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Property tax revenue likely to stay weak

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The steep drop in California home values will lower property tax revenue for years, undermining education and other critical public services, according to speakers at a roundtable discussion on Thursday.

The chief culprit is Proposition 13, the 1978 voter initiative that caps property tax increases at 2 percent a year unless homes trade hands, said the real estate, education and political experts speaking at the City Hall event organized by San Francisco Assessor-Recorder Phil Ting.

As hundreds of thousands of California properties fall into foreclosure and sell at values well off recent peaks, the amount of money funneled into government is declining dramatically, by nearly \$400 million last year, according to an estimate by ForeclosureRadar.com. Those losses are likely to persist into the foreseeable future, with repossessions rising and owners forced to hold onto properties longer amid a real estate climate expected to remain chilly for years, the panelists said.

"Our tax roll will be significantly lower than last year," Contra Costa County Assessor Gus Kramer said. "Next year will be even worse, and 2011 will be even worse than that."

Communities are taking an additional hit from owners of depreciating homes who are appealing for temporary reductions in their taxes, as allowed under an amendment to the proposition.

Kris Vosburgh, executive director of the Howard Jarvis Taxpayers Association, countered that the proposition his organization championed provides predictability in property taxes, noting this is the first year they've declined since the passage of Prop. 13. He added that the measure protects owners, whose incomes often don't rise as quickly as property values, sometimes threatening their ability to meet the tax obligation and keep their homes.

"It gives security to both the homeowner and government," he said.

The 1 percent tax on the purchase price of homes mainly goes to K-12 schools, community colleges, towns and special districts. A long-standing complaint about Prop. 13 is that it limits the ability of government to benefit from real estate booms, withholding money needed for these public services, while leaving it wide open to busts.



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"Prop. 13 has been a disaster for the services we provide," said Linda Plack, vice president of the United Educators of San Francisco union. "This is the time when we have to have real reform."

While several speakers on Thursday suggested eliminating Prop. 13 was good public policy, none asserted it would be politically possible. It's long been considered an untouchable "third rail" in California and remains highly popular among voters.

Instead, several suggested it could be amended or made up for in ways that would increase the amount that could be collected from taxes, including: tightening rules defining changes in ownership, allowing commercial real estate to be routinely re-evaluated based on current market valuations and lowering legislative requirements for passing tax increases through a state constitutional convention.

Research firm Beacon Economics predicts that property tax revenue in California will drop by 6.1 percent from July 1 to June 30, 2010, followed by 3.6 percent and 0.8 percent declines, respectively, in the next two fiscal years. It will take until 2012-13 before statewide property taxes begin to rise and then only by 1 percent, the Los Angeles company forecasts.

Chronicle staff writer Carolyn Said contributed to this report. E-mail James Temple at jtemple@sfchronicle.com.

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