Property Tax in California

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HdL COREN & CONE

Property Tax Analysis and Forecasting for Local Governments in California

This document is provided as a resource tool to explain some of the terms and processes of California property Tax. For specific answers to your questions, please email us at info@hdlccpropertytax.com or call 909-861-4335.

Please note the information contained herein is subject to change.

Overview Property Taxes

The property tax in California dates back to 1850, the year California became a state. It is one of the top two revenue sources for California cities and depending on the community may be the largest revenue source vying with sales tax for the top spot. This elevated position has a lot to do with the flips and swaps that were legislated in 2004.

For the first 60 years, until the turn of the 19th century, the property tax was a state tax; however in 1910 the Separation of Sources Act made the property tax a local government revenue source and established the principle of separate revenue sources for state and local governments.

Proposition 13

By 1978, with voter discontent with California's tax system and with home ownership threatened by escalating property tax bills, the fate of Proposition 13 was sealed. The tax revolt was born, aided in part by the release of new assessments just prior to the election showing large increases in assessed value for many taxpayers. In June 1978, voters selected Proposition 13 over Proposition 8, which was an alternative proposal to lower and stabilize tax rates. Proposition 13 was the measure that was adopted as it received 65% of those voting. **Proposition 13 established an acquisition-value assessment system. It provides that property is to be assessed at its value when acquired through a change in ownership or by new construction. *Acquisition value assessments* removed subjective judgment and discretion from the process, and this method reduces the chances of corruption.**

Proposition 13 did several things:

- It limited the tax rate for property taxes to 1% of the full cash value of the property and—after rolling the values back to the 1975–76 value levels—once the value was established, the annual value could increase by no more than the rate of inflation or 2%, whichever is less.
- The exceptions to this 2% limitation were those properties that transferred ownership at full market value or for properties that increased in value through the addition of new construction.

- Proposition 13 limitations did not apply to any voter-approved debt or special assessments in place at the time of its adoption.
- Required two-thirds voter approval to raise “special taxes.”
- Requires any increase in state taxes to be approved by two-thirds vote of the state legislature.
- And Proposition 13 returned control of property tax allocation to the state.

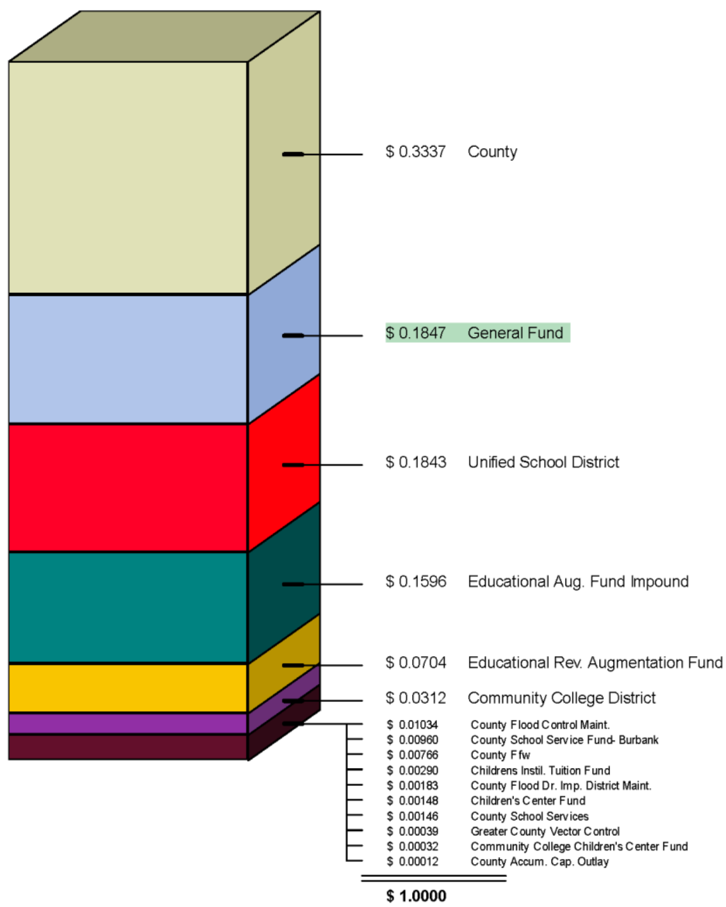
As a result of the adoption of Proposition 13, property tax revenues were cut by nearly 60%. Between 1978 and 1980 the Legislature used its reinstated allocation authority to cushion the fiscal impact of Prop. 13 on local governments by sharing with them most of the state’s $5 billion surplus and the $1 billion-plus revenue windfall it received from higher personal income taxes due to lower taxpayer deductions for property taxes. This “bail out” mitigated, to some degree, tax reductions experienced by cities, counties, and special districts after Prop. 13. In subsequent years, the state of California shifted revenues earmarked for education to cities counties and special districts and then back-filled the school revenues from its general fund with ADA (average daily attendance) funds. While this transfer of authority to administer property taxes to the state didn’t seem critical at the time of Prop. 13’s adoption, this change has laid the foundation for the tax shifts that the cities began to experience in the early 1990s and continued until the voters adopted Prop. 1-A and put borrowing and repayment in play.

Proposition 13 changed the composition of state and local revenues in two ways. First, it capped the rate of growth of one of the most important sources of revenues in the state. Second it made it more difficult for local officials to raise new taxes by requiring a two-thirds majority vote at the ballot box for the imposition of new taxes.

AB-8

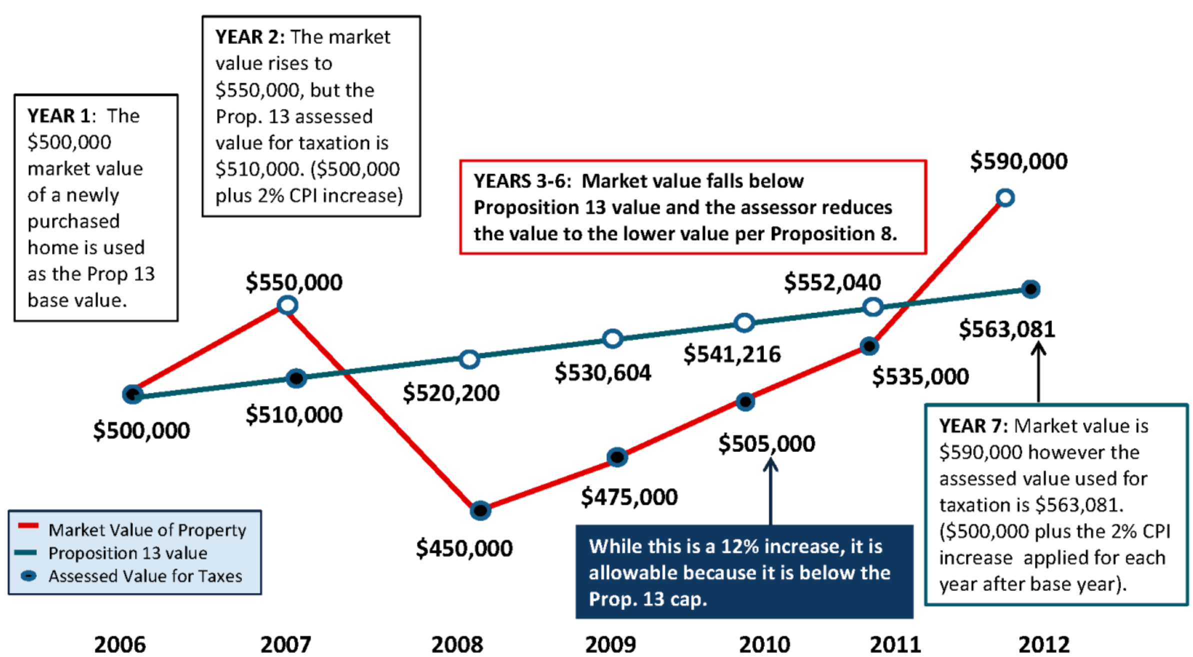
After Prop. 13 was adopted, additional legislation, AB-8 was adopted to provide the formulas for how property taxes were to be distributed to government entities. In essence, cities, counties, schools and special districts were to be granted their share of the tax dollar based on the average taxes they levied in the three years prior to Prop. 13's adoption (1977–78). For instance, if a school district received an average of 40% of all taxes collected in the community prior to the measure, under AB-8 they continued to receive 40% of the 1% tax base regardless of how much property taxes would grow over time. Local jurisdictions that had received a large share of property taxes prior to 1978 received a relatively large share to property taxes after Prop. 13's adoption. These AB-8 tax shares are modified each year as growth or declining values in each tax rate area are monitored and result in either more taxes or less taxes being generated in each tax rate area. (AB8; RTC § 96-96.81)

SAMPLE CITY
GENERAL FUND
PROPERTY TAX DOLLAR BREAKDOWN



Proposition 8

Proposition 8 was a constitutional amendment passed by California voters in November 1978. It was enacted to allow assessors to lower the assessed value on properties that have had a decline in value. There are situations in which a property's value declines rather than rises. This could be due to a decline in the overall market as well as such problems as obsolescence, deferred maintenance or catastrophic events like a fire, flood or earthquake. Proposition 8 allows the lowering of the assessed value temporarily to reflect that decline. Proposition 8 reductions are reviewed annually and when the conditions that resulted in the decline change or improve, there is a recapturing of the lost value to a point that does not exceed the original trended base value.



The Process

There are three county departments that administer property and the resultant taxes. The assessor is responsible for valuing properties annually; the auditor controller extends the taxes, that is, applies the calculations to the assessed values and then transmits that information to the tax collector, and the tax collector/treasurer prints and mails the tax bills. After the tax collector receives the payments, the auditor/controller is responsible for apportioning the taxes to the various taxing entities—county, cities, schools, fire districts, sanitation districts, etc.

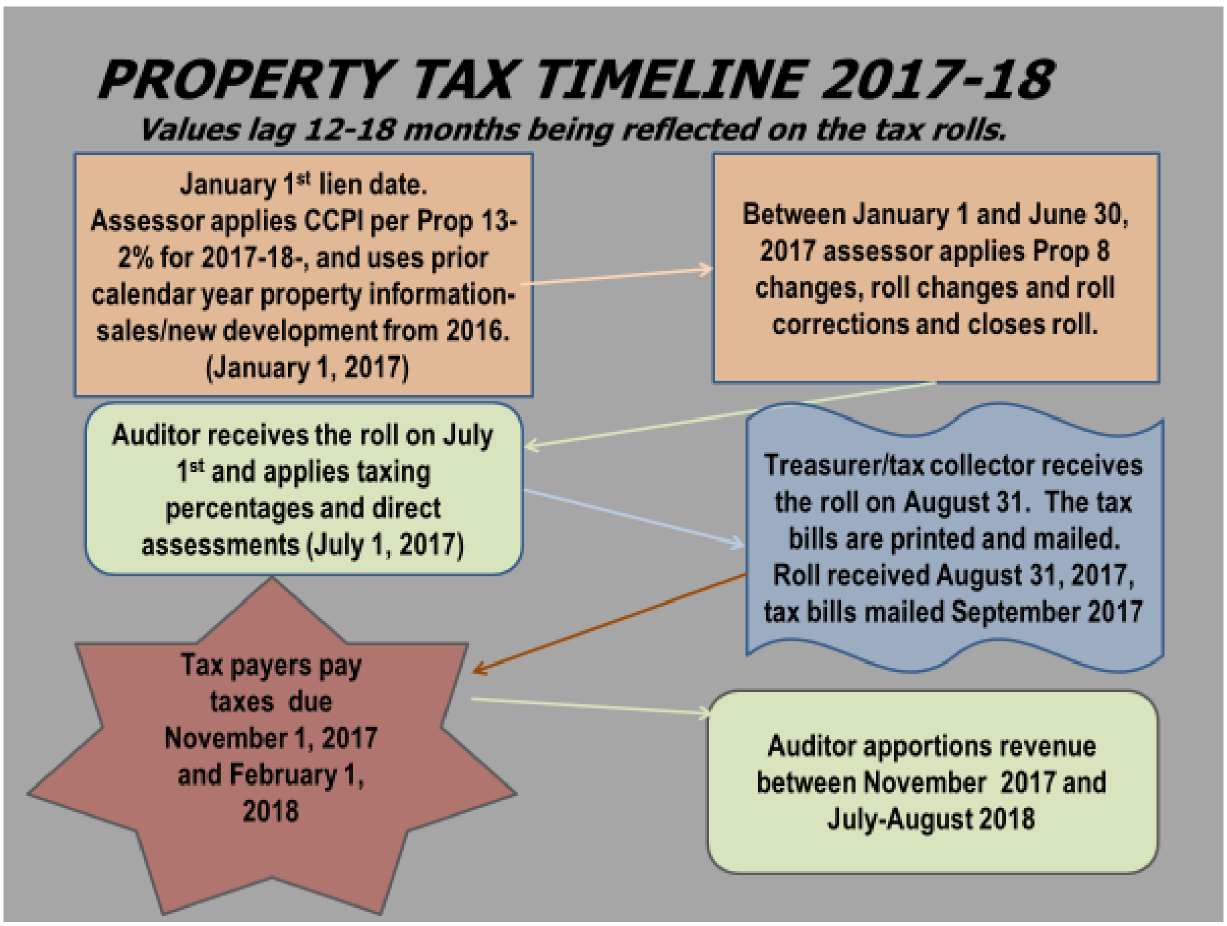
Each January 1, the assessor values property and liens property taxes for the next year (July 1–June 30). Owners of property as of 12:01 a.m. on January 1 are responsible for the taxes on that property. Real property is valued using one of three methods; (1) comparable sales approach (what other properties are selling for), or the fair market value (the amount of cash or its equivalent, which the property would bring if offered for sale on the open market); (2) the cost approach using replacement, reproduction or historical cost; and (3) the income approach, which is any method of converting an income stream into a value stream. This can incorporate factors such as rent, leasehold payments, or other cash flow analyses.

All real property in the state of California, unless it is exempted from taxation, is taxable. There are three property rolls that generate property taxes in California: the secured, unsecured, and utility rolls. The **secured** roll consists of all land and improvements, buildings or other structures, and mines or mineral rights upon which a lien can be placed in the event the owner fails to pay his or her property taxes.

The **unsecured** roll is generally tenant-owned personal or business property that cannot be secured by a lien. The types of property found on the unsecured roll include office equipment, tenant improvements, supplies, tools, machinery or equipment, and aircraft and boats. Because businesses or individuals who are leasing their business space do not own the land and buildings where their business is located, their business property at these locations cannot be secured by a lien on the property of others.

Possessory interests, mineral rights and water rights are found on the secured or unsecured roll depending on the county. When tax-exempt governmental agencies such as cities or counties own property that they lease for private purposes, that private entity leasing or otherwise using the public property is responsible for paying the property taxes on that property for the benefit of its use as a possessory interest.

The final roll that generates property taxes is the **unitary—utility roll**. The State Board of Equalization assesses all of the assets owed by utility and railroad companies as a single unit because utilities cross county lines. Until 1988, utility tax revenues were situs based like any other piece of property in the state. With the legislative change, utilities are assessed as a unit and are now referred to as unitary values. (AB454) Revenues from this source of state valued and taxed assets are pooled and then apportioned using formulae developed in 1988 with the intervening growth statewide between tax years. Nonoperating utility assets are valued by the BOE but taxed locally. These include assets that are not directly used in the operation of the utility.



Alternative Method for Distributing Property Taxes (Teeter Plan)

The alternative method for distribution of tax revenues pertains to the secured roll only and was established to provide simplification of the tax-levying and tax-apportioning process as well as to provide increased flexibility in the use of available cash resources. The basic concept of the Teeter Plan is that each taxing agency receives 100% of its current secured tax levy. Supervisors must adopt a resolution prior to July 15 of the fiscal year for which the alternative distribution method is to apply. Cities must opt into the program by adopting a resolution to be included in the plan. Once a city opts into the plan, the selection cannot be reversed.

Apportionment of Property Taxes

Each year the county sums the total of all taxes being generated by each taxing entity in the county at the tax-rate-area level. After adjusting for those taxes that will accrue to successor agencies as tax increment, the county then divides each taxing entity's share by the total taxes to be collected countywide. The result of this calculation is an apportionment factor. Once this is apportionment factor is developed, non-Teeter cities will get that share of every tax dollar collected from the non-Teeter cities in the county. This keeps every taxing entity (with the exception of schools, which receive all revenue calculated whether or not the taxpayer pays their tax bill), in the same delinquent position countywide. All revenues are distributed based on apportionment factors.

Counties distribute revenue based on tax payments received by the tax collector/treasurer. Revenues are allocated countywide based on the proportions received between the secured and unsecured tax rolls. In most counties, the relative share of secured to unsecured revenue is 96:4. (96% secured to 4% unsecured). This means that regardless of an individual city or districts ratio of these two value types, the revenue will be apportioned based on the county collection ratio. This often makes it challenging to attempt to budget these two revenue sources independent of each other without knowing what the countywide ratio will be from one year to the next an often challenging task.

Supplemental Tax Bills and Apportionments

Senate Bill 813 was passed in 1983 enacting the supplemental property tax. Prior to 1983, the reassessment of properties was not effective until the next annual lien date. This meant that properties with a change of ownership or new construction could avoid any assessment changes for a long as 16 months.

A supplemental tax is the result of a reassessment of real property, effective when there is a change in the ownership or new construction is completed. A supplemental assessment is the difference between the enrolled assessed value and the value as of the time of the sale or addition of new construction. Supplemental tax bills are produced throughout the fiscal year and can be either secured or unsecured. Special and direct assessments are not billed on the supplemental tax roll.

The date of transfer or completion of construction is known as the “date of event.” The reassessment on the date of event can result in an increase, decrease, or no change in the taxable value. An increase will usually result in the issuance of a supplemental tax bill, and a decrease will result in a negative assessment commonly referred to as a refund. The refunds are made from taxes collected on the assessments made on the supplemental roll.

Depending on the date of sale, there is a prorated tax amount due. Supplemental appraisals may result in the issuance of one or two supplemental tax bills. A sale between January 1 and May 31 will result in two supplement bills or refunds. If two bills are issued, the first supplemental assessment reflects the change in value from the date of event to the end of the current fiscal year; and the second bill reflects the change in value from the roll being prepared for the entire fiscal year.

Taxes on supplemental assessments are calculated using the first date of the month (presumed date) following the actual date of the event through the end of the fiscal year.

SUPPLEMENTAL PRO-RATE SHARE OF TAXES OWNED BASED ON DATE OF EVENT

Date of Event	Presumed Date	Current Fiscal Year Factor	Roll Being Prepared Factor
July 1-31	August 1	0.92	N/A
August 1-31	September 1	0.83	N/A
September 1-30	October 1	0.75	N/A
October 1-31	November 1	0.67	N/A
November 1-30	December 1	0.58	N/A
December 1-31	January 1	0.50	N/A
January 1-31	February 1	0.42	1.00
February 1-29	March 1	0.33	1.00
March 1-31	April 1	0.25	1.00
April 1-30	May 1	0.17	1.00
May 1-31	June 1	0.08	1.00
June 1-30	July 1	0.00	1.00

Supplemental property tax revenue allocation factor is based on secured taxes, which previously included the Property Tax In-Lieu of Vehicle License Fee (PTILVLF) revenue. As a result of the City of Alhambra vs. LA County Property Tax Administration Fee case, the court stated that PTILVLF is not property tax. This ruling requires that auditor-controllers remove PTILVLF from the supplemental property tax revenue factor. This will significantly reduce the supplemental property tax revenue to cities and county. The portion related to this amount will be redistributed to all taxing entities including the cities and county. Average reduction in the supplemental factor is estimated to be 43% with ranges from 8% to 70%. Supplemental property tax revenue will be reduced similarly beginning in 2013–14.

ERAF—Educational Revenue Augmentation Fund

In the early 1990s, the state faced annual budget gaps of between $4 billion and $14 billion. To close these gaps, the Legislature and administration raised fees and taxes, cut programs, deferred costs, and shifted over $3 billion in property taxes from local government to schools. This shift was seen as a reversal of the “bailout” effort the state implemented after Prop. 13. This shifting of revenues from local governments to the schools was accomplished over two years. The first year, 1992–93 directed approximately 9% of a city’s revenue to the schools; and the second year directed an additional 12% or a percentage equal to the amount the city was bailed out in 1978, with some population caps to be applied. While the formulas underlying the property tax shifts were exceedingly complex, with offsets for population and other material elements, the concept was simple: shifting property taxes from local government to schools reduced, on a dollar-for-dollar basis, the amount the state was required to spend for schools (ADA). In this way, the property tax shifts played a critical role in helping the state resolve its severe budget difficulties. This shift is known as the Educational Revenue Augmentation Fund, or ERAF.

In the years since the implementation of the ERAF shifts, the state has provided some funding to local government agencies, however many of these funds have been earmarked for specific programs. In 1992, the California voters approved Proposition 172, which provided sales tax funding for police, fire, and other public safety programs. AB 1661, adopted in June 1999, reduced the impact of the ERAF shift for two years. This state-provided Local Government Relief Package returned $150 million to counties, cities, and special districts. Fifty percent of this amount was earmarked for counties, and the balance ($75 million) went to cities and special districts. This "relief" was paid in the 1999–2000 and 2000–2001 fiscal years only.

The ERAF shifts have had the following impacts on Californians' quality of life:

- Cuts in human services, including parks, libraries, and other community services
- Deferred maintenance on the public's investment in its infrastructure
- Greater pressure for increases in local taxes, fees, and assessments
- Reductions in reserves and greater reliance on debt rather than cash financing for capital improvements

VLF Swap—VLFAA—VLF Adjustment Amount

In 2004, the California Legislature approved a property tax swap of Vehicle License Fee as a part of a state/local budget agreement. As a result of the swap, more than 90% of the city Motor License Vehicle Fund revenue was swapped for property taxes. The centerpiece of the legislation was the permanent reduction of the VLF rate from 2% to 0.65%. This triggered the elimination of the VLF backfill, which was replaced with property taxes funded from County ERAF accounts. The motor vehicle license fee swap for property taxes was a permanent swap. The State Department of Finance provided county auditors with the estimated 2004/05 amounts to be transferred from the ERAF Fund for the counties and cities. The VLF Swap amount changes annually as the agency's gross taxable value grows or declines. Growth calculations were made beginning in 2005/06 and each subsequent year for each city. The calculation is based on the percentage change in gross taxable assessed value from the prior fiscal year to the current fiscal year using the city's prior jurisdictional boundaries (growth is without annexed areas). The County's growth is the countywide assessed value growth (including incorporated and unincorporated areas).

Pooled Revenue Sources for Allocation

Taxing entities that have not opted into the alternative method of allocation receive redemption (delinquent) payments based on their AB 8 apportionment factor. All taxing entities irrespective of whether they are Teeter or Non-Teeter agencies receive their share of pooled supplemental payments received countywide irrespective of where the event took place that resulted in a supplemental tax bill. This pooled allocation method for all entities also applies to roll corrections resulting positive or negative changes and for taxpayer refunds as a result of the granting of successful appeal reductions and the subsequent refunded payment of taxes due to taxpayer as a result.

Aircraft Assessment

General aircraft does not include certified air carriers—commercial airlines. For general aircraft, the situs of the property is where the aircraft is more or less permanently located when not in flight. The assessments are reflected on a separate portion of the unsecured tax roll. Property tax revenue from general aircraft is distributed one-third to the county, one-third to school districts, and one-third to the city.

For certified aircraft (commercial planes), value is allocated amongst the counties based on the time the aircraft is present in the state. This is determined by measuring, during the representative period, the time the aircraft is in flight or on the ground and the number of arrivals and departures. These two components are utilized to develop a factor to allocate to the value of the aircraft to each airport.

Property Tax Rule 202 requires that the board annually, on or before February 15, consult with assessors of the counties in which carriers' aircraft normally make physical contact. On or before March 1, the board then designates the representative periods to be used by all assessors in assessing the aircraft of each carrier for the forthcoming tax year. The purpose of a representative period is to obtain air carrier operational data, for as brief of a time span as possible, that can reasonably be expected to reflect the average activity of the carrier for the ensuing tax year.

The unsecured property tax revenue collected on assets from the owners of commercial air carriers is apportioned as other unsecured property tax revenue based on the allocation factors developed annually per AB 8. The value of commercial aircraft is not typically reported by a county as a separate category of value within the unsecured tax roll. The assessor's office should, however, be able to provide that information if requested.

Assessment Appeals

Each year, the owner of property receives a property tax bill. Typically, the assessed value is tied to the price paid for the property when it was purchased. This value is known as the "base year value." This value is increased each year by the California Consumer Price Index (CCPI) up to a maximum of 2% per Proposition 13. The resulting value then becomes the "assessed value" for taxation purposes. Property purchased prior to 1978 has a base-year value based on the assessed value in 1975–76. Remodels, additions, and other physical changes to property may also affect the assessed value. Often, a taxpayer may believe the value enrolled by the assessor is incorrect. If the property owner disagrees with the assessed value, an appeal of that value may be filed with the local assessment appeal board or a county board of supervisors within specified time frames.

A typical reason to appeal an assessment is that the market value of property has declined below its assessed value.

Before filing an appeal, the property owner should discuss their concerns with the assessor's staff to verify that a mistake has not been made in establishing the present value. If there is no error, an "Application for Changed Assessment" should be filed to begin the process. If the property owner and assessor staff or hearing officer cannot reach an understanding relative to a reduced value, the appeal will be calendared to be heard by the local appeals board.

An appeals board CAN lower or raise a property's assessed value, CAN remove a penalty assessment imposed by the assessor, or reverse a reassessment based on a change in ownership or new construction.

An appeals board CANNOT reduce a property's assessed value simply because one owner is paying more taxes than their neighbor, remove penalties and interest for late payments of taxes, reduce property taxes due to an inability to pay, grant or deny exemptions, extend filing periods, change the decision of another appeal board, or rehear an issue already ruled upon.

An assessment appeals board's decision is final and may only be appealed to superior court.

Exemptions Versus Exempt Properties

Properties owned by government entities (cities, county, schools, federal and state government agencies) are not taxable if they are used for government purposes. These properties are exempt, and no tax bills are generated by the tax collector.

All real and tangible personal property in the state of California is taxable unless it is specifically exempt under California laws. The California Legislature has the authority to exempt property that is used exclusively for religious, hospital or charitable purposes, and property that is owned or held in a trust by nonprofit organizations operating for those purposes. This exemption is known as the Welfare Exemption. The Board of Equalization determines whether the organizations is eligible for the exemption, and the county assessor determines whether an organization's specific property qualifies for the exemption based on the property's use. In order to qualify for the Welfare Exemption, the organization must be organized and operated for one or more of the following purposes: charitable, hospital, religious, scientific.

Tax bills are generated for these properties and the organization must complete the exemption form and return it to the county assessor on or before February 15 of each year to be eligible for the 100% exemption. A partial exemption may be allowed on a claim that is filed after the deadline. The timing of the recording of the exemption and the release of the annual tax roll are not always aligned, resulting in values reports that are reduced by an exemption filing after the close of the roll.

Possessory Interests

Rights to real property can often be divided into a number of different rights or interests. In a possessory interest, the right to the possession of real property for a specified period creates the possessory interest. The most common example of a possessory interest is created by a lease.

While publicly owned real property is generally exempt from taxation, the private right to the possession of publicly owned property is subject to a separate assessment for the benefit of the use of that otherwise tax exempt property as a taxable possessory interest. Cities will commonly see possessory interests for properties owned in harbors that are leased to boat owners as slips, or airports where hangars or tie-down spaces are leased, or in the case of publicly owned buildings leased for nonpublic purposes.

A possessory interest exists when the possessor has a right to possess public land for an ascertainable period; the possessor has an exclusive interest in the property and receives a private benefit. There are several statutory provisions that apply to the valuation of possessory interests. The criteria for valuation varies for each interest possessed, and therefore the interests are not necessarily valued using the same criteria as other real and personal property on the assessment rolls.

Taxable possessory interests are often difficult for the county assessor's office to discover. The documents or leases involved in assigning the interests may not be recorded, and because the taxable possessory interests involve publicly owned lands, the interests may go undiscovered by appraisers in the field. Statutory provisions require every state or local government entity that is the fee owner of real property in which a taxable possessory interest has been created to either (1) file a preliminary change of ownership or (2) annually file a report with the county that details specific facts regarding the possessory interest.

Propositions 60 and 90 — Senior Citizen Replacement Dwelling Benefit

This is a constitutional tax initiative that allows senior citizens to transfer the trended base value from their current home to a replacement property if certain requirements are met. This may result in a substantial tax savings. One of the property owners must be 55 years of age or older when the original property was sold and be either purchasing or constructing a new home of equal or lesser value than the existing home. This is a one-time-only benefit. The purchase or completed construction of the replacement home must be within two years of the sale of the original property. Both the original home and the new home must be the owner's principal place of residence and have been eligible for either the homeowners' or disabled veterans' exemption. A claim must be filed within three years of purchasing or completing the new construction of the replacement property. If a claim is filed after the three-year period, relief will be granted beginning with the calendar year in which the claim was filed.

Propositions 58 & 193—Reassessment Exclusion for Real Property Transfers Between Parent/Child, or from Grandparent to Grandchild

These constitutional initiatives provide property tax relief for real property transfers between parents and children and from grandparents to grandchildren. In both cases, a claim must be filed within three years of the date of transfers to receive the full benefit of the exclusion.

The requirements or guidelines state that the property must be the principal place of residence and must have been granted a homeowner's exemption before the transfer. There is no limit placed on the assessed value of the principal residence that may be excluded from reassessment. Transfers by sale, gift, or inheritance qualify for the exclusion. Transfers between parents and children as individuals, from grandparents to grandchildren as individuals, between joint tenants, from trusts to individuals, or from individuals to trusts may qualify for the exclusion. Transfers from grandchildren to grandparents are not eligible for this tax relief.

Additional provisions are available on county websites, where forms can be downloaded and completed for submission.

Prop 218—The Right to Vote on Taxes Act

Proposition 218 was adopted on November 5, 1996, and was approved by 56.6% of the voters. Proposition 218 applies to all local taxes. Public agencies should review each tax to determine the extent to which it is exempt from Proposition 218's provision as a pre-1995 tax and the procedures that would apply in the event the agency wants to propose an increase.

This proposition included the definitions of "general tax" (any tax imposed for general government purposes) and "special tax" (any tax imposed for specific purposes including taxes for specific purposes). New noticing procedures were required. A majority protest could defeat the proposed tax or increase.

General Taxes

Under Proposition 218, no local government may impose, extend, or increase any general tax until such tax is submitted to the electorate and approved. The imposition, extension, or increase of general taxes requires a **majority vote** of the electorate voting in an election on the tax. The election to approve a general tax must be consolidated with a regularly scheduled general election for members of the governing body of the local government except in cases of emergency declared by a unanimous vote of the governing body.

A **two-thirds vote** of the legislative body is required to submit an increase in the use tax to the voters—whether by general or special tax.

Special Taxes

As with general taxes, no local government may impose, extend, or increase any special tax until such tax is submitted to the electorate and approved. The imposition, extension or increase of general taxes requires a **two-thirds vote** of the electorate voting in an election on the tax. Fees may not exceed the cost of the service and may not be used for other purposes. Vote-by-mail approval is provided for where each property is weighted based on the amount of assessment to be charged. Government agencies are assessed a special tax.

Parcel or Property Related Taxes

A parcel tax is usually an annual tax that is based on either a flat per-parcel rate or a rate that varies based on other factors such as parcel size, use type, or other physical characteristics other than value. Parcel taxes based on the value of a parcel are invalid as a violation of Proposition 13's limits on ad valorem property taxes. A parcel tax may only be imposed as a special tax.

No-Low Cities and 1% General Levy

Prior to the adoption of Proposition 13, there were numerous cities in California that either levied no general property taxes (mill rates before Prop. 13) or who levied very low rates (less than 3 to 4 cents after the application of AB-8). Since one of the features of Proposition 13 was the requirement of a two-thirds vote to increase property taxes, these no-low cities were effectively faced with a difficult uphill battle if it was determined that the lack of property taxes might result in the city's inability to fund essential services. In 1989, the Legislature adopted AB 1197, which proposed to remedy this unintended consequence of Proposition 13.

Since counties ended up with larger proportionate shares of the 1% levy per AB-8 in cities that had no or a very low share of the 1% levy, AB 1197 called for the phasing in of the equivalent of a 7% share of the general levy that would be taken from the county's share and transferred to the Tax Equity Allocation (TEA) qualifying cities. The 7% portion would be phased in over a seven-year period beginning in 1989–90 to be completed in 1995–96.

From 1989–90 through 1991–92, the allocation was transferred to the cities as a direct payment from the county. Once the ERAF shifts were adopted by the legislature, these shifts offset the original 7% number resulting in a net potential of approximately 6.6% shifted from counties to cities in 1995–96. Some counties have recalculated the tax ratio files in each tax rate area to account for these allocations while others are still allocating the revenue as a TEA allocation paid annually to qualifying cities from the county.

Cities that incorporated after 1995–96 were not guaranteed a 7% or 6.6% share and were required to negotiate their transferred share of the 1% levy in the LAFCO process.

Property Data and Economic Growth

Property data as an indicator of the economic health of a community is always a lagging indicator. The lien date (the date values are set for taxation) is January 1 of each calendar year. Those values are the ones that generate tax bills in September, and tax payments due November 1st of the same year and February 1st of the following year. Even though we see new construction and business activity today, it may be 12 to 18 months or longer before we will see the new growth appear in full on the county tax rolls.

Changes are made to the assessment roll on an hourly basis during the tax year, and these changes can result in an increase or decrease in the funds apportioned.

The city/agency/district receives revenue from not only current year tax payments but from supplemental assessments (new property sales and construction between tax years), delinquent payments, roll corrections, and other changes to values during the year. The city/agency/district can also suffer from reductions due to properties selling for less than the assessed values or from taxpayer refunds due to the granting of appeals for the current and prior years. Tax revenues are often hard to estimate due to the complexities of three tax rolls and the fact that the revenues need to be apportioned to myriad taxing entities including cities, counties, schools, and special districts based on allocation formulae and pooled distributions. Revenues also need to be distributed to former redevelopment agencies, now successor agencies, after the dissolution of redevelopment in 2011.

In the late 1980s and early 1990s and again beginning in 2007, property values in California declined in response to real estate recessions. In addition to local agency revenues being impacted by ERAF shifts, revenues were further impacted by devalued sales and successful assessment appeals. Many taxing entities lost more than 10–15% of assessed values in the recession in the mid-1990s and saw 30–40% reductions or more in assessed values during the recession of the mid-2000s. The last recession in the real estate market took between seven and 10 years to rebound. Assessors began to recapture Prop. 8 reductions in the 2013–14 tax year at a much quicker pace than we have seen in previous recapturing cycles. The ability to review and reinstate values after the Great Recession in 2008–09 was due in large part to better data-gathering procedures and the automating of sales data by neighborhood with technological advances. Given this pace and the sharp upturn in median sales prices, it may be only four or five years before the recapturing of the Prop. 8 reductions experienced between 2008 and 2012 are completed.