

CALTAX COMMENTARY: IT'S STILL THE WILD WEST FOR PARCEL TAXES

By Robert Gutierrez
Director of the California Tax Foundation

Beginning Wednesday, property owners throughout the state will be paying more than \$150 million in higher parcel property taxes thanks to local ballot measures that were approved last year. Some of these taxes unfairly target business property, others are imposed indefinitely, and nearly all are lacking when it comes to sound tax policy.

Last year, the California Tax Foundation published “**Piecing Together California’s Parcel Taxes: An In-Depth Survey of Local Special Taxes on Property**,” which found that property owners pay more than \$2 billion annually in local parcel taxes. The report also found that these taxes lack consistent application, and local governments don’t play by the rules – because the state hasn’t established any rules.

To shed light on these taxes, the California Tax Foundation last year launched the **Center for Special Taxes** to be a one-stop shop for taxpayers seeking to understand their local taxes. Through the site, property owners can gain access to detailed information about the taxes imposed by their local governments. Last month, the Center for Special Taxes was updated to include parcel taxes that were approved last year.

In 2014, voters approved 59 parcel taxes, 37 of which went into effect July 1. In total, these taxes increased property-related taxes by more than \$150 million (the figure actually is higher, but the aggregate effect of 28 of the measures could not be quantified).

The new parcel taxes include:

- **Marin County 911 Tax – \$72 Million. Measure A** imposes a non-uniform parcel tax to fund countywide emergency communications system at the following rates: \$29 per parcel for single-family residential parcels; and \$87 to \$174 per parcel for business property, depending on the acreage of the parcel, plus \$29 per acre for each acre or portion thereof for parcels of more than 1 acre in size. The tax has other rates for agricultural property and apartment parcels. The tax sunsets June 30, 2035.
- **Oakland Public Safety Tax – \$15.6 Million. Measure Z** imposes a non-uniform parcel tax to fund police, fire and emergency response services at the following rates: \$99.77 per single-family residential parcel, \$68.15 per unit for multi-unit residential parcels, and \$51.09 per “single-family equivalent.” For business property, the rate is calculated by a formula based on a parcel’s frontage (the width of the front of the property) and the parcel’s improvement square footage. The tax may be increased annually up to 5 percent. Properties exempt from the tax include certain low-income households, foreclosed properties, and affordable housing projects. The tax sunsets June 30, 2025.

- **San Jose Library Tax – \$8 Million. Measure B** imposes a non-uniform parcel tax to fund the San Jose city library system, at the following rates: \$29.84 per single-family residential parcel (including condos and townhomes), \$11.19 to more than \$800 per multi-family residential parcel, and \$44.73 to more than \$800 per parcel for business property (depending on zoning). The tax sunsets June 30, 2039.

As illustrated by these examples, business property remains the target of many parcel tax proposals. Adding per-acre surcharges makes parcel taxes that much more costly.

Taxes like the one levied by the city of Oakland are extremely complex, and ripe for litigation. First, cities aren't in the practice of assessing properties, nor measuring the street frontage of a property. Such tax structures harken back to 17th century Europe, where the Dutch taxed properties based on frontage – influencing many property owners in Amsterdam and other cities to build tall, narrow properties to avoid higher taxes.

For a complete list of the recently approved taxes, **click here**.

With the exception of a \$2.6 million parcel tax in the Altadena Library District, a \$1.1 million parcel tax in the Bear Valley Healthcare District, and a \$2.6 million tax in the La Canada Unified School District, the remaining taxes approved in 2014 will impact property owners in Northern California.

Unlike local transactions (sales) and use taxes, utility users' taxes, or even hotel taxes, parcel taxes do not have a unifying state statute that defines which local governments can impose the tax, what can be taxed, effective dates and sunset dates, or how a tax can be imposed.

When the California Tax Foundation report was released, I noted that the parcel tax system “can leave property owners feeling like they're in the Wild West, where anything goes.”

The parcel taxes that went into effect this week demonstrate that it's still the Wild West for parcel taxes. Reform of the parcel tax is critical if the tax is to remain a legitimate source of revenue for local governments.

A list of the California Tax Foundation's recommendations to improve the parcel tax structure can be viewed **here** (see page 15 of the report).