

Property Taxes

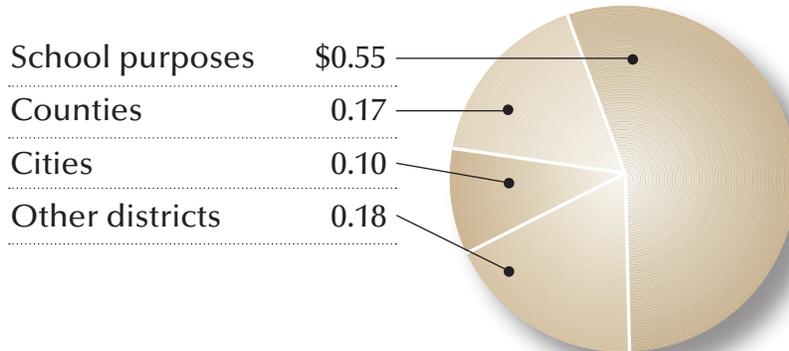
Revenues

California property tax levies for fiscal year 2005-06 totaled \$38.34 billion, an increase of 11.1 percent from the previous year's total of \$34.52 billion. County-assessed property values increased \$429 billion during 2005-06 to reach \$3.90 trillion for the 2006-07 tax year.

In May 2006, the Board set the values of state-assessed properties, primarily privately owned public utilities and railroads, at \$67.6 billion for the 2006-07 roll. This was a \$0.6 billion increase from 2005-06 values. State-assessed properties will produce an estimated \$738 million in local property tax revenues for the state's 58 counties in 2006-07.

For detailed property tax information, please see the [Appendix, pages A-4 through A-22](#).

2005-06 General Property Tax Dollar





Programs

Under its constitutional mandate, the Board oversees the assessment practices of the state's 58 county assessors, who are charged with establishing values for approximately 12 million properties each year. In addition, the Board assesses the property of regulated railroads and specified public utilities, and assesses and collects the private railroad car tax and timber yield tax.

The divisions discussed in this section were reorganized effective January 1, 2007. See organizational chart in the appendix.

General Property Taxes

County-assessed property values for the 2006-07 roll increased 12.3 percent over the previous year. The gain was greater than last year's 11.1 percent rise. Sharply increased home prices, record high home sales, and gains in new construction combined to cause the growth. The values were set as of January 1, 2006, so the slowdowns in residential real estate prices and sales that started in early 2006 had no impact on values. Assessments have been strong the past two years in relation to historical norms, as county-assessed property values increased an average of 7.9 percent per year over the past 10 years.

Proposition 13, passed by California voters in 1978, imposed a property tax rate of one percent of the property's full cash value, with limited exceptions. In addition, it allows reappraisal of real property at current fair market value only when there is a change in ownership or upon completion of new construction. Otherwise, Proposition 13 limits annual increases in the value of real property to the previous year's California Consumer Price Index for all items, up to a maximum of two percent.

State-Assessed Properties

In accordance with Article XIII, section 19 of the California Constitution, the Board of Equalization assesses certain public utility and other specified properties and allocates the assessed values among the counties where the properties are physically located. Each county taxes the allocated value of state-assessed properties at the same rate as locally assessed properties.

State-assessed properties include

- Pipelines, flumes, canals, ditches, and aqueducts lying within two or more counties.
- Property (except franchises) owned or used by regulated railway, telegraph, or telephone companies; railroad car companies operating on railways in the state; and companies transmitting or selling gas or electricity.

Private Railroad Car Tax

Private railcar owners pay the private railroad car tax on railcars operated in California. For 2006-07, the Board-adopted assessed value for private railroad cars totaled \$608.7 million. The total assessed value reflects the application of a 65.64 percent assessment ratio as required by the Federal Railroad Revitalization and Regulatory Reform Act. The estimated private railroad car tax revenue for the state's 2006-07 General Fund is \$6.67 million.

Additional information on the private railroad car tax can be found in the [Appendix on pages A-21 and A-22](#) and in the [foldout chart](#) inside the back cover of this report.

Timber Yield Tax

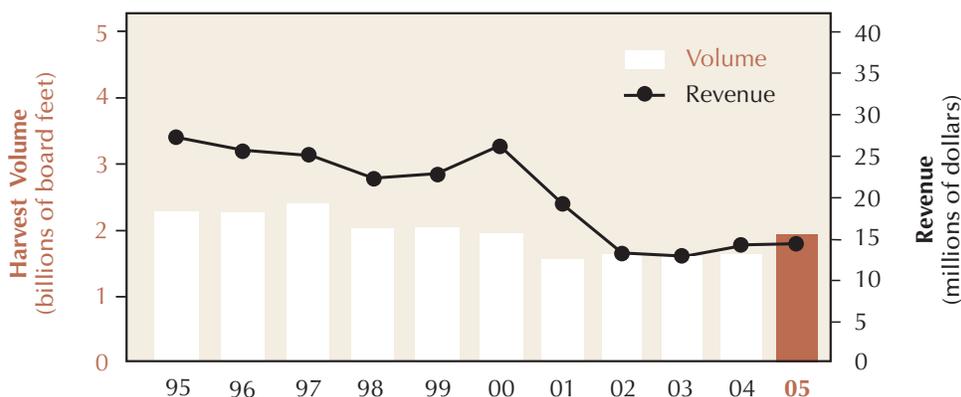
Timber owners pay the 2.9 percent timber yield tax based on the immediate harvest value of trees harvested for wood products. Revenues are returned to the counties where the timber was harvested. Calendar year 2005 revenues totaled \$15.65 million.

Timber harvest volume increased slightly in 2005, to 1.73 billion board feet. The total value of the year's harvest also increased to \$547 million. The number of registered timber owners continued to decline. As of June 30, 2006, there were 1,989 active program registrants, compared with 2,007 timber owners registered at the end of June 2005. Thirty timber owners paid approximately 85 percent of the tax collected in 2005.

Additional information on the timber yield tax can be found in the [Appendix on page A-20](#) and in the [foldout chart](#) inside the back cover of this report.

Timber Yield Tax

Annual Revenue and Harvest Volume





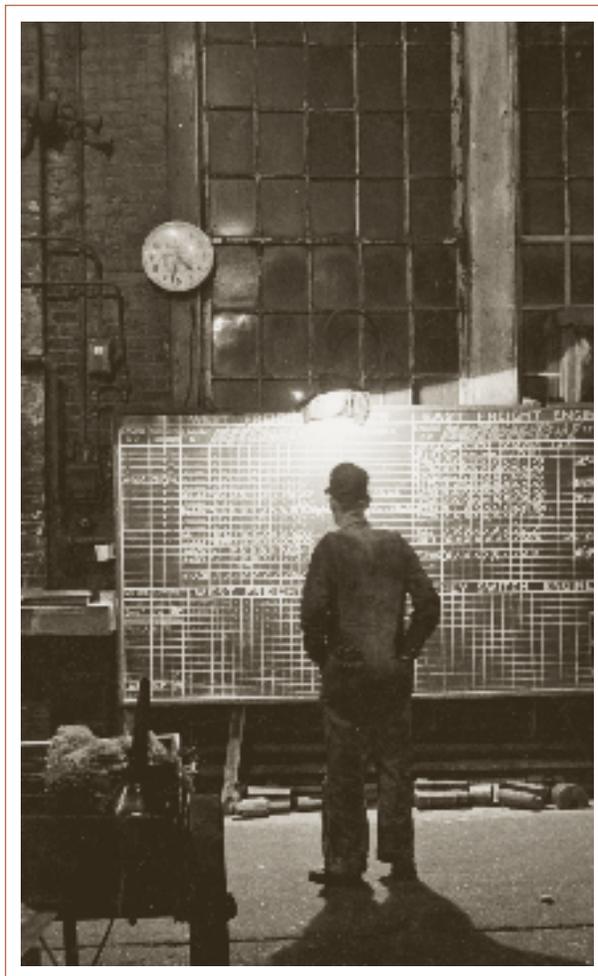
Operations

Assessment Policy and Standards Division

The Assessment Policy and Standards Division developed property tax assessment policies and informational materials to guide county assessors and local assessment appeals boards. The division provided technical expertise and guidance to assessors, the Legislature, and others concerned with property tax assessment matters, and ensures that the content of property tax forms is uniform throughout the state. Division staff also maintained all property tax rate area maps in California.

In 2005-06, Assessment Policy and Standards Division staff provided the following services to local governments and the public:

- Updated three sections of the Assessors' Handbook to reflect current, annually collected data: Residential Building Costs (AH 531), Rural Building Costs (AH 534), and Equipment Index and Percent Good Factors (AH 581).



A crewman in the “round house” checks to see if he has a work assignment on either a passenger or freight train. Work was prized, but was irregular and often required nightshifts.

- Conducted extensive research to develop two new sections of the Assessors' Handbook in the categories of Change in Ownership and New Construction.
- Conducted the rulemaking process to amend four Property Tax Rules: Rule 140, Welfare Exemption Requirements for Low-Income Housing Properties; Rule 140.1, Requirements for Managing General Partner of Limited Partnership for Welfare Exemption for Low-Income Housing Properties; Rule 140.2, Requirements for Supplemental Clearance Certificate for Limited Partnership for Welfare Exemption for Low-Income Housing Properties; and Rule 143, Requirements for Irrevocable Dedication Clause and Dissolution Clause for Organizational Clearance Certificate for Welfare Exemption.
- Issued 74 advisory Letters to Assessors.
- Responded by telephone to more than 10,000 outside inquiries regarding property tax matters, prepared 86 written responses, and responded to 348 inquiries from users of the Board's website. Also responded to approximately 200 inquiries pertaining to the forms approval process on a new Assessment Appeals Board form.
- Reviewed 5.5 million homeowners' exemption claims, revealing nearly 29,000 duplicate claims and saving \$2 million in state tax subvention payments to counties.
- Reviewed over 1,350 claims for organizational clearance certificates and 160 claims for supplemental clearance certificates associated with the welfare exemption.
- Reviewed approximately 3,000 periodic filings of organizations holding organizational clearance certificates to ensure continued qualification for the welfare exemption.
- Conducted 45 formal appraisal courses and workshops attended by more than 1,300 students. Also reviewed results of web-based, self-study training sessions which were taken by 236 individuals.
- Developed six web-based, self-study training sessions titled Assessment Appeals Board, Basic Agricultural, Open-Space Properties, Taxable Possessory Interests, Manufactured Homes and Parks, and Personal Property and Fixtures.
- Sent more than 12,100 questionnaires to legal entities, including corporations and partnerships, resulting in the reassessment of 13,360 parcels owned by 346 legal entities.
- Continued to maintain maps of more than 9,950 revenue district boundaries that encompass 59,264 tax rate areas, helping to ensure the proper allocation of local tax revenue to counties, cities, and special tax districts.



Valuation Division

The Valuation Division provided the elected Board members with value indicators for state-assessed properties, described on [page 20](#), and allocated the Board-determined value of those properties to the counties where the properties are located. The division also audited the financial records of utility and transportation companies for property tax purposes and was responsible for the valuation of private railroad cars located in California. Since 1977, their audits have resulted in adjusted property tax assessments of more than \$13.36 billion, yielding additional property tax revenue for local governments.

County Property Tax Division

The County Property Tax Division conducts periodic Assessment Practices Surveys of each county assessor's office and issues reports to state and local officials.

In 2005-06, the Board issued survey reports for the counties of Calaveras, El Dorado, Lake, Lassen, Nevada, Plumas, San Diego, San Joaquin, San Mateo, Sonoma, and Stanislaus. Copies of the reports are found in the "Property Taxes" section of the Board's website: www.boe.ca.gov.

The division also collects and administers the state's timber yield tax, described on [page 21](#). Timber Tax Section staff gather data on timber harvest sales and develop timber harvest value schedules for consideration by the Board's Timber Advisory Committee and approval by the Board Members. They also register timber owners who harvest timber, and collect the timber yield tax.

Appeals

Local assessment appeals boards hear and decide appeals of county-assessed property values. The elected Members of the Board hear and decide appeals of state-assessed property values, appeals filed under the Timber Yield Tax and Private Railroad Car Tax Laws, appeals of welfare exemption denials, and appeals made by local governments concerning assessments of properties they own outside their boundaries. For information regarding appeals filed with the Board in 2005-06, see ["Appeals," on page 55](#).

Court Decisions

Change of Ownership Determination Applies to Improvements

Relying on subdivision (c) of Revenue and Taxation Code section 61, the court found that because the ground lease at issue was for only 20 years, the court found that the subsequent transfer of the underlying land included a change in ownership and reassessment of the improvements even though the lessee, and not the ground lessor, had constructed and owned the improvements under the terms of the lease. Additionally, the court reaffirmed that all three parts of the section 60 test must be applied to a change in ownership analysis of a real property transfer.

Auerbach v. County of Los Angeles Assessment Appeals Board No. 1 (2006)
39 Cal.4th 153

Restricted Access Rule Invalid

The Court of Appeal found that Property Tax Rule 139, *Restricted Access as Damage Eligible for Reassessment Relief Pursuant to Revenue and Taxation Code*, section 170, was invalid. This regulation provided relief to property owners by defining damage to property, qualifying for disaster relief under section 170, to include damage resulting from the restricted access to that property. The regulation was held invalid because it was inconsistent with the plain language of both Article XIII, Section 15 of the California Constitution and subdivision (a)(2) of Revenue and Taxation Code section 170, as both of these provisions require that property be physically damaged to qualify for relief.

Slocum v. State Board of Equalization (2005)
134 Cal.App.4th 969

Change in Ownership Occurs When One Income Beneficiary is Succeeded by Another

The Court of Appeal found that a change in ownership of real property held by a testamentary trust occurred under section 60 of the Revenue and Taxation Code when an income beneficiary of the trust died and was succeeded by another income beneficiary. The Court concluded that the beneficiary's death caused a transfer of the property's primary economic value to the successor beneficiary, who acquired a present beneficial interest in the property.

Reilly v. City And County Of San Francisco (2006)
142 Cal.App.4th 480

Court Decisions (Continued)

**Overhead Property
Becomes Property
of Federal
Government**

The Court of Appeal found that overhead property allocated to a fixed-price federal government contract as an indirect cost becomes the property of the federal government and is therefore nontaxable. This decision is consistent with the conclusion reached by the Court of Appeal in *Hughes Aircraft Company v. County of Orange* (2002) 96 Cal.App.4th 540, a property tax case which also addressed the passage of title of overhead property to the federal government.

Northrop Grumman Corporation v. County of Los Angeles (2005)
134 Cal.App.4th 424

**Recorded
Easements
Are Within
an Assessor's
Exercise of
Judgment**

The Court of Appeal found that the taxpayer's application for reduction in the base year value of a property, relating to a utility easement, under subdivision (b) of Revenue and Taxation Code section 51.5 was not filed within the four-year limitations period. The Court found that, as a recorded easement, a property owner and an assessor are charged with constructive notice of the easement such that the assessor is presumed to have accounted for the easement at the time the base year value of the property was determined. Consequently, the court concluded that the consideration of recorded easements is encompassed within an assessor's exercise of judgment as to value under subdivision (b) of section 51.5, as such easements directly affect the fair market value of a property.

Kuperman v. Assessment Appeals Board No. 1 (2006)
137 Cal.App.4th 918

Legislation

Condominium Conversions

With respect to the division of an existing residential structure into a condominium, prohibits the assessor from making specified actions until after a subdivision final map or parcel map has been recorded.

*Assembly Bill 14, Chapter 281, Statutes of 2005;
effective January 1, 2006*

Disaster Relief Homeowners' Exemption

Allows persons whose homes were destroyed in specified governor-declared disasters to retain the homeowners' exemption on their property while rebuilding.

*Assembly Bill 18, Chapter 624, Statutes of 2005;
effective October 6, 2005*

Commercial Air Carriers—Centralized Assessment at the County Level

Establishes a centralized system for commercial air carriers to file annual property statements with a designated “lead” county for certificated aircraft as well as other personal property and real property fixtures located at airport locations. Additionally, specifies the assessment methodology for valuing certificated aircraft to be used for the next six years.

*Assembly Bill 964, Chapter 699, Statutes of 2005;
effective October 7, 2005*

Solar Energy New Construction Exclusion

Extends the exclusion for newly installed active solar energy systems through the 2008-09 fiscal year.

*Assembly Bill 1099, Chapter 193, Statutes of 2005;
effective September 6, 2005*

Williamson Act Cancellation Valuations

Requires a county assessor to review the valuation of land under a Williamson Act contract prepared because a landowner requested immediate cancellation of the open space contract, if the assessor concludes that newly received information has a material effect on the original valuation prepared.

*Senate Bill 49, Chapter 245, Statutes of 2005;
effective September 22, 2005*

Legislation (Continued)

Property Tax Omnibus Bill

Grandparent-Grandchild Change in Ownership Exclusion

Provides that a son-in-law or daughter-in-law of the grandparent that is a stepparent to the grandchild need not be deceased in meeting a condition that “all of the parents” of the grandchild, as defined, must be deceased.

Confidentiality of Exclusion Claim Forms

Expressly provides that the claims filed by taxpayers for the parent-child change in ownership exclusion and base year value transfers for seniors and the disabled are not public documents and not subject to public inspection.

Supplemental Assessment Exclusion

Allows the exclusion from supplemental assessment for the completion of new construction of properties to be offered for sale to be automatically granted to single family residences located in residential subdivisions, as specified.

Immediate Termination of Exemptions Upon Sale

Immediately terminates a property tax exemption on a property when sold if the new property owner is not otherwise eligible for an exemption.

Mandatory Audits—Exempt Entities

Eliminates mandatory personal property audits of exempt entities.

Tax Bills—Appeal Right Notification

Allows the tax bill to serve as the notice of the taxpayer’s right to appeal the assessment, so long as the tax bill itself contains the notice of the taxpayer’s appeal rights.

Board Roll Preparation

Adds state-assessed electrical generation facilities to the list of properties assigned to a specific tax rate area, rather than the countywide tax rate area, when preparing the Board Roll of State-Assessed Property.

Hearing Officer Decisions

Provides that in those counties where the hearing officer’s decisions on assessment appeals constitutes the final decision of the county assessment appeals board, the appeals board does not have to formally adopt the officer’s decision.

Legislation (Continued)

**Private Railroad
Car Appeals**

Deletes obsolete references to a “declaration of intent to petition for reassessment” on a private railroad car assessment with the Board.

*Senate Bill 555, Chapter 264, Statutes of 2005;
effective January 1, 2006*

**Registered Domestic
Partners—Change in
Ownership Exclusion**

Excludes from the definition of change in ownership any transfer of property between registered domestic partners.

*Senate Bill 565, Chapter 416, Statutes of 2005;
effective September 29, 2005, but operative January 1, 2006*

Regulations

The Board did not adopt or amend any property tax program regulations in 2005-06.