

PROPERTY TAXES AND PROPOSITION 13

Property tax is an *ad valorem* tax that property owners are required to pay on their property. The phrase *ad valorem* is Latin for “according to value”. In the case of municipal property taxes, property owners in California have their property assessed annually (or upon its sale) by the public tax assessor. The assessed value of the property is then used to compute an annual tax, which is levied on the owner by his or her municipality.

Prior to the passage of Proposition 13, local governments were authorized to set the property tax rates. The total tax rate to any individual parcel was the total of the separate rates levied by each local agency serving the property such as the County, city, special district, school district, water district and/or sewer district. After June 1978, with the passage of Proposition 13, the California *ad valorem* property tax rate was limited by the State Constitution to 1% plus any voter-approved bonded indebtedness, special taxes or benefit assessments. State and local governments became prohibited from setting tax rates for *ad valorem* taxes on real property without a two-thirds approval from voters.

- *Assembly Bill 8*

Immediately following the passage of Proposition 13, a new method was necessary to allocate taxes since taxing jurisdictions now had to share pieces of a finite pie. In 1979, Assembly Bill 8 (AB 8) was adopted to provide procedures for counties to allocate taxes. The base year for AB 8 was the 1978/1979 fiscal year. The basic premise of AB 8 allocates each taxing jurisdiction the amount it received in the prior year, plus a share of any additional revenues above the prior year that occurred within its boundaries. This established the property tax increment allocation percentage for each agency within a Tax Rate Area (TRA).

- *Tax Rate Area*

A Tax Rate Area (TRA) is a geographical area composed of a unique combination of taxing jurisdictions that provide services to the property. Due to annexations and detachments, a property may move from one TRA to another from year to year. Currently, Orange County has over 4,500 TRAs. TRAs are maintained statewide by the State Board of Equalization in conjunction with information filed by LAFCO, schools, CSAs and other taxing jurisdictions.