

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
September 11, 2009

To: Board of Supervisors

From: Assessor

Subject: Report Back -- Number Of Properties Affected By The Potential Negative
Consumer Price Index

Supervisory

District: All

Contact: Kathleen Kelleher, Assistant Assessor 875-0711

Overview

On September 8, 2009 during the Fiscal Year 2009-10 Final Budget hearings, the Board of Supervisors requested a report back regarding the number of properties that would be affected by the potential negative Consumer Price Index applied to property tax assessments under Proposition 13 and the impact on our property tax revenues.

Recommendation

Receive and file.

Measures/Evaluation

Not applicable to this report.

Fiscal Impact

If the California Consumer Price Index (CCPI) for the 12 month period of October 2008 to October 2009 is negative, the negative factor will be applied to the value of approximately 288,000 properties subject to this factor for the 2010-11 assessment roll. Properties that were reduced per Proposition 8 are not included in this total. A one percent (1%) reduction in the CCPI (applied to the 288,000 properties) equates to approximately \$1.475 million to the General Fund. The CCPI through the third quarter ending June 30, 2009 is negative 0.7% (seven tenths of one percent).

BACKGROUND

On September 8, 2009, during the Fiscal Year 2009-10 Final Budget hearings, the Board of Supervisors requested a report back regarding the number of properties that would be affected by the potential negative Consumer Price Index (CCPI) applied to property tax assessments under Proposition 13 and the impact on our property tax revenues.

DISCUSSION

Article XIII A of the California Constitution (Proposition 13) provides that a base year value is established when locally assessed real property undergoes a change in ownership or when new construction occurs. Following the year a base year value is first enrolled, the value is modified annually to reflect the percentage change in cost of living. Pursuant to Article XIII A, section 2(b), and Revenue and Taxation Code section 51, the percentage cannot exceed two percent (2%) of the prior year's value.

Since the passage of Proposition 13, the annual adjustment has never resulted in a reduction to base year values. However, there's a high probability that the statutory 12-month period of October 2008 to October 2009 will result in a negative inflation factor. The negative factor would then be applied to the 2010-11 assessment roll. It would not affect the 2009-10 assessment roll. The CCPI dropped sharply (3%) between October 2008 and December 2008; however, it has been slowly rising ever since. The CCPI through the third quarter ending June 30, 2009 is negative 0.7% (seven tenths of one percent).

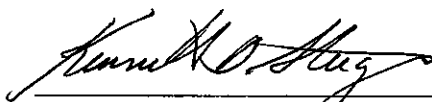
Of the roughly 465,000 properties in Sacramento County, approximately 288,000 properties (excluding primarily Prop 8 properties) are subject to the inflation factor. A one percent (1%) reduction in the CCPI would result in a reduction of about \$820 million in assessed value or a loss of property tax revenue of \$8.2 million, with a County General Fund share of about \$1.475 million.

The annual increase (or reduction) does not apply to values adjusted under Proposition 8. The market value of a Prop 8 property is reviewed annually as of January 1 and the current market value must be enrolled as long as the Prop 8 value still falls below the Prop 13 value. Thus, any subsequent increase or decrease in market value is enrolled regardless of any percentage increase or decrease. When the current market value of a Prop 8 property exceeds its Prop 13 value (adjusted for inflation), the Prop 13 value will be reinstated.

FINANCIAL ANALYSIS

If the CCPI for the 12 month period of October 2008 to October 2009 is negative, the negative factor will be applied to the value of approximately 288,000 properties subject to the inflation factor for the 2010 assessment date. A one percent (1%) reduction in the CCPI, applied to the 288,000 properties, equates to approximately \$1.475 million to the General Fund.

Respectfully submitted,



KENNETH D. STIEGER, Assessor
Office of the Assessor

APPROVED
TERRY SCHUTTEN
County Executive

By: _____
NAV GIL
Chief Operations Officer