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June 8, 1978

No. 78/100

TO COUNTY ASSESSORS:

PROPOSITION 13, JARVIS-GANN INITIATIVE

Enclosed for your general information is an analysis of Proposition 13, the Jarvis-Gann Initiative. As you are undoubtedly aware, the language of the initiative is not completely clear, and in several places more than one interpretation is possible.

The preparation of an adequate 1978 assessment roll is at best difficult given the restrictions imposed by the passage of Proposition 13 and the time constraints provided by the Revenue and Taxation Code. Nevertheless, the task must be performed. The enclosed series of papers contain our interpretations of the initiative and while there are undoubtedly differences of opinion as to their correctness, we recommend them to you in the interest of statewide uniformity.

We invite your comments and ask that any questions be directed in writing to Alan Flory, who has been designated to coordinate the project within this division. Our objective is to provide you with periodic information letters designed to respond to questions that are raised.

Sincerely,

Jack F. Eisenlauer

Jack F. Eisenlauer, Chief
Assessment Standards Division

JFE:cmm
Enclosures

THE AMENDMENT

That Article XIII A is added to the Constitution to read:

Section 1.

(a) The maximum amount of any ad valorem tax on real property shall not exceed one percent (1%) of the full cash value of such property. The one percent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties.

(b) The limitation provided for in subdivision (a) shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to the time this section becomes effective.

Section 2.

(a) The full cash value means the county assessors valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occured after the 1975 assessment. All real property not already assessed up to the 1975-76 tax levels may be reassessed to reflect that valuation.

(b) The fair market value base may reflect from year to year the inflationary rate not to exceed two percent (2%) for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction.

Section 3.

From and after the effective date of this article, any changes in state taxes enacted for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computation must be imposed by an Act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed.

Section 4.

Cities, counties, and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such city, county, or special district.

Section 5.

This article shall take effect for the tax year beginning on July 1 following the passage of this Amendment, except Section 3 which shall become effective upon the passage of this article.

Section 6.

If any section, part, clause, or phrase hereof is for any reason held to be invalid or unconstitutional, the remaining sections shall not be affected but will remain in full force and effect.

TABLE OF CONTENTS

		Page
I.	SECTION-BY-SECTION INTERPRETATION OF INITIATIVE PROVISIONS	1
	Section 1 (Discussion of 1 percent tax limitation)	1
	Section 2 (Definition and discussion of "full cash value")	3
	Section 3 (Discussion of measure providing for two-thirds approval vote of Legislature to increase state taxes and prohibition of added taxes related to real estate)	5
	Section 4 (Discussion of special taxes that may be levied by cities, counties, and special districts)	6
	Section 5 (Effective dates of the law)	7
	Section 6 (Disclaimer of any portion held unconstitutional)	8
II.	VALUATION OF REAL PROPERTY	9
	A. General	9
	1. Properties Eligible for 1975-76 Value Levels	10
	2. Post-1975 Appraisals	11
	(a) Reappraisal Due to New Construction	11
	(b) Reappraisal Due to Purchase or Other Change in Ownership	11.1
	B. Special Properties	12
	1. Possessory Interests	12
	2. Mineral Rights	13
	3. Trees and Vines (Unrestricted)	14
	4. Fixed Machinery or Equipment and Fixtures	15
III.	VALUATION OF REAL PROPERTY SUBJECT TO SPECIAL TREATMENT	16
	A. Open-Space	16
	B. Taxable Government-Owned Property	17
	C. Nonprofit Golf Courses	18
	D. Timber and Timberland	19
IV.	PERSONAL PROPERTY	20
V.	PROPERTY TAX EXEMPTIONS	21
VI.	ESCAPE ASSESSMENTS	22

Jarvis-Gann Initiative—Proposition 13

I. SECTION-BY-SECTION INTERPRETATION OF INITIATIVE PROVISIONS*

Section 1

(a) The maximum amount of any ad valorem tax on real property shall not exceed one percent (1%) of the full cash value of such property. The one percent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties.

The intent is to limit to 1 percent the amount of tax that can be collected on property with the proceeds distributed among the various taxing jurisdictions.

1. This section does not alter any of the existing exemptions whether contained in the Constitution or the Statute, e.g., timber continues to be exempt from ad valorem taxation.

2. Although the tax rate limit is determined by reference to market value, the appropriate rate will apply to the gross assessed value of property qualified for the homeowner's exemption with the state paying the tax on the first $1,750 of assessed value.

3. Cities, school districts and special districts are all included under the term "district" and shall share property tax revenues with the cities.

4. State-assessed properties are subject to the rate limitation.

5. Personal property is included under the rate limitation since Section 2, Article XIII, of the Constitution specifies "...the tax per dollar of full value shall not be higher on personal property than on real property in the same taxing jurisdiction."

6. The tax rate on aircraft (Section 5391) will be reduced to 1 percent of full value.

7. When preparing the 1978-79 unsecured roll, all real property contained on that roll will be under the 1-percent limitation. This, therefore, requires that personalty on the 1978-79 unsecured roll be under the limitation.

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* Underlined sentences in this report are direct quotes from Proposition 13.

(b) The limitation provided for in subdivision (a) shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to the time this section becomes effective.

Section 2

(a) The full cash value means the County Assessors valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment. All real property not already assessed up to the 1975-76 tax levels may be reassessed to reflect that valuation.

This section rolls back the assessments to 1975-76 and restricts the rate of growth in assessed value thereafter, except as regards a property that has been purchased, been newly constructed, or has had a change in ownership since March 1, 1975.

1. Both state-assessed and locally-assessed real property will be rolled back to its 1975-76 value.

2. Personal property will not be rolled back to its 1975-76 value.

3. Although subject to special appraisal procedures when appraised, qualified nonprofit golf courses and open-space properties are otherwise subject to this provision. Reappraisal discussed subsequently should occur when property is brought under such a program.

4. "Newly constructed" means that any change in the property caused by "construction."

   a. Only that part "newly constructed" can be reappraised at its current value and includes:

      (1) Any new improvement: fixed equipment, taxable trees, etc., but excluding renovations.

      (2) Any addition to existing improvements.

      (3) Any improvements to land.

   b. Property removed during construction must be netted from new construction.

5. "Change in ownership" refers to any change in ownership, whether by sale, the addition or deletion of an owner, gift, property settlement, foreclosure, or inheritance.

   a. If only a divided partial interest is sold, then only the part sold will be revalued.

6. The assessor must revalue as of March 1, 1975, those properties not already at their 1975-76 full cash value. Such revaluations should be made for the 1978 assessment

roll. Obviously, it would be difficult for most assessors to complete a roll by July 1, 1978, which reflects accurate 1975-76 full cash values—we believe the only way to satisfy this requirement is to seek legislation that would permit review and correction of the 1975-76 values over a one- to two-year period.

7. The full value of real property as shown on the tax bill for 1975-76 will be binding on the county equalization board and the State Board of Equalization unless the assessor reappraises as of March 1, 1975, or for one of the reasons specified in this section.

8. The assessor can reappraise property to reflect physical damage, but the reappraisal can only apply to the damaged portion.

(b) The fair market value base may reflect from year to year the inflationary rate not to exceed two percent (2%) for any given year or reduction as shown in the Consumer Price Index or comparable data for the area under taxing jurisdictions.

This provision limits the growth in the fair market value of individual properties to no more than 2 percent per year.

1. The reference to "fair market value base" refers to the 1975-76 value of the individual property unless it has been purchased, newly constructed, or had a change of ownership since March 1, 1975.

2. The assessor must reflect the impact of inflation not to exceed 2 percent each year.

3. When preparing the 1978-79 assessment, the assessor will add 2 percent to the 1975-76 value base for each of the lien dates 1976, 1977, and 1978.

4. The Consumer Price Index for the state as a whole will be used in determining the annual percentage amount (not to exceed 2 percent) to be added to any given base year value.

5. The latest Consumer Price Index published for a period prior to March 1 of each year will be used.

6. If the increase in the Consumer Price Index is 2 percent or more, all real property in the state will be increased by 2 percent (unless it has been purchased, newly constructed, or had a change in ownership, in which case the property is reappraised and the percentage increase would be based on the index for the following lien date and added at that time).

7. There will be no reduction in the value of real property unless the statewide Consumer Price Index shows a decline, in which case all real property in the state will be reduced by the same percentage amount.

8. Machinery and equipment classified as real property will not reflect depreciation or price increases while under the same ownership at the same location. Newly acquired machinery and equipment classified as real property will be valued as "when purchased."

9. Personal property is not under the revaluation mechanism and will be reappraised annually as under present law.

10. Neither up-zoning nor down-zoning are grounds for reappraising a property.

11. If a property is reappraised as of any particular lien date then the automatic percentage increase applies as of the next lien date and is mandatory.

12. Real property of state assessees will be subject to the rollback and revaluation limits contained in this Initiative, but their personal property will not.

Section 3

From and after the effective date of this article, any changes in State taxes enacted for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computation must be imposed by an Act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed.

This section increases the vote requirement needed on revenue increase legislation and precludes any new state taxes on real property.

Section 4

Cities, counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such city, county or special district.

This section sets the voting majority necessary to authorize new taxes by local government but precludes additional ad valorem taxes on real property.

1. "Special taxes" as used in this section means new taxes. Those taxes already in effect on June 6, 1978 are retained at their authorized rates except for the property tax rate which will be reduced.

2. Increases to or imposition of non-property taxes are subject to the voting majority requirement.

3. This section does not grant local jurisdictions the authority to impose taxes not now authorized by law.

Section 5

This article shall take effect for the tax year beginning on July 1 following the passage of this amendment, except Section 3 which shall become effective upon the passage of this article.

1. The Initiative affects the tax rate applicable to both the 1978-79 secured and unsecured rolls.

2. The timber yield tax rate will decline as the average tax rates in the timber counties declines over time. No special action is required to reduce the yield rate as the mechansim is already provided by statute. As the yield rate declines the Board will be required to increase the reserve rate to raise the revenue needed to achieve the existing statutory revenue guarantee.

Section 6

If any section, part, clause, or phrase hereof is for any reason held to be invalid or unconstitutional, the remaining sections shall not be affected but will remain in full force and effect.

II. VALUATION OF REAL PROPERTY

A. GENERAL

For the 1978 roll, the assessor must determine which properties on the 1975 roll were assessed at their then current market value. Where the assessor concludes that the 1975 values were below market, he must adjust values to the 1975 level.

In determining 1975 values, the taxable or exempt status of the property on the 1978 lien date must be ascertained. For example, property exempt in 1978 retains that status while property exempt in 1975 but now taxable must be enrolled and taxed at its 1975 value. Likewise, property now subject to an enforceable restriction that results in partial exemption, e.g., open-space, must be valued as though subject to the same restriction in 1975.

Zoning restrictions applicable in the base year shall be taken into account when valuing property. Subsequent zoning changes will not be recognized unless property is required to be revalued for another reason.

Example (zoning change 1977):

1975 Value, A-1 zoning	= $100,000
1977 Property rezoned to C-1 value	= 400,000
1978 Property value determination = value of the property in 1975 $100,000 x 1.0612 $[(1.02)^3]$	= $106,120

Physical changes may require a different approach. This problem is discussed later.

1. Properties Eligible for 1975-76 Value Levels

Properties whose 1975 values, whether as enrolled or as reappraised, serve as the base value must be brought forward to their 1978 value level by the multiplication of the factor 1.0612 (2 percent compounded for three years) times the 1975 value.

The 2-percent factor has been used in each of the value years because the Consumer Price Index has exceeded 2 percent in each of the years.

2. Post-1975 Appraisals

Properties or portion of properties which have changed ownership or which have been newly constructed since the 1975 lien date, and prior to March 1, 1978, must be reappraised as of the date of the sale or the completion of construction. Such changes subsequent to lien date 1978 should be ignored until 1979, except that construction in progress on lien date 1978 should be enrolled at its 1978 market value and be reappraised for the subsequent assessment roll on completion of construction. This latter value should be added to the roll prepared for the lien date following completion of construction and would not be subject to factoring until the preparation of the next succeeding roll.

(a) Reappraisal Due to New Construction

Newly constructed includes land improvements, additions of improvements to bare ground, additions to already improved land, e.g., swimming pools, fences, barns, irrigation systems, and additions to existing improvements that increase their size, e.g., the addition of a room, whether horizontally or vertically.

New construction is not a basis for reappraising the entire property. Only the new construction is to be reappraised. The addition of an improvement to bare ground (with no change in ownership after March 1, 1975) should result in a value on the roll prepared for the lien date following completion of construction that is a combination of the 1975 land value factored plus the market value of the improvement on completion. The following year the combined total value would be factored.

Example:

1975 Value (lot only)	= $10,000
February 1, 1977, home completed value	= $35,000
1978 Value	
Land $10,000 x 1.0612 $[(1.02)^3]$	= $10,612
Home $35,000 x 1.02	= 35,700
Total	$46,312

Since properties can be in part newly constructed, there will be instances where a property value will be a combination of a 1975 base year value, market value, and factored value. For example, assume a home has a room added to it in February 1976 and a swimming pool in May 1977. The valuation calculation for March 1, 1978, would be as follows:

1975 Base value = $\$30,000 \times (1.02)^3$	= $31,836
Addition completed February 1976 = $\$6,000 \times (1.02)^2$	= 6,242
Pool—completed May 1977 = $8,000 (not factored first year)	= 8,000
1978 Value	$46,078

In 1979 the entire 1978 value would be multiplied by the 1.02 factor assuming no change in the trend of the economy.

(b) Reappraisal Due to Purchase or Other Change in Ownership

These terms both relate to a transaction that is usually recorded but do differ in that a change in ownership may occur as the result of a sale, gift, devise, or foreclosure. Lacking statutory definition, we are of the opinion all transfers should result in a reappraisal for determining a new base year value. The mere recording of a first deed of trust or mortgage given as security for a loan or a change in the name on a deed from John Jones to John J. Jones (the same person) should not result in a reappraisal as there has been no true change in ownership. The term "change in ownership" does not include transfers of stock held in publicly owned corporations, stock cooperatives, or community apartment projects. Sales of units in planned developments as defined in Sections 11003 and 11003.1 of the Business and Professions Code and condominiums as defined in Section 783 of the Civil Code would constitute changes in ownership and should result in reappraisal of the units transferred.

B. SPECIAL PROPERTIES

1. Possessory Interests

Possessory interests in existence prior to lien date 1975 shall have as a base value their market value as of lien date 1975. The base values of possessory interests created after lien date 1975 shall be their market value as of the date of their creation. A change in ownership of a possessory interest in a given year shall result in a new base value, which is its market value at the time of the ownership change. This new base value will be enrolled as of the lien date following the change in ownership.

In the past the value of a fixed term possessory interest declined as the term expired provided it was not reasonably anticipated that the term would be extended or renewed as provided by Rule 23 (California Administrative Code). However, under Proposition 13 there is no basis for recognizing decreases in value except where there is a change in ownership of the property or the C.P.I. shows a decline. Therefore, the base value of all possessory interests shall be determined and thereafter factored in the same way as is the value of all other real property.

2. Mineral Rights

Because of the intricacies involved in the appraisal of mineral properties, we offer only general guidelines in their valuation under Proposition 13.

(1) Mineral (including oil and gas) and geothermal properties in existence and under the same ownership as in 1975 shall be placed on the assessment roll at the 1975 level factored at 2 percent compounded for three years.

Example: 1975 Value--$1,000,000 x $(1.02)^3$ = $1,061,208

(2) Reserves

Depleted reserves must be removed annually from the assessment roll at their base value factored to the year of removal.

Example:

Reserves in 1975 100,000 Units
Value per unit in 1975 $8.00
10,000 units removed March 1, 1975-February 29, 1976
10,000 units removed March 1, 1976-February 29, 1977
10,000 units removed March 1, 1977-February 29, 1978

1978 Value Computation

1976 Value: $8.00 x 1.02 = $8.16 x 100,000 units x .9 = $734,400
1977 Value: $8.16 x 1.02 = $8.32 x 100,000 units x .8 = $665,600
1978 Value: $8.32 x 1.02 = $8.49 x 100,000 units x .7 = $594,048

Newly discovered reserves are to be appraised at their value when discovered and added to the value of reserves already determined.

(3) Development Costs

Mineral development costs typically enhance reserves and in the case of mines and quarries represent a minimum for the value of the minerals made available by the development. Continuing development costs should be enrolled each year if it is not possible to estimate the value of the reserves.

3. Trees and Vines (Unrestricted)

Existing tree and vine exemptions continue in force. Trees and vines which were planted prior to 1975, but were exempt in 1975, shall, on the lien date, following the end of the exemption period, be enrolled at their 1975 market value. On each succeeding lien date the previous year's value shall be adjusted in accordance with the percentage change in the C.P.I., not to exceed 2 percent per year.

Trees and vines planted subsequent to the 1975 lien date shall be enrolled on the lien date following the expiration of the exemption period at a value equal to their market value at planting time. This base year value shall be subject to the annual accumulative C.P.I. adjustments.

Trees and vines shall, upon a change of ownership, be valued as of the date of that change, to be enrolled the following lien date. The value shall be adjusted downward or upward each year in proportion to the value of any trees or vines which have been removed or newly planted, and after the first subsequent lien date factored by the annual adjustment.

Example No. 1

1975 Enrolled Value

Land	$100,000
Trees (three years old—value $2,500)	exempt
Total	$100,000

1978 Value to be Enrolled

Land ($100,000 x $(1.02)^3$)	$106,120
Trees (value of orchard in 1975 $2,500) $2,500 x 1.02*	2,601
Total	$108,721

* Exemption four years, property first assessable in 1977, 2 percent adjustment for 1978.

Example No. 2

1975 Enrolled Value

Vacant land	$100,000
Total	$100,000

1978 Value

Land ($100,000 x $(1.02)^3$)	$106,120
Trees (planted in 1977)	exempt
Total	$106,120

4. Fixed Machinery or Equipment and Fixtures

Any fixed machinery or equipment that is affixed or attached to realty and all fixtures are classified as real property. (See Assessors' Handbook Section 571 for information on how property is classified.) Therefore, the 1978-79 assessments on these types of property are subject to the valuation requirements as on other real property.

When preparing the 1978-79 assessments on these properties that have remained under the same ownership since March 1, 1975, only the 2-percent increase for each of the lien dates 1976, 1977, and 1978 can be added to the 1975-76 valuation except for additions and deletions. For example:

1975 Value

$\$50,000 \times (1.02)^3 = 1978$ Appraised Value, or $\$53,060$

A property's value is determined when it is purchased thereafter. No interim depreciation or price changes can be reflected.

Machinery and equipment that has been classified as an improvement should be compared to the acquisition costs and corresponding appraised values on the 1975 property statement to the acquisition costs on the 1976 statement. The comparison will indicate property that has been disposed of, property acquired, and property remaining from the prior year.

The 1975 value of the property disposed of will be deleted. The property acquired between the 1975 and 1976 lien date will be appraised for 1976 (the 1976 appraisal should be sufficient), and the 1975 value of the property remaining will be increased by 2 percent. This procedure will also apply to 1977 and 1978 changes.

Example:

Value of equipment in place 1975	$10,000
No additions or deletions between March 1, 1975, and March 1, 1976	-0-
Value of equipment added between March 1, 1976, and March 1, 1977	9,000
Value of equipment deleted between March 1, 1976, and March 1, 1977	3,000
Value of equipment added between March 1, 1977, and March 1, 1978	8,000
Value of equipment deleted between March 1, 1977, and March 1, 1978	3,000

1978 Appraisal Computation

1975 Equipment $10,000	$10,000
1976 Equipment deleted (1975 value)	(3,000)
1977 Equipment deleted (1975 value)	(3,000)
1978 Value of equipment in place in 1975 = 4,000 x $(1.02)^3$ =	4,244
1976 Equipment added 9,000 x 1.02 =	9,180
1977 Equipment added 8,000 x 1.00 =	8,000
1978 Value	$21,424

Where a percentage of the machinery and equipment has been classified as personalty, it will be necessary to delete the acquisition costs and appraised value of such equipment from the computations, since under the provisions of Proposition 13 personalty is to be appraised annually at its market value.

If it is possible to determine the value of the equipment from the purchase price, that figure should be used.

Example:

Value of equipment in place 1975	$10,000
No equipment added in 1975	-0-
Value of equipment added between March 1, 1976, and June 1, 1976	9,000
Value of equipment deleted between March 1, 1976, and June 1, 1976	(3,000)
Property purchased June 1, 1976, value of equipment	$16,000

Value of equipment added between March 1, 1977, and March 1, 1978	$ 8,000
Value of equipment deleted between March 1, 1977, and March 1, 1978	$ 3,000

1978 Appraisal (assuming value can be determined from purchase price)

Property reappraised based on sale as of sale date but enrolled in 1977 $16,000 x 1.02	$16,320
Value of equipment added between March 1, 1977, and March 1, 1978	8,000

Value of equipment deleted between March 1, 1977, and March 1, 1978	$(3,000)
1978 Value	$21,320

If in 1975 property was not appraised at its then market value, the assessor may reappraise and alter classifications.

III. VALUATION OF REAL PROPERTY SUBJECT TO SPECIAL TREATMENT

A. OPEN-SPACE

In all instances where an open-space contract imposing an enforceable restriction was in existence, prior to June 6, 1978, no matter when executed, the value of the property subject to the restriction shall be determined by using a 1975 restricted value factored up in accordance with the percentage gain each year in the C.P.I. not to exceed 2 percent per year.

When such a property transfers ownership, a new open-space value as of the ownership change date shall be computed and enrolled on the next succeeding lien date. On the lien date following addition to the roll, the C.P.I. factor shall be applied to the previously enrolled value. There is no need to reappraise such properties again until there is a change in ownership or there is new construction.

Example:

Property value on July 1, 1976
(date of ownership change) $100,000

1978 Value

$100,000 x 1.02 (lower of
C.P.I. factor or 2%) = $102,000

All tree and vine exemptions will continue to be honored. Trees and vines that were planted prior to 1975 but were exempt in 1975 would be assessed at the expiration of the exemption period, at the open-space value that would have been applicable in 1975 had they not been exempt. The basis for valuing trees and vines planted subsequent to the 1975 lien date is their value at the time of planting. An assessment would not be enrolled until after the exemption period.

Example:

1975 Enrolled Value

Land	$100,000
Trees (three years old)	exempt
Total	$100,000

1978 Value

Land $100,000 x $(1.02)^3$	$106,120
Trees (1975 value of three year old orchard $2,500)* $2,500 x $(1.02)^2$	2,601
Total	$108,721

* This base value to remain constant accept for appropriate percentage changes until trees removed. The base value of trees planted in March 1975 and thereafter is their value on the date of planting.

All legal provisions applicable to open-space contracts, e.g., execution, termination, cancellation, etc., are unaffected by Proposition 13 except that the non-renewal valuation procedure is modified. When a non-renewal notice is given, the property will continue to be valued annually as though fully restricted until the expiration of the contract. Subsequently, the property will be valued at 1975 market value plus all appropriate factor increases compounded to the lien date for which a market value is added to the assessment roll.

Portions of contracted properties not subject to the enforceable restrictions, e.g., non-living improvements and homesites, will be valued as other real property.

Increases in value attributable to the planting of orchards, land leveling, or other land improvements, subsequent to the base year shall be regarded as resulting from new construction and shall be calculated by capitalizing the income attributable to the value of the leveling or improvements using the open-space capitalization rate and adding this increment to the value of the undeveloped land.

Example:

To arrive at the March 1978 Value

1975 Enrolled Value	
Land No improvements	$100,000
1976 (after March 1)	
Land leveled value	5,000
1977 (after March 1)	
Irrigation system added value	10,000
1978 Value on March 1	

Land $100,000 x $(1.02)^3$	$106,121
Leveling $5,000 x 1.02	5,100
Irrigation system $10,000	10,000
Total 1978 Value	$121,221

B. TAXABLE GOVERNMENT-OWNED PROPERTY

The specific provisions of Article XIII, Section 11, override the general provisions of Proposition 13 regarding the valuation of such properties except in one instance; i.e., the calculation of the properties' current market value. The properties' current market value should be determined by reference to the 1975 market value multiplied by the same annual percentage gains in the C.P.I. used on properties generally. After making these calculations, the Section 11 factored value or the Proposition 13 market value, whichever is lower, shall be used.

C. NONPROFIT GOLF COURSES

The specific provisions of Section 10 of Article XIII relating to the appraisal of nonprofit golf courses remain applicable to the determination of the 1975-76 lien date value of such properties whether they qualified at that time or became eligible in subsequent years. Once the base year nonprofit golf course value is ascertained, it should be factored as is all other real property.

D. TIMBER AND TIMBERLAND

We are of the opinion that the exemption from ad valorem taxation afforded to timber remains in effect just as does the homeowners', inventory, and all other exemptions. Since the timber tax is a state tax imposed in lieu of ad valorem property taxes, it is not directly within the provisions of Proposition 13. However, since the timber tax rate and the timber reserve fund tax rates are tied to general property tax rates, they will be affected by changes in those latter rates.

Timberland is subject to ad valorem tax and is thereby subject to the Proposition 13, 1-percent tax rate limit.

In recognition of the legislative exercise of authority and the nonexistence of bare timberland values on the 1975-76 assessment rolls, assessors should use the 1977 site class values as the value that would have been applicable in 1975 had the statutory site classification values been in effect on that date. Such values applied to the total acreage of the parcels should be factored forward one year to determine 1978 roll values.

IV. PERSONAL PROPERTY

The approval of Proposition 13 does not subject personal property to any value limitations. Therefore, personal property will continue to be appraised annually at its full cash value.

The tax rate limitation specified in Proposition 13 must be applied to all assessments (both real and personal property) enrolled on the unsecured and secured portions of the 1978-79 assessment roll.

Section 2 of Article XIII of the Constitution provides that the tax per dollar of full value shall not be higher on personal property than on real property in the same taxing jurisdiction. Because the real property assessments enrolled on the secured and unsecured portions of the 1978-79 assessment roll are subject to Proposition 13's tax rate limitation, the tax rate limitation on personal property assessment must be similarly limited.

It is important to note that the tax rate limitation on personal property assessment will require an adjustment in the tax rate on aircraft. The rate of $1\frac{1}{2}$ percent of market value must be reduced to the tax rate limitation.

Proposition 13 has no effect on livestock head-day in-lieu tax or the racehorse in-lieu tax.

V. PROPERTY TAX EXEMPTIONS

It is our view that the passage of Proposition 13 (Jarvis-Gann Initiative) will not affect constitutionally granted property tax exemptions.

The 1978 assessed value of taxable assets as computed pursuant to Proposition 13 and the current market value of non-taxable assets will continue to be used to determine the $5,000 limitation for the veterans' property tax exemption. The 1975-76 assessed valuation base factored forward for property tax purposes in 1978 could mean that some veterans would again be eligible for the exemption. It may be advisable to send a claim form to those veterans who received the exemption in 1975 but failed to receive the exemption in subsequent years because they exceeded the limitation. There is no provision for reconsidering the granting of the exemption for the years 1976 or 1977.

Among exemptions not affected by Proposition 13 are the following:

Works of Art
Disabled Veterans'
Church
College
Cemetery
Welfare
Public School
Free Public Library
Free Museum
Veterans' Organization
Exhibition
Livestock--Drought

Basically, the exemptions should continue to be administered the same as in the past.

VI. ESCAPE ASSESSMENTS

Property escaping assessment prior to March 1, 1978 will be valued at the figure that would have applied on the lien date for which it escaped. The tax rate applicable on that date should also be applied.

For example, a property which escaped assessment in both 1977 and 1978 would be treated differently for each of those assessment years. The 1977 escape would be taxed at the rate in existence at that time; the value escaping assessment would not be subject to any of the provisions of Proposition 13 for 1977; the 1978 value of escaped property in 1978 and tax rate determination, on the other hand, would be subject to the 1 percent rate limitation and value criteria contained in Proposition 13.