to determine the ratio of assessed value to market value for business property was not adopted by the legislature until 1986 in AB 2890 (Hannigan). Records for the roll years of 1986-1987 and 1987-1988 were not available at time of printing (due to a mold problem at the BOE headquarters, records were temporarily moved to storage in 2007 and were not accessible).

Table 5. Homeowner-Occupied Property Assessments as a Percentage of Market Value

Year	Homeowner Assessed Value in Proportion to Market Value
1979-80	54.0
1980-81	52.5
1981-82	53.0
1982-83	55.1
1983-84	56.2
1984-85	60.6
1985-86	62.0
1986-87	59.6
1987-88	60.9
1988-89	55.5
1989-90	52.9
1990-91	58.6
1991-92	60.7
1992-93	66.2
1993-94	72.0
1994-95	75.2
1995-96	79.8
1996-97	81.9
1997-98	79.3
1998-99	77.6
1999-00	76.0
2000-01	73.3
2001-02	72.6
2002-03	64.3
2003-04	59.6
2004-05	52.3
2005-06	49.8
2006-07	51.2
Average from 1988	66.3
Average from 1979	63.3