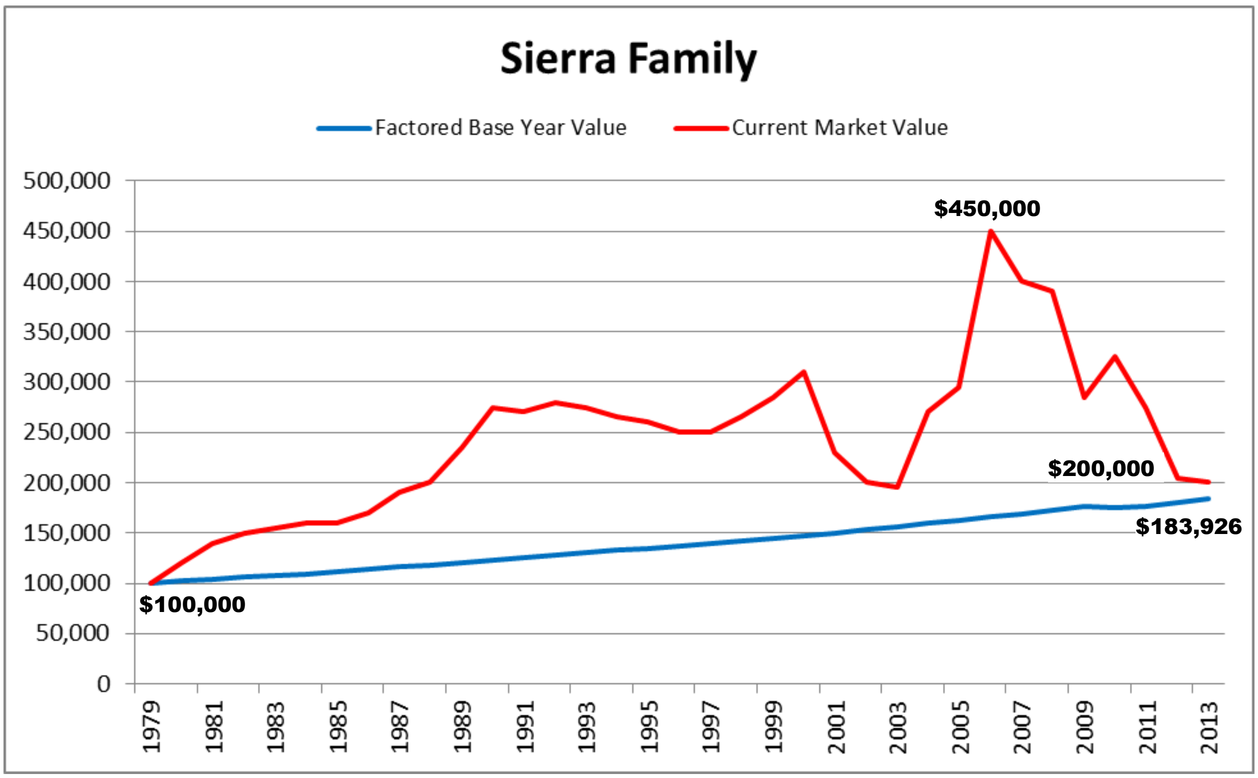
How Proposition 13 and Proposition 8 work

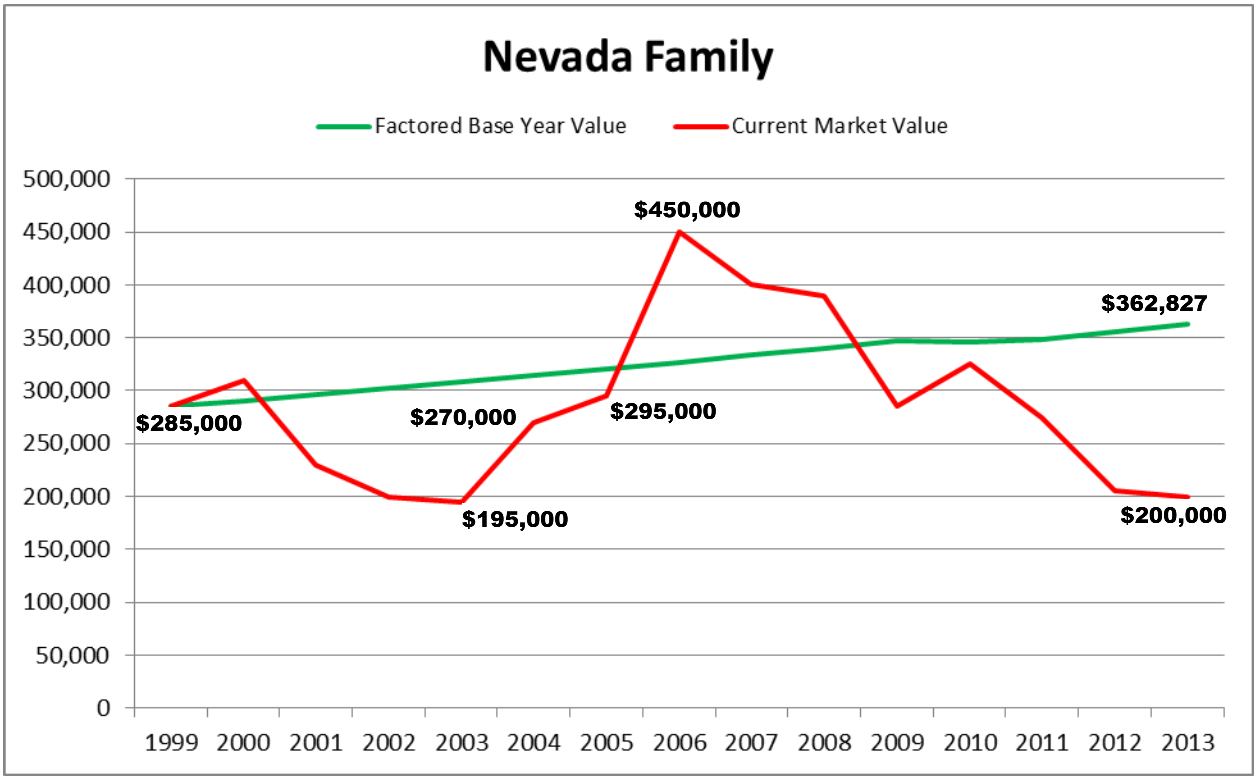
(Values and percentages used here are not based on any actual properties, but are used for illustrative purposes only. Factored Base Year Values, however, are derived from actual state-wide inflationary factors.)

In 1979, the Sierra Family purchased a home in Sierra County for $100,000. The Assessor's Office determined that the sale price represented the actual value of the property, and enrolled $100,000 for the 1980 Base Year value. According to the California Constitution, as amended in June, 1978, by Proposition 13, a state-wide inflationary factor would be applied to that Base Year value on an annual basis, creating an annual Factored Base Year Value. On the other hand, the California Constitution, as amended in November, 1978, by Proposition 8, says that, on the lien date (January 1) each year, the Assessor's Office shall enroll the **lesser** of the Factored Base Year Value or the Current Market Value. So, let's see what happened to the value of the Sierra Family property over the years:



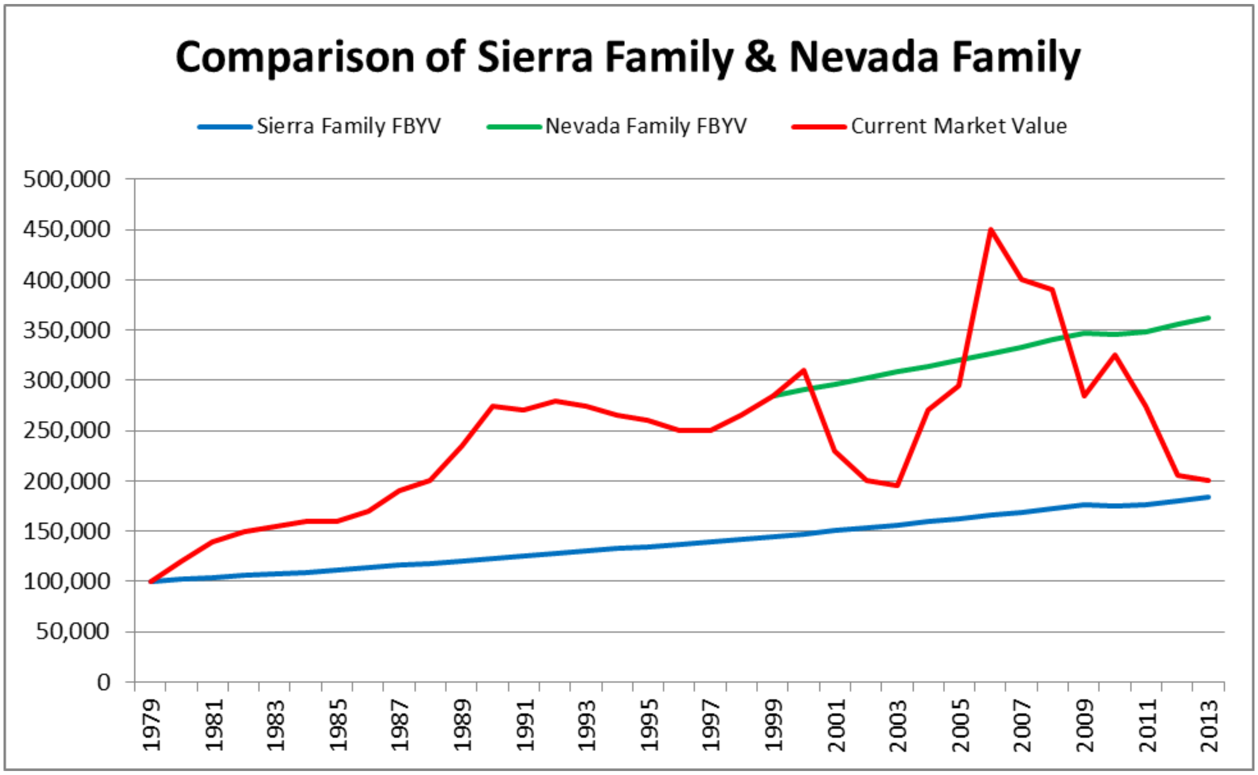
Since they purchased their home in 1979, the Sierra Family's property has been assessed at the Factored Base Year Value each year, because the Factored Base Year Value has remained less than the Current Market Value. In fact, in 2006, when the market value of their home reached $450,000, their Factored Base Year Value was only $165,738. And, in 2013, even though the market has continued to fall over the past 7 years, their Factored Base Year Value of $183,926 is still less than the Current Market Value of $200,000. So, since property taxes in California are constitutionally set at 1% of the assessed value (another provision of Proposition 13), the Sierra Family's property taxes have only increased from $1,000.00 in 1979 to $1,839.26 in 2013.

Meanwhile, the Sierra Family got some new neighbors. In 1999, twenty years after the Sierra Family purchased their home, the Nevada Family purchased the property next door to the Sierra Family's property, for the purchase price of $285,000. The Nevada Family's new home was virtually identical to the Sierra Family's home, as both has been built at the same time, from the same plans, by the same contractor – and both had been equally well-maintained over the years. The Assessor's Office determined that the sale price represented the actual value of the property and enrolled $285,000 for the 2000 Base Year Value. Let's see what happened to the value of the Nevada Family property over the years:



The Nevada Family purchased their home one year before the market started to decline. So, for the first year, they paid taxes based on the Factored Base Year Value. However, in 2001, the market started a downward trend, and the Current Market Value of their home was less than the Factored Base Year Value. According to Proposition 8, the lesser of the values was enrolled as the assessed value – in this case, the Current Market Value. For the next 5 years, the Current Market Value was enrolled, even though, starting in 2004, it had started to increase. Indeed, in 2004, the Nevada Family received a 38.5% increase in their assessed value, and in 2005 they received 9.3% increase in their assessed value. These amounts are greater than the 2% maximum inflationary factor of Proposition 13; however, since, in this case, they represent a value that is still below the Proposition 13 cap (the Factored Base Year Value), the greater percentage increase is allowable. When there was an increase in the market in 2006, the Factored Base Year Value of $326,946 was once again less than the Current Market Value, and it was that lesser value that was enrolled. However, by 2008, the market had once again declined to the point where the Current Market Value was being enrolled as less than the Factored Base Year Value. By 2013, the Factored Base Year Value was $362,827, while the Current Market Value was $200,000. So, the Nevada Family's property taxes have fluctuated since they bought their home, from $2,850.00 in 1999, to a low of $1,950.00 in 2003, a high of $3,401.53 in 2008, and currently $2,000.00 in 2013.

If we compare what happened to the Sierra Family and Nevada Family property values over the years, it looks like this:



What the comparison tells us is that, even in a falling market, properties which were purchased many years ago have likely not factored up to the level of the current market – or, to put it another way, the current market has not yet fallen to the level of the Factored Base Year Value of those "older" purchases. However, properties that were purchased more recently are more likely to receive a decline in value, since it is quite possible that the current market level is now lower than their Factored Base Year Value.

What will be the future of the Sierra and Nevada families' home values? That will be determined by the market. But one thing is sure – whatever the market does, these families will continue to be assessed at the lesser of the two applicable values: the Factored Base Year Value (Proposition 13) or the Current Market Value (Proposition 8).

Example provided by Sierra County Assessor's Office February 4, 2022