STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
PROPERTY AND SPECIAL TAXES DEPARTMENT
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September 2, 2009

TO COUNTY ASSESSORS: No. 2009/036

FACTORING TO BASE YEAR VALUES

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 factored annually for inflation. Pursuant to Article XIII A, section 2(b), and Revenue and Taxation Code[1] section 51, the percentage increase cannot exceed 2 percent of the prior year's value.

To interpret section 51, the State Board of Equalization (Board) promulgated Property Tax Rule 460, *General Application*. Subdivision (a) of Rule 460 provides the general interpretation of Proposition 13 as follows:

> (a) Sections 1 and 2 of Article XIII A of the Constitution provide for a limitation on property taxes and a procedure for establishing the current taxable value of locally assessed real property by reference to a base year full cash value which is then modified annually to reflect increase in the inflation rate not to exceed two percent per year or declines in value from whatever cause.

Specifically, with respect to the applicable inflation rate, Rule 460, subdivision (b)(5) states that:

> (b)(5) INFLATION RATE. For each lien date after the lien date in which the base year value is determined, the full value of real property shall be modified to reflect the percentage change in cost of living, as defined in Section 51 of the Revenue and Taxation Code; provided that such value shall not reflect an increase in excess of 2 percent of the taxable value of the preceding lien date.

Each year the Board announces the applicable adjustment factor. Since in most years inflation has exceeded 2 percent, the announced factor has usually reflected the 2 percent cap. On five occasions, inflation has been less than 2 percent; in those years, the announced factor resulted in an inflation adjustment of less than 2 percent.

In the more than 30 years since the passage of Proposition 13, the annual adjustment has never resulted in a reduction to base year values. However, if current trends continue, the announced factor could result in reductions to base year values. The final announced factor will depend on price level changes between now and October. The California Consumer Price Index (CCPI)

[1] All statutory references are to the Revenue and Taxation Code unless otherwise specified.

dropped sharply (3 percent) between October 2008 and December 2008; however, it has been rising ever since. As provided in section 51, the 12-month period of October 2008 to October 2009 will be used to calculated the adjustment factor for the January 1, 2010 assessment date.

Accordingly, because section 51 does not distinguish between positive and negative changes in the CCPI, and because Article XIII A, section 2(b) of the California Constitution specifically provides adjustments based upon reductions in the CCPI, it is our opinion that section 51 requires factor adjustments whether positive or negative. If positive, the increase is limited to 2 percent. However, there is no such limitation to downward adjustments, including instances in which the net change to the CCPI is zero or less than zero.

If you have questions regarding the application of the factoring to base year values, contact the Assessment Services Unit at 916-445-4982.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
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