Property Tax

Description
Property Tax is an ad valorem tax[1] imposed on real property and tangible personal property. The tax rate is applied to the net assessed property value as determined by the County Assessor. In California, there are three broad categories of property (real, personal and utility) and three corresponding tax rolls (secured, unsecured and utility or state-assessed).

The **three property types** are defined as follows:

- ***Real Property*** includes the possession of, claim to, ownership of or right to the possession of land. It also includes improvements such as buildings, structures, fences and fixtures that are permanently attached to the land.

- ***Personal Property*** includes any tangible, moveable property that is not designated as real property. Examples of personal property include aircraft, boats, factory equipment, computers and other office equipment, and improvements on the real estate of others.

- ***Utility Property*** includes various types of property owned by utilities, such as power generating plants, power lines, cable, railroads, etc., except for property held for investment purposes only. Utility property is divided into non-unitary property (railroads) and unitary property (all other types).

The **three tax rolls** that are associated with the property types are as follows:

- ***Secured Tax Roll*** covers real property and personal property located upon that property of the same owner. Receipt of the tax is secured, or guaranteed, by placing a lien on the property. Secured roll taxes are paid to the county in two installments (see "Important Property Tax Dates" table below).

- ***Unsecured Tax Roll*** refers to property for which the value of the lien is not sufficient to guarantee payment of the tax. It is mainly comprised of personal property not included in the secured tax roll, as well as escapes, supplemental assessments, and penalties levied against prior owners of real property. Unsecured roll taxes are paid to the county in one installment.

- ***Utility Tax Roll*** is comprised of unitary and non-unitary utility property. The California State Board of Equalization assesses the property, and counties are responsible for billing, collecting, and apportioning the taxes.

Size (General Fund Portion Only) [2]
FY 2007-08: Budget $934.72 million, or approximately 33.0 percent of General Fund resources.
FY 2006-07: Actual $894.82 million, or approximately 32.9 percent of General Fund resources.
FY 2005-06: Actual $782.69 million, or approximately 30.9 percent of General Fund resources.
FY 2004-05: Actual $710.49 million, or approximately 30.0 percent of General Fund resources.

-Key Authorizing Statutes (Partial List Only)
- *General*: Division 1 of the California Revenue and Taxation Code
- *Valuation of Property*:

[1] Ad valorem taxes are taxes levied as a percentage of value. A 1% tax on $100,000 results in $1,000 in tax revenue.
[2] Resources are defined here as operating revenues and transfers in.

- ⇒ California State Constitution, Article 13, Section 19,
  - ⇒ Revenue and Taxation Code Sections 134, 135, 219, 401, 531 (State Office of the Controller, Annual Report of Assessed Valuation).
  - ⇒ Revenue and Taxation Code Section 51 for Prop 13-mandated limits on assessed valuation increases from prior year (i.e. the lesser of inflation or 2 percent).
- *Assessment Appeals*: California Revenue & Taxation Code Section 51
- *Calamity Claims*: California Revenue & Taxation Code Section 170
- *Unitary Property Assessment & Taxation*: California Revenue & Taxation Code Sections 755-756.
- *Supplemental Assessments*: California Revenue & Taxation Code Sections 75 et seq.
- *Redevelopment Agency Allocation*: California Health & Safety Code Section 33675
- *State Tax Shifts* – Sales Tax Triple Flip (R&T 97.68), Vehicle License Fee Swap (R&T 97.70) and ERAF III (R&T 97.71) pursuant to SB1096.

Allocation & Apportionment

For San Francisco County, approximately 50 percent of property taxes accrue to the General Fund on average. The remainder accrues to other local jurisdictions as shown in the FY 2007-08 Tax Rate & Allocation table below. In addition, a portion of property tax (property tax increment) is allocated to the San Francisco Redevelopment Agency (SFRA), which is a separate legal entity from the City and County of San Francisco. The assessed valuation of property located within a redevelopment project area is 'frozen' in the year the redevelopment plan is adopted, and is referred to as the *base year value.* The increase in assessed valuation above the base year value is the basis on which the 'property tax increment' is calculated. Property tax increments can then be allocated to the Redevelopment Agency, though the amount allocated may not exceed the Agency's outstanding indebtedness. San Francisco's FY 2007-08 property tax rate of 1.1410 percent for secured property is allocated as follows:

FY 2007-08 Tax Rate & Allocation

Taxing Entity	Tax Rate	Allocation
Countywide, Prop 13 Portion		
CCSF – General Fund	.56685541%	49.68%
CCSF – Library Preservation Fund	.02500000%	2.19%
CCSF – Open Space Fund	.02500000%	2.19%
CCSF – Children's Fund	.03000000%	2.63%
San Francisco Unified School District	.07698857%	6.75%
San Francisco Community College	.01444422%	1.27%
Bay Area Air Quality Mgmt. District	.00208539%	0.18%
Bay Area Rapid Transit District	.00632528%	0.55%
ERAF – Educational Revenue Augmentation Fund	.25330113%	22.20%
Total Countywide	**1.00000000%**	**87.64%**
Voter-Approved Debt Overrides		
CCSF – Debt Service Fund	.10365766%	9.08%
San Francisco Unified School District – Bond Fund	.01664605%	1.45%
San Francisco Unified School District – State Loan Fund	.00002078%	.01%
San Francisco Community College District – Bond Fund	.01307551%	1.15%
Bay Area Rapid Transit District – Bond Fund	.00760000%	.67%
Total Voter-Approved Debt Override	**.14100000%**	**12.36%**
Total Property Tax	**1.14100000%**	**100.00%**

In FY 1993-94, the City adopted the **Teeter Plan**, which enabled taxing jurisdictions across the state to disburse secured property taxes billed but not yet collected. In return, the City retains delinquent penalties and interest normally allocated to the taxing entities participating in the Teeter Plan. Participants must refund a portion of their disbursements if there are roll corrections or prior year refunds. Billed property tax revenues covered under the Teeter Plan are disbursed as follows:

Teeter Plan Disbursement Schedule – FY 2007-08	
Distribution Date	**Percent of Revenue Billed**
December	50%
April	40%
June	10%

Collection Method & Issues

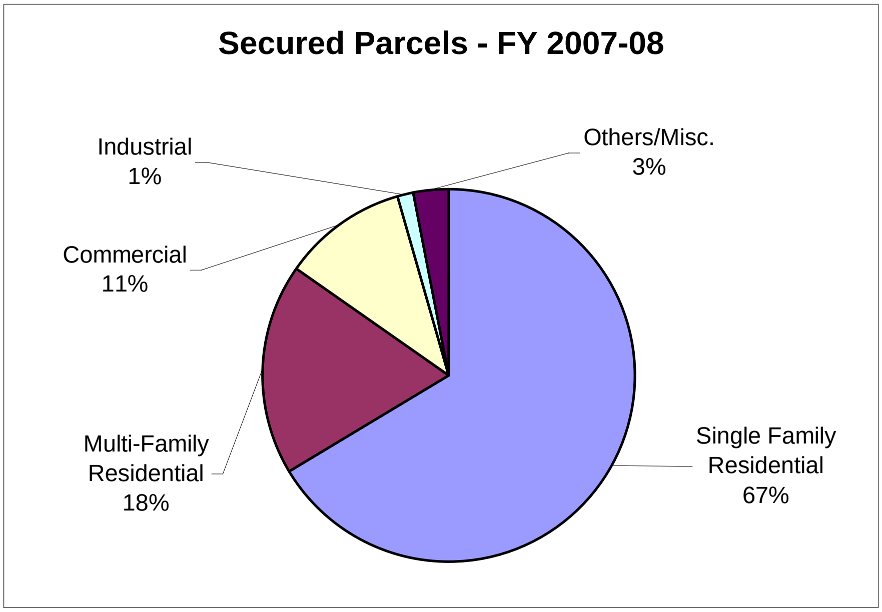
Property owners remit taxes to the Treasurer/Tax Collector according to the following schedule:

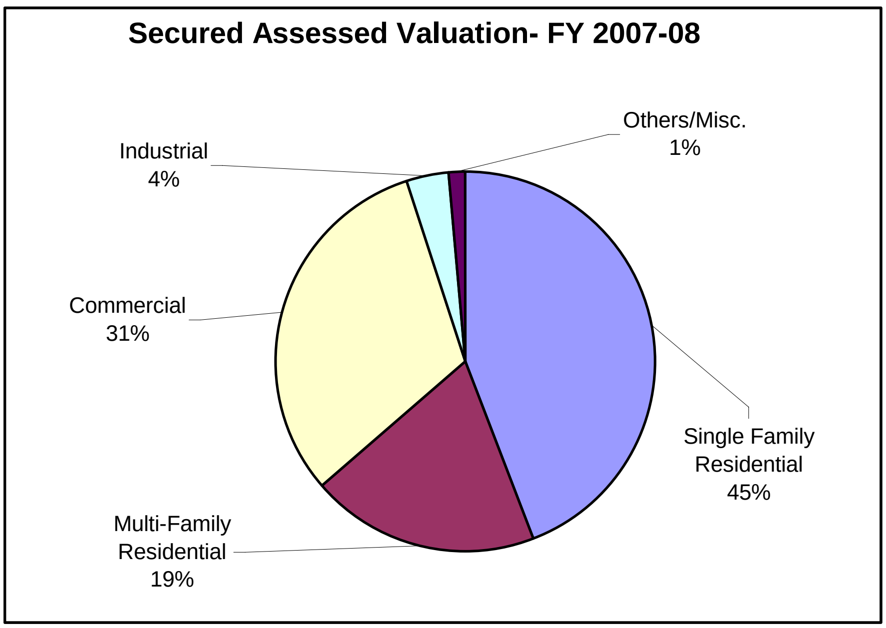
Important Property Tax Dates	
January 1	Lien Date
June 30	Tax roll closes. The tax roll is a complete list of assessed property values in San Francisco.
August 31	Unsecured roll tax due.
November 1	First installment of secured roll tax due.
December 11	First installment of secured roll tax becomes delinquent.
February 1	Second installment of secured roll tax due.
April 11	Second installment of secured roll tax becomes delinquent.
Rolling	Supplementals—first installment due on date bill was mailed.

Supplemental Property Tax Delinquency Dates		
Bill Mailed	**1st Installment Delinquent on**	**2nd Installment Delinquent on**
July-October	December 11 of same year	April 11 of following year
November-June	Last day of month following month in which bill was mailed	Last day of fourth month following the date the 1st installment was delinquent

Revenue Base

Property tax is an ad valorem tax, which means it is a proportion of the assessed value of property. San Francisco has a relatively strong revenue base because it has many valuable buildings and developed property within its borders. The graphs below show how residential, commercial, and other properties constitute the City's secured roll parcel count and total assessed valuation.





Tax / Rate Structure

There are two components to property tax rates. The first is the ***one percent countywide maximum rate*** set by Proposition 13 in 1978. The second is ***voter-approved overrides*** (i.e. for bonded indebtedness). The total FY 2007-08 property tax rate is 1.141 percent. The tax rate and allocation table above outlines the allocation of the property tax rate.

In addition to the ad valorem property tax, additional special assessments and fixed charges may be billed on the property tax statement. These add-ons are generally unit or parcel-based. Examples include the Rent Board Fee, the School Facilities Safety Special Tax (a parcel tax), and the Apartment License Fee.

Historical Information

Before the passage of Proposition 13 in 1978, each local government entity with powers of taxation (counties, cities, school and special districts, etc.) could levy a property tax on the property located within its jurisdiction. Within certain restrictions, each entity determined its tax rate independently.

Proposition 13 changed property taxation in two major ways. First, it set the maximum countywide tax rate at one percent, where the statewide average had previously been 2.67 percent. Second, it limited growth in the assessed value of property to the lesser of inflation or two percent per year, unless ownership of the property changed. Assessed values from the fiscal year 1975-76 serve as the base for real property assessments. When property is purchased, newly constructed, or changes ownership, the year of such action becomes the new base year. Proposition 13 applies only to the secured tax roll. The assessed value of the unsecured and utility tax rolls may increase at higher rates.

On July 1, 1983, California State law was changed to require the reassessment of property as of the first day of the month following an ownership change or the completion of new construction. In most cases, this reassessment results in one or possibly two ***supplemental tax bills*** being sent to the property owner in addition to the annual property tax bill. Revenue generated by supplementals fluctuates with sales volume and value, as well as related changes in construction. Not all changes in ownership of property result in reassessment. Interspousal transfers, the transfer, sale, or inheritance of property between parents and their children, and the addition of joint tenants do not result in the reappraisal of property values.

In fiscal years 1992-93 and 1993-94, in response to acute budget shortfalls, the State legislature permanently redirected over $3 billion in property taxes from cities, counties, and special districts to schools and community college districts, thereby reducing the State's funding obligation for school districts by the same amount. This shift of property tax revenue is referred to as ***ERAF I and II (i.e. the Educational Revenue Augmentation Fund)***. To mitigate the impact of the shift on local governments, the legislature proposed and the voters approved Proposition 172, which provides counties and cities 0.50 percent of the sales tax rate for public safety purposes (i.e. the Prop 172 Public Safety Funds).

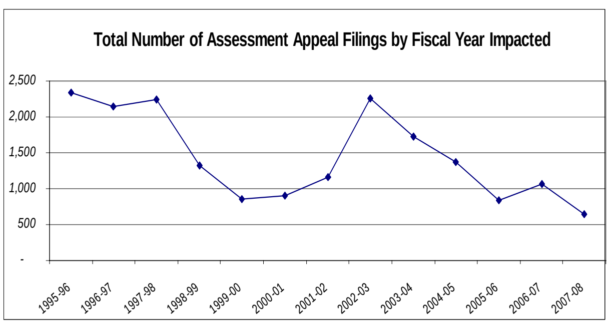
During more recent State budget deliberations, three significant, additional financial transactions were legislated for fiscal years 2003-04 and 2004-05, i.e. the **Triple Flip (0.25% of the local Sales & Use Tax), ERAF III** and the **Motor Vehicle License Fee** (**MVLF**) swap for property taxes. Beginning with FY 2004-05, the State shifted 0.25% of local sales and use tax to repay its Economic Recovery Bonds, and local governments were reimbursed for this loss by reducing their ERAF (I & II) allocation. The State then replaced the schools' ERAF funds with State general fund monies. This three-part transaction is commonly referred to as the 'Triple Flip'. Next, an additional shift of ERAF (ERAF III) was made by the State, away from local taxing agencies, for two fiscal years 2004-05 and 2005-06 only. **Altogether, *for FY 2007-08, the projected impact of ERAF is estimated to 'cost' the General Fund $308.6 million, an amount only partially offset by the $73.3 million in budgeted Prop 172 Public Safety sales tax subventions from the State.***

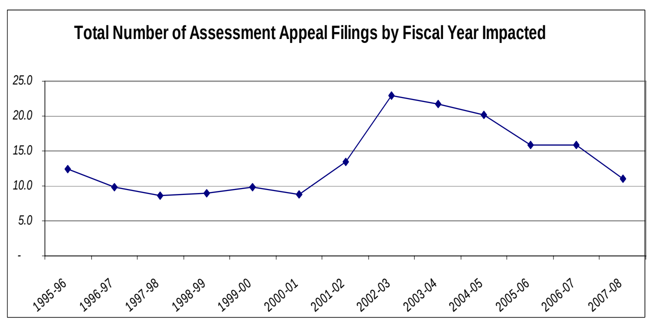
Tax Relief / Exemptions
Tax liability may be reduced by a number of legal exemptions. Exemptions can cover seniors and other people who qualify, and include homeowner exemptions, veteran exemptions, property tax assistance for seniors and blind/disabled persons as well as property tax postponement for senior citizens.

Property Tax Exemptions			
Type	**Exemption Amount**	**Requirements**	**Filing Deadline**
Homeowner	$7,000 of dwelling taxable value	Principal Residence	February 15
Veteran / Disabled Veteran	Up to $150,000 full cash value of home	Various	April 15
Non-Profit / Welfare	Up to 100% of assessed valuation	Various	February 15

Exemptions may also be granted in cases of public benefit use such as nongovernmental hospitals, private and parochial schools, private colleges, churches, religious and charitable properties.

Assessment Appeals
If a property owner believes the base year assessed value of their property is too high, they may file an appeal with the Assessment Appeals Board to have that value reconsidered. The number and value of assessment appeals tend to follow overall economic conditions, as the graphs below illustrate. Both figures spiked during the downturn of the early 1990s, dropped during the expansion of the middle and late years, began rising again in FY 2001-02 to 2004-05, and slightly decreased in recent years.





Source: City & County of San Francisco Assessment Appeals Board
Total Value of Assessment Appeals reflects date of appeal application.

Proposition 8 Appeals
In November 1978, voters passed Proposition 8, which amended Proposition 13 to allow for temporary reductions in assessed value. Proposition 8 requires county assessors to annually enroll either a property's Proposition 13 value (maximum increase of two percent or CPI annually, whichever is lower), or its current market value as of the January 1 lien date of each year, whichever is less. When the current (lower) market value replaces the higher Proposition 13 value on the roll, that lower value is commonly referred to as a "Prop 8 Value.” These values must be reviewed each year to determine if they still apply.

Calamity Appeals
Property owners typically file calamity claims after a fire, earthquake, or other disaster has eliminated or drastically reduced the value of their property or their access to it. Airlines and some property

owners filed calamity appeals when they suffered heavy losses in business after the September 11th terrorist attacks. In December 2001, the State Board of Equalization, charged with determining policy for local governments across the state, stated that these claims did not fit the legal requirements of a calamity. Therefore no relief was permitted in FY 2001-02.

Trends & Projections

Property taxes are a substantial and relatively stable revenue source, compared to other more economically sensitive revenues. After adjusting for the ERAF shift of funds, property tax revenue increased significantly over the 1990s commensurate with the dramatic rise in real estate prices in San Francisco. Market activity and appeals are closely monitored for projections. The following table summarizes the change in the Net Assessed Valuation (NAV), the underlying driver to most of the change in property tax revenue.

Net Assessed Valuation for Property in San Francisco^

FISCAL	TOTAL ROLL^	
YEAR	NET ASSESSED VALUE	GROWTH
FY 1993-94	57,054,155,106	5.2%
FY 1994-95	56,584,655,539	(0.8%)
FY 1995-96	56,234,496,236	(0.6%)
FY 1996-97	56,713,486,275	0.9%
FY 1997-98	58,595,583,241	3.3%
FY 1998-99	64,007,968,636	9.2%
FY 1999-00	70,481,563,870	10.1%
FY 2000-01	77,649,538,370	10.2%
FY 2001-02	87,262,335,387	12.4%
FY 2002-03	93,738,325,815	7.4%
FY 2003-04	98,145,268,023	4.7%
FY 2004-05	104,471,287,868	6.4%
FY 2005-06	111,406,190,157	6.6%
FY 2006-07	119,870,979,379	7.6%
FY 2007-08	130,004,478,543	8.5%

Delinquency Trends & Projections

If a taxpayer does not pay the first installment of their annual tax bill at the Office of the Treasurer & Tax Collector by 5 p.m. on December 10[3], or payment is not postmarked by that date, then that installment becomes delinquent, and a 10% delinquent penalty is incurred. If a taxpayers fails to pay the second installment at the Office of the Treasurer & Tax Collector by 5 p.m. on April 10[3], or payment is not postmarked by that date, it becomes delinquent, and a 10% penalty on the unpaid taxes as well as an administrative charge of $10 are added. Likewise, if a taxpayer fails to pay any supplemental tax bill installment by the applicable delinquency date, the same penalties and charges accrue as for delinquent annual taxes.

If there are any unpaid taxes as of 5 p.m. on June 30[4], then the property becomes tax defaulted. Once the property has become tax defaulted, a redemption fee of $15 and additional penalties begin to

[3] If either December 10 or April 10 falls on a weekend or holiday, taxes are not delinquent until 5 p.m. the next business day.

[4] If June 30 falls on a weekend or holiday, taxes must be paid by 5 p.m. of the preceding business day.

accrue at the rate of 1 1/2% per month of the unpaid taxes. This monthly penalty is added at 5 p.m. on the last day of each month (or the following business day if the last day of the month falls on a weekend or holiday).

Taxes can remain unpaid for a maximum of five years following their tax default, at which time the property becomes subject to the power of sale. This means that a taxpayer's property will be sold at a public auction or acquired by a public agency if taxes go unpaid before the date on which the property is offered for sale or acquisition.

Property tax delinquency rates also change over time and impact the amount of revenue actually collected. Delinquency rates also tend to be correlated with the economic cycle – going higher in times of economic slowdown. The table below summarizes San Francisco's delinquency rates over the past several years and provides a comparison to statewide averages for both secured and unsecured property taxes.

		CY Secured		CY Unsecured	
		CCSF	**Statewide**	**CCSF**	**Statewide**
	FY 1990-91	3.73%	4.40%	4.83%	4.40%
	FY 1991-92	4.00%	4.10%	4.22%	4.57%
	FY 1992-93	3.23%	4.71%	4.58%	4.74%
	FY 1993-94	2.81%	4.10%	4.36%	4.60%
	FY 1994-95	2.52%	3.60%	4.75%	4.40%
	FY 1995-96	1.92%	3.40%	3.68%	3.20%
	FY 1996-97	1.68%	3.10%	3.21%	3.80%
	FY 1997-98	1.45%	2.70%	2.29%	4.00%
	FY 1998-99	1.35%	3.10%	2.94%	4.00%
	FY 1999-00	1.42%	3.20%	2.11%	4.00%
	FY 2000-01	1.33%	2.90%	2.98%	4.50%
	FY 2001-02	1.46%	2.80%	5.15%	4.90%
	FY 2002-03	1.55%	2.60%	4.94%	4.80%
	FY 2003-04	1.19%	2.40%	3.78%	4.70%
	FY 2004-05	1.10%	1.90%	2.53%	5.90%
	FY 2005-06	1.19%	2.10%	2.52%	4.90%
	FY 2006-07	1.42%	3.50%	3.57%	5.60%
Projected*	**FY 2007-08**	1.24%	2.50%	2.87%	5.47%

Source: San Francisco Tax Collector and California Controller's Office

Sensitivities

The total value of the tax rolls is understated to the extent that assessed values are below market rates, and overstated to the extent that assessed values are above market. Residential property values in San Francisco generally are more stable than commercial. Commercial property values are prone to greater fluctuation, as many are assessed based on the income the property may generate, which may fluctuate significantly during the economic cycle. During the economic downturn of the early 1990s as well as in the early 2000s, a substantial number of both residential and commercial property owners filed for and received Proposition 8 tax relief.

Property tax revenue is also impacted by State reallocations such as ERAF. The Governor's FY 2005-06 Budget included an additional shift of an estimated $25.2 million (ERAF III) on top of the current $264.3 million being shifted from the City's General Fund during FY 2005-06, for a **total ERAF shift of $289.5 million in FY 2005-06, $285.4 million in FY 2006-07 and $308.6 million in FY 2007-08.** The ERAF shift results in savings for the State's General Fund because it allows the State to cover Prop 98 per pupil funding obligations increasingly from property taxes that would otherwise accrue to local governments.