THE CENTER FOR STATE AND LOCAL TAXATION

Are Californians Better Off Than They Were 25 Years Ago?

Sponsored by the California Budget Project

Terri A. Sexton
Associate Director, CSLT, UCD
Professor of Economics, CSUS

March 12, 2003

Housing and Land Use in the Wake of Proposition 13: How Has the Landscape Changed?

Residential Property Taxes and Values

- Key Features of Proposition 13
- What has happened to property tax revenues?
- How has the burden on homeowners changed?
- Horizontal equity
- Mobility effects
- Homeownership

Key Features of Proposition 13

- The maximum rate of property taxation was limited to 1%, excluding preexisting indebtedness
- The assessed value of all property was “rolled back” to its value in 1975-76
- Assessed values can increase with inflation, not to exceed 2% per year
- Change in ownership triggers reassessment at market value, usually the purchase price

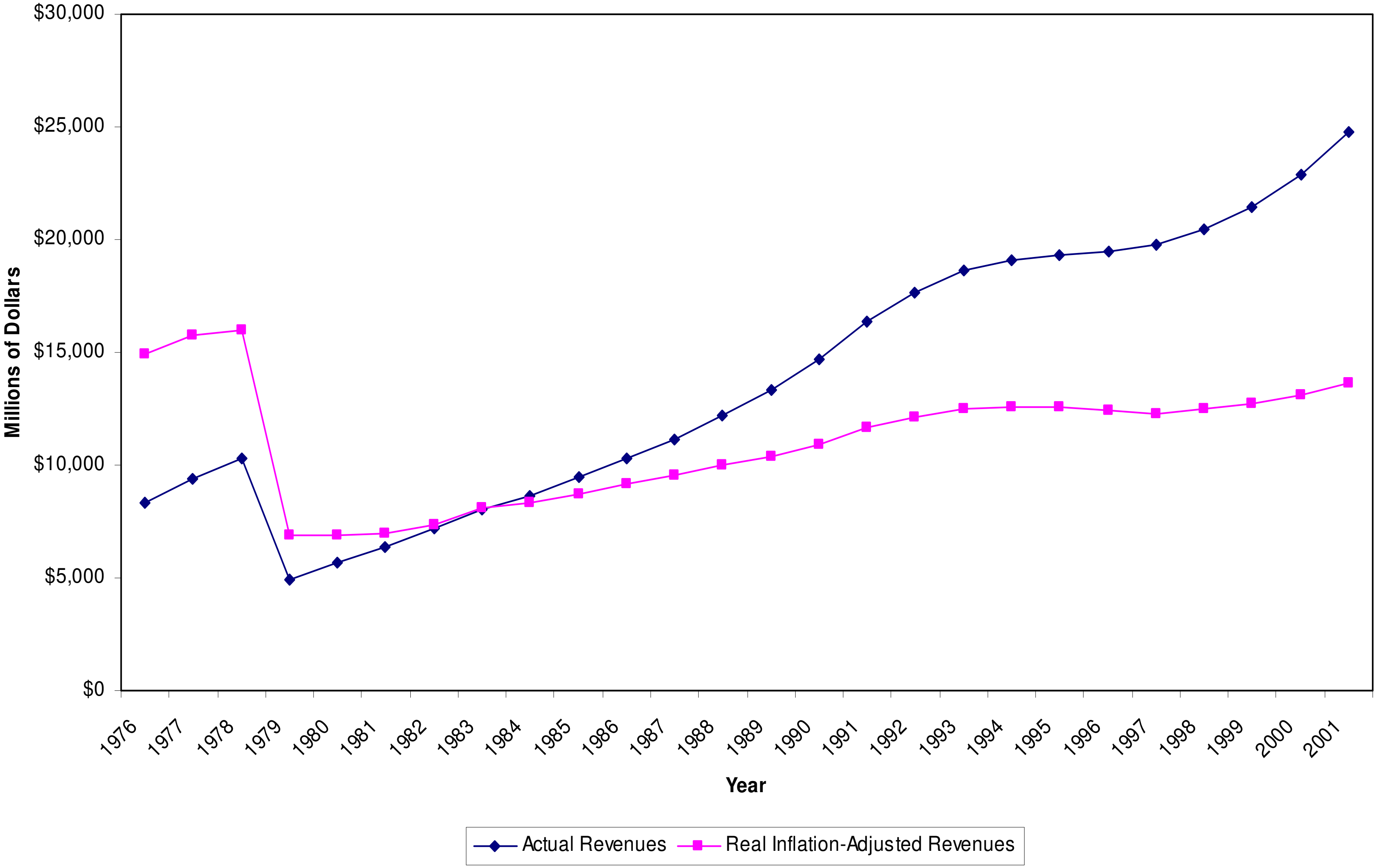
Key 1986 Amendments

- Known as the "Dynasty Provision," Proposition 58 (Hannigan) provides a family transfer exemption. Transfers of a principal residence and $1 million of other property between parents and children are exempt from reassessment on changes in ownership.

- Proposition 60 (Elder) permits persons over age 55 to transfer the assessed value of their principal residence to a replacement dwelling of equal or lesser value in the same county, without a change in ownership reassessment.

THE CENTER FOR STATE AND LOCAL TAXATION

What Has Happened to Property Tax Revenues?



What Has Happened to the Burden on Homeowners?

Year	AV of HOE Properties as % of All	Year	AV of HOE Properties as % of All
1979-80	32.0	1991-92	32.4
1980-81	33.8	1992-93	33.7
1981-82	33.2	1993-94	34.9
1982-83	32.5	1994-95	36.4
1983-84	31.8	1995-96	37.3
1984-85	31.3	1996-97	37.8
1985-86	31.0	1997-98	37.8
1986-87	31.1	1998-99	38.1
1987-88	31.3	1999-00	38.2
1988-89	31.6	2000-01	38.2
1989-90	32.2	2001-02	38.1
1990-91	32.1		

Assessed value excluding all exemptions. Includes business inventories for year in which they appeared on tax roll (1979-80) but not subsequent years when they no longer appeared on the tax roll (1980-81 and after).

Horizontal Equity or "Equal Treatment of Equals"

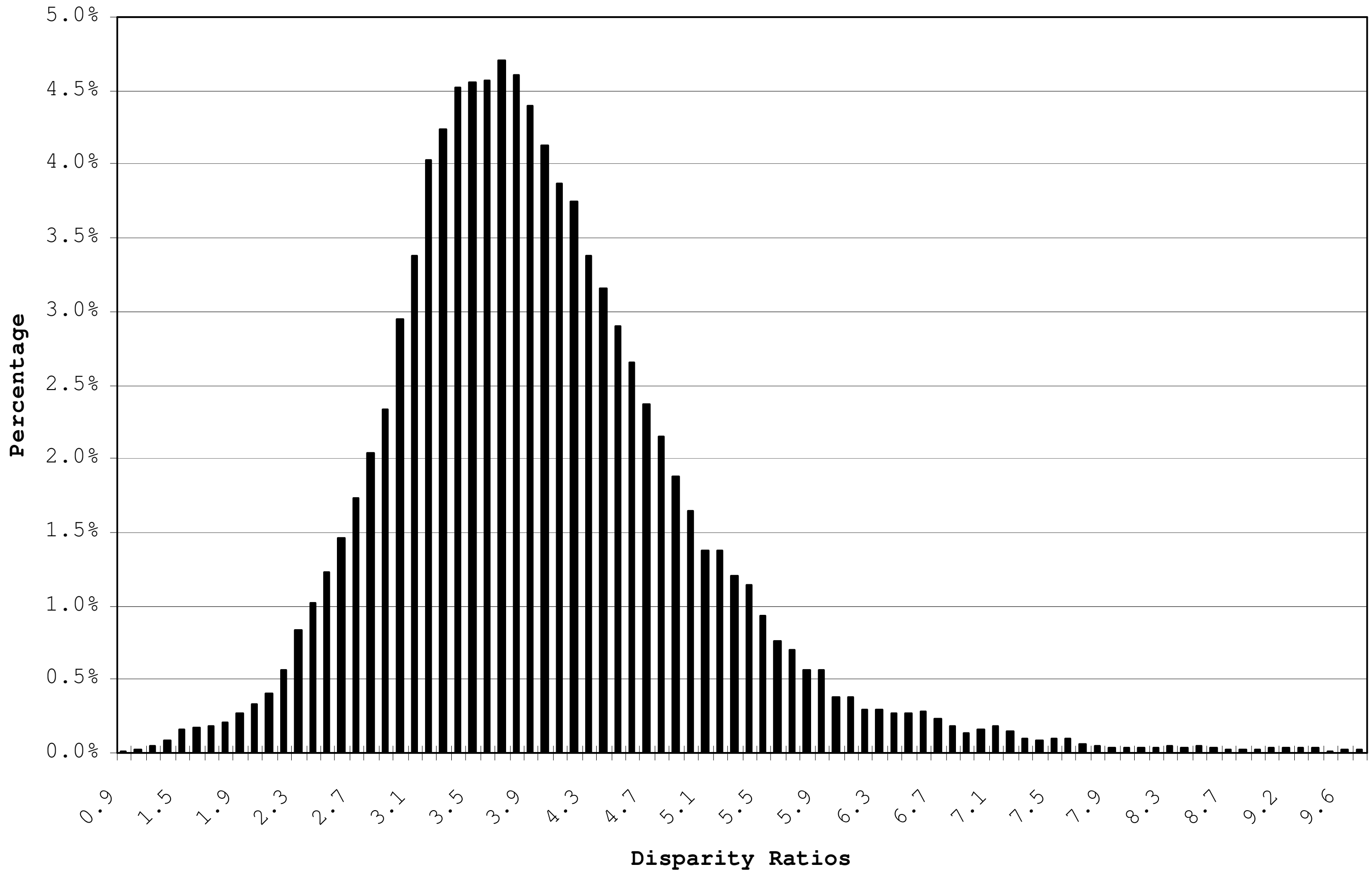
Definitions:

Base Year—the year of most recent sale

Disparity Ratio—a measure of the disparity between market and assessed value calculated as the market value of a property divided by its assessed value

Effective Property Tax Rate—the amount of tax paid per dollar of market value (estimated statewide average of 0.56 in 1991)

Disparity Ratios for Non-modified Homeowner Properties With 1975 Base Years in Los Angeles County



Disparity Ratios For Non-modified Homeowner Property in Los Angeles County: 1991 & 1996

Base Year	Number of Properties 1991	1991 Median Disparity Ratio	Number of Properties 1996	1996 Median Disparity Ratio
1975	356,634	5.19	198,113	3.84
1976	19,426	4.18	16,372	2.98
1977	21,607	3.55	18,313	2.59
1978	21,337	2.90	18,196	2.14
1979	22,682	2.49	18,906	1.78
1980	21,944	2.04	18,073	1.47
1985	26,140	1.66	20,286	1.22
1990	50,372	1.12	44,939	0.86
1991	39,217	1.00	39,343	0.86
1992			45,457	0.87
1995			43,259	0.96
1996			35,361	1.00

THE CENTER FOR STATE AND LOCAL TAXATION

Property Assessment Statistics for Los Angeles County

Class of Property	1991		1996	
	Median Disparity Ratio 1975 base year	Percent 1975 base year	Median Disparity Ratio 1975 base year	Percent 1975 base year
Single family with homeowner exemption				
non-modified	5.19	43	3.84	33
modified	4.35	47	3.24	43
Single family without homeowner exemption				
non-modified	5.54	23	3.98	18
modified	4.46	28	3.22	28
Multifamily				
non-modified	6.10	35	4.28	30
modified	5.51	44	3.71	41
Commercial and industrial				
non-modified	5.66	36	3.23	29
modified	4.19	45	2.34	43

Mobility Consequences of an Acquisition-Value Based Tax System

- A household's real tax liability decreases while the household remains in a particular dwelling.
- The system decreases household mobility with the largest percentage changes experienced by the least-mobile households.
- The average time spent per dwelling increases with the rate of appreciation in housing values.
- The system favors infrequent movers at the expense of frequent movers.
- The system favors low-income and senior-citizen homeowners because household mobility increases with income and decreases with age.

THE CENTER FOR STATE AND LOCAL TAXATION

Percentages of Homeowners with 1975 Base Years, By Income and Senior Status

		Percent With 1975 Base Year			
		Alameda	Los Angeles	San Bernardino	San Mateo
Non-Senior Homeowners					
ALL		25	30	12	28
Income Interval	0 to 20,000	43	40	20	42
	20,000 to 40,000	31	34	14	35
	40,000 to 60,000	24	29	10	29
	60,000 to 80,000	20	27	9	27
	80,000 to 100,00	17	26	10	23
	Over 100,000	16	23	9	19
Senior Homeowners					
ALL		82	82	49	81
Income Interval	0 to 20,000	85	85	49	84
	20,000 to 40,000	83	83	50	83
	40,000 to 60,000	78	79	48	79
	60,000 to 80,000	76	77	46	76
	80,000 to 100,00	74	74	48	75
	Over 100,000	75	72	42	68

Home Ownership Consequences

- The acquisition-value tax system increases the likelihood of home ownership among infrequent movers and decreases the likelihood of ownership among frequent movers.
- Young households as newcomers in the housing market pay relatively high property taxes.
- Young households are also relatively mobile and thus are less likely to become homeowners.
- The supply of smaller, entry-level housing is likely to diminish, raising the cost of home ownership to first-time buyers.

Effects on Business Behavior

- Businesses also face a moving penalty under an acquisition-value based property tax system
- Firms will delay their moves to new, more suitable properties causing inefficiencies
- Firms that move frequently are more likely to rent rather than own the properties they use