Parcel Tax in California: Findings from New Data Sources

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Abstract

This article examines parcel taxes in California counties, cities, and special districts. Unique to California, the parcel tax is commonly known as a lump-sum tax applied to parcels of real property to finance local public services. Some scholars and practitioners argue that the parcel tax can be a good source of local revenue because of its simplicity. Since the 1980s, parcel tax adoption has grown, despite requiring two-thirds approval in a local referendum. In 2018 alone, California had about 100 parcel tax elections. Despite the increase in adoption, scholars and practitioners have not had a good understanding of the nature and use of the parcel tax. I fill this gap by collecting and analyzing parcel tax ballot measures from 1995 through 2018. Since 2016, the state has mandated that local governments submit parcel tax financial reports, which I also use. I find that parcel tax structure is far more fragmented across local governments than previously understood.

Parcel Tax in California

A parcel tax is an unusual form of property tax that is unique to California. A property tax usually refers to an *ad valorem* tax (that is, a tax on the assessed value of a property), but the parcel tax is defined as "a non-ad valorem tax imposed as an incident of property ownership" (California State Controller's Office, 2015). This non-ad valorem tax can be based on any tax base other than the assessed value of a parcel. Scholars and practitioners commonly understand the parcel tax as a lump-sum tax on an incidence of a parcel, but it could take other forms other than a lump-sum tax.

This unique property tax originated from the 1978 state constitutional amendment known as Proposition 13, or Prop 13. Prop 13 prohibits local governments from raising ad valorem property tax rates beyond 1 percent of the acquisition value of the property. The state constitution does, however, allow for a locally assessed property tax—such as the parcel tax—provided it is not ad valorem, is for a special purpose, and gains at least two-thirds approval in a local referendum.

The number of parcel tax elections has steadily grown in California cities, counties, and special districts as a way to circumvent Prop 13's 1-percent rule. Between 1995 and 2018, voters decided 661 local ballot measures that proposed a parcel tax—this accounted for about one election every 2 weeks for 24 years. Voters increasingly adopt parcel taxes, despite the high threshold for approval.

Their growing fiscal importance notwithstanding, information on parcel taxes is difficult to find.[1] The Legislative Analyst's Office stated in its 2012 report, "We were not able to locate information on the statewide amount of parcel tax revenue collected by cities, counties, and special districts." In 2014, the state passed legislation that requires local agencies to report information on assessed parcel taxes to the State Controller's Office (Government Code 12463.2). The state published the first meta-report for the 2016 fiscal year. In this article, I introduce this parcel tax official data available for the first time and parcel tax election data collected between 1995 and 2018. I will describe variables extracted from the two datasets as a benchmark for an initial understanding of the parcel tax.

When exploring the two datasets, I assess the efficiency and equity of the parcel tax by focusing on its design elements, including property classification (that is, a grouping of properties based on similar land use) and tax base. Economists agree that a tax on real property is a good tax because it is stable, efficient, and fair (Youngman, 2016). Ihlanfeldt (2013) points out, however, that a property tax is efficient when its tax base is fair market value. He argues that if a property tax is non-ad valorem, it loses its merit as an efficient tax. Based on his assertion, we may question whether the parcel tax is potentially an efficient tax as Sonstelie (2015) argues, when it is non-ad valorem by definition. When the tax base can be anything but the market value, local governments may come up with various tax bases to meet their revenue needs. Especially with no state guidance about parcel tax assessment, locally designed parcel taxes can be fragmented, complex, inefficient, unfair, and obscure. Thus, when extracting variables, I pay particular attention to the tax base of the parcel tax.

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[1] The Department of Education has collected school parcel tax data since the first parcel tax adoption in 1983. That is why prior studies on parcel tax have mainly focused on school districts (Brunner, 2001; Lang and Sonstelie, 2015; Lee, 2019).

In addition, I look for the practice of property classification. Sonstelie (2015) argues that the parcel tax could be a useful financing tool for local governments, but he cautioned that all types of properties must be treated equally. Excessive property tax rate differentials based on classification can diminish the simplicity and efficiency of a property tax because the different treatments can distort land-use decisions (Youngman, 2016). In California, the statewide 1-percent ad valorem tax is uniform to all properties including residential, commercial, and industrial properties, which satisfies the efficiency condition for a good tax. However, later we will find out that a significant number of parcel taxes treats different classes of properties differently.

Data Description

The datasets used in this article consist of two separate data sources. First, I collected all reported local ballot measures that proposed a parcel tax in cities, counties, and special districts in California between 1995 and 2018. Data availability determined the timeframe. The primary source of the data came from the "County, City, School District & Ballot Measure Election Results" published by the California Secretary of State.[2] The reports provide a short description and results of local ballot measures between 1995 and 2017. I obtained election data in 2018 from the "Digital Encyclopedia of American Politics and Elections." Together, I identified 661 parcel tax elections during the 1995-through-2018 period.

The "Election Results" reports provide a summary of parcel tax proposals in PDF files. Unfortunately, the reports do not offer the full text of ballot measures. The summaries are useful for necessary information such as the name of the local government, year and month of the election, the amount of tax and tax base, the number of votes cast, percentage of votes in favor of the proposal, and whether it passed or failed. They often omit substantial details on the tax base, classification, and tax amount and rates, particularly for older ballot measures. I supplement the missing information with other sources, such as the "Digital Encyclopedia of American Politics and Elections,"[3] articles in various local newspapers available online, official documents of local agencies, and agency websites. The variable list extracted from the text of ballot measures is presented in exhibit 1.

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[2] These reports can be found on www.sos.ca.gov.

[3] The Digital Encyclopedia of American Politics and Elections can be found at www.ballotpedia.org.

Exhibit 1

Variable List

Parcel Tax Measure Election Data	Parcel Tax Financial Data
• Agency name	• Agency name
• County location	• Parcel tax name
• Election date	• Revenue
• Number of votes cast	• Number of parcels subject to parcel tax
• Percentage of votes supporting a parcel tax	• Number of parcels exempt from parcel tax
• Election results: approved or failed	• Expiration date
• Proposed parcel tax amount	• The number of effective years
• Property classification	• Property classification
• Tax base	• Tax base
• Sunset provision	

Note: Not all texts provide comprehensive information about all of the variables.
Sources: Parcel tax election data were from the "County, City, School District & Ballot Measure Election Results," 1995–2017, California Secretary of State (www.sos.ca.gov) and the "Digital Encyclopedia of American Politics and Elections Parcel Tax Elections in California," 2018. Parcel tax financial reports were from "Government Financial Reports," 2016–2018, State Controller's Office (www.bythenumbers.sco.ca.gov).

Second, I collected the state's official financial data on parcel tax revenue as a part of the "Government Financial Reports" from 2016 through 2018. The State Controller's Office makes raw financial data publicly available online,[4] but does not release a single integrated file on parcel tax revenues. Users must visit three separate web pages of cities, counties, and special districts to download the raw data each year to obtain parcel tax information. At the end of each Excel file, either one tab (2016 data) or three tabs (2017–2018 data) contain parcel tax information. Users may identify six state-required information items: the type and rate of parcel tax, the number of parcels subject to the parcel tax, the number of parcels exempt from the parcel tax, whether there is an expiration (sunset) date if any and the number of effective years, the amount of revenue received from the parcel tax annually, and the manner in which the revenue received from the parcel tax is being used.[5]

Descriptive Analysis

From 1995 to 2018, local governments proposed 661 parcel tax ballot measures in California counties, cities, and special districts. The number indicates the significance of the parcel tax as a viable local revenue source. These 661 measures are spread across 47 of the state's 58 counties; local governments in Marin County most frequently held parcel tax elections (100 elections), followed by El Dorado County (57 elections). Based on school parcel taxes, researchers previously believed the San Francisco Bay area had a heavy concentration of parcel tax elections and adoption (Lang and Sonstelie, 2015; Lee and Sun, 2018). The data, however, reveal that parcel tax elections in non-school districts are widespread across California.

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[4] This raw data can be found at www.bythenumbers.sco.ca.gov.

[5] See Parcel Taxes Financial Transactions Report Instructions at https://www.sco.ca.gov/Files-ARD-Local/LocRep/Parcel_Tax_FTR_Instructions_Final_7-14-2015ADA.pdf.

Exhibit 2

Number of Parcel Tax Elections between 1995 and 2018: California Cities, Counties, and Special Districts
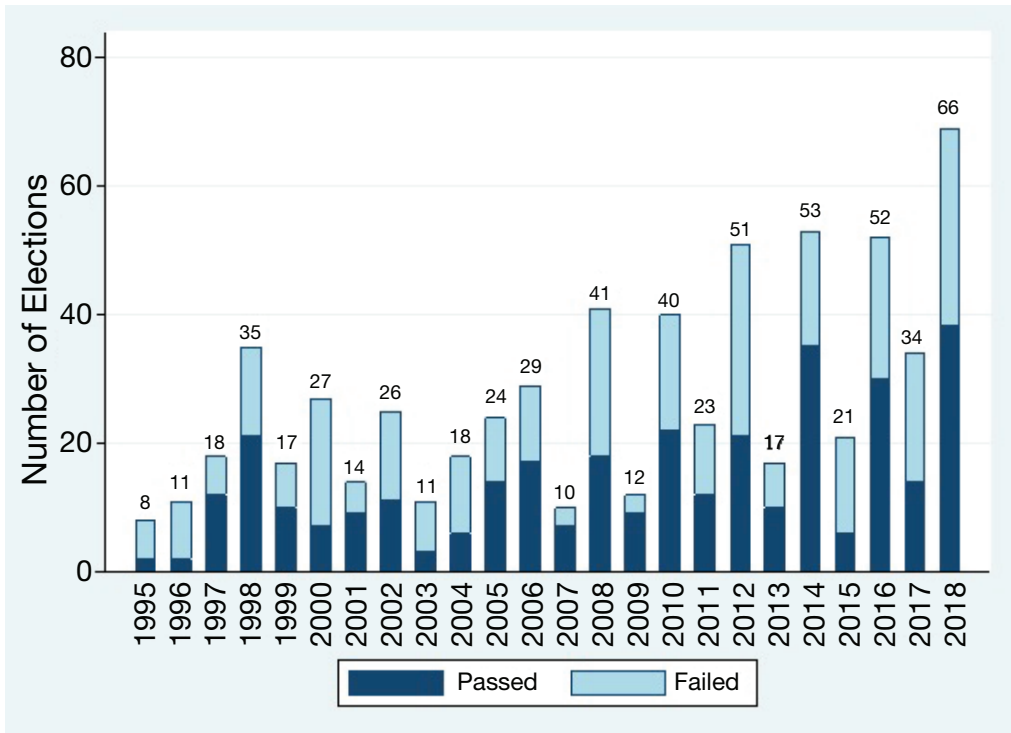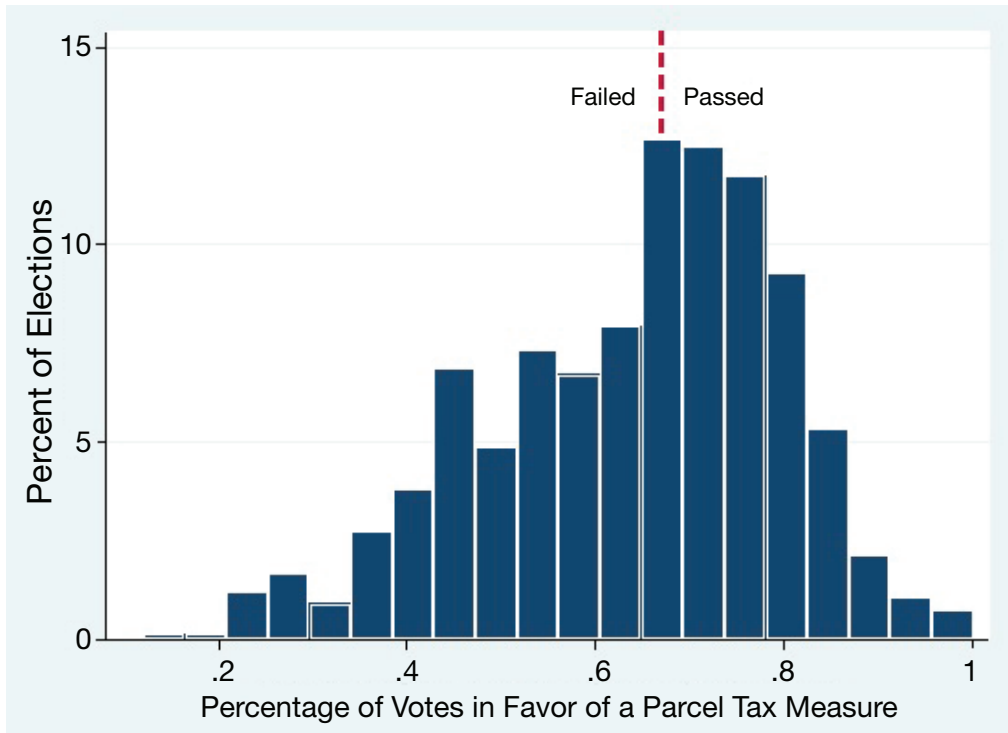

Data sources: *"County, City, School District & Ballot Measure Election Results" from the California Secretary of State and "Digital Encyclopedia of American Politics and Elections" available at https://ballotpedia.org/Parcel_tax_elections_in_California.*

Exhibit 2 shows the number of parcel tax ballot measures between 1995 and 2018. An upward trend has been apparent since 2008. The Great Recession may have placed local governments in extreme budget constraints, forcing them to find a new tax base. The year of 2018 had a record-high number of elections. This trend is also consistent with recent literature on the proliferation of special districts to circumvent local limits on taxation (Goodman and Leland, 2018). Local governments held a more significant number of elections in even-numbered years to coincide with general elections, both to save election costs and to take advantage of the relatively high voter turnout in those years (Lee, 2019). Despite the two-thirds supermajority requirement, voters approved approximately 50 percent of the 661 proposals from 1995 through 2018. Exhibit 2 also shows the distribution of elections that passed (in the darker shade) and failed (in the lighter shade).

Exhibit 3 shows the distribution of votes in favor of a parcel tax measure. Local governments on the left side of the vertical dashed line (66.7 percent threshold on the x-axis) failed to adopt a parcel tax, and the ones on the right side succeeded. If the state required a simple majority instead of the two-thirds supermajority, more than 79 percent of the proposals would have been adopted.

Exhibit 3

Percentage of Votes in Favor of Parcel Tax Ballot Measures: California Cities, Counties, and Special Districts between 1995–2018

Data sources: "County, City, School District & Ballot Measure Election Results" from the California Secretary of State and "Digital Encyclopedia of American Politics and Elections" available at https://ballotpedia.org/Parcel_tax_elections_in_California.

The total number of votes cast varies greatly. The smallest number of votes cast is 2 (a road improvement zone in San Luis Obispo County in 1999), whereas the largest number of votes was more than 3.16 million votes (Los Angeles County's parks and open space parcel tax in 2016). Total votes typically do not exceed more than 1,800, however. In three-fourths of the elections, less than 5,500 votes were cast.

Parcel taxes must be set aside for a special purpose. They are proposed to finance various local public services such as police and fire protection, emergency medical services, public works, landscaping, street lighting, library services, hospitals, public health, environment protection and open space, water management, water conservation, flood control, cemetery services, public transportation, snow removal, and even general services including non-specified administrative purposes. Nearly one-half of parcel tax measures were proposed to finance public safety, such as police and fire protection and emergency medical services. The next most frequent service items include parks and recreation, road maintenance, and library services.

Contrary to the belief that parcel taxes are mostly temporary, most parcel tax measures were proposed as a permanent tax. About 57 percent of the elections were for ballot measures with no sunset date.

Even when there is a sunset, some extend to more than 40 years from the date of inception. The lack of a sunset provision in cities and counties shows that local governments consider the parcel tax not as a short-term alleviation of fiscal stress but as a long-term revenue source.

Exhibit 4 shows election outcomes by sunset provision. Parcel taxes are less likely to be approved with a longer effective period. The approval rate is less than 50 percent without a sunset provision. With between 1 and 10 effective years, the success rate jumps up to 65 percent. The rate drops to 49 percent for measures with between 11 and 20 effective years and 18 percent for those measures with more than 20 effective years.

Exhibit 4

Passage of Parcel Tax Ballot Measures by Sunset Provision: California Cities, Counties, and Special Districts between 1995–2018
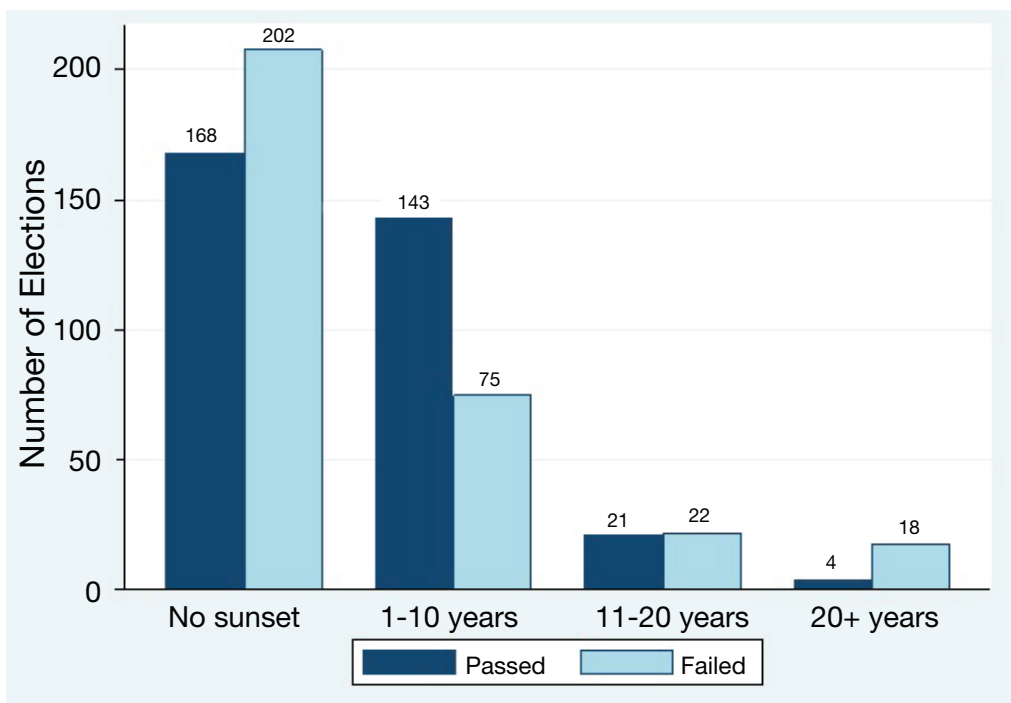
Notes: The total number of observations is 660. One observation is missing. The expiration date for Measure I in the City of Davis in 1997 was not located in any of the data sources.
Data sources: "County, City, School District & Ballot Measure Election Results" from the California Secretary of State and "Digital Encyclopedia of American Politics and Elections" available at *https://ballotpedia.org/Parcel_tax_elections_in_California*.

Despite California not allowing different tax rates by property classification, 44 percent of parcel tax proposals classify properties and treat them differently. Exhibit 5 shows that 56 percent of parcel tax measures propose a uniform tax on all properties regardless of land use.

Exhibit 5

Property Classification in Parcel Tax Ballot Measures: 1995–2018

Property Classification	Number of Parcel Tax Ballot Measures	Percent
UNIFORM RATE	371	56.13
DIFFERENT RATE	254	38.43
Different rate	190	28.74
Residential only	33	4.99
Single-family home only	24	3.63
Residential and unimproved parcels only	3	0.45
Airpark only	1	0.15
Commercial parcels only	1	0.15
Non-residential parcels only	1	0.15
Vacant parcels only	1	0.15
UNKNOWN	36	5.45
TOTAL	661	

Note: Percentages may not add to 100 percent due to rounding.
Data sources: "County, City, School District & Ballot Measure Election Results" from the California Secretary of State and "Digital Encyclopedia of American Politics and Elections" available at https://ballotpedia.org/Parcel_tax_elections_in_California.

Of the ballot measures analyzed, 254 proposals imposed different rates on residential, commercial, industrial, and institutional properties. In some cases, local agencies impose a more substantial tax on hotels, motels, churches, clubs, shopping centers, schools, theaters, supermarkets, veterinary hospitals, gym/health spas, parking lots, office buildings, nurseries, golf courses, and restaurants/cocktail lounges to pay a specific amount of parcel taxes. Some parcel taxes are raised only from residential properties, such as single-family homes.

Parcel taxes seem to be raised as a benefit tax. When local governments differentiate tax rates and amounts by land use, it is often only the improved parcels that are subject to the parcel tax; this is probably because a parcel tax must be a special tax for a specific local service. One case, however, had only vacant parcels as subject to taxation. The City of Desert Hot Springs proposed a $372.68 per acre tax on vacant parcels, in which the municipal government sought to raise revenues from unproductive land.

Exhibit 6 shows that 457 measures proposed a lump-sum tax on each parcel of land regardless of property classification. The lump-sum tax is often referred to as a uniform tax. Nonetheless, a non-negligible fraction of measures differentiated properties by land use, building or lot size, location, and even assessed values. Contrary to the common understanding that a parcel tax is a lump-sum tax equally imposed on all parcels, the tax base described in local ballot measures is not always limited to a parcel of land.

Exhibit 6

Tax Bases in Parcel Tax Ballot Measures: 1995–2018

Proposed Tax Base	Number of Parcel Tax Proposals	Percent
Parcel	457	69.14
Mixed (a combination of parcel, size, unit, and others)	109	16.49
Size (Sq.ft., sq.m, acre, front-footage, and so on)	27	4.08
Living/Dwelling Unit	11	1.66
Unit (unknown/unclear)	11	1.66
Service/Benefit Units	10	1.51
Other (assessed value, bedroom, and so on)	4	0.61
Not available	32	4.84
Total	661	99.99[a]

Data source: "Government Financial Reports," 2016–2018, California State Controller's Office (*www.bythenumbers.sco.ca.gov*).
[a] The percentages may not add up to 100 percent due to rounding.

The tax base of parcel taxes is heterogeneous, as, by definition, it is a non-ad valorem tax that can take any tax base other than assessed value. The data show a variety of tax bases, including the size of lot and structure (such as square meter, acreage, square footage, and front-footage), number of dwelling/living units, number of service/benefit units, number of bedrooms or rooms, types of businesses, improvement structures, unimproved structures, occupied structures, vacant structures or land, and combinations of the above.

From the newly adopted state mandate for parcel tax information reporting, we now know three pieces of information for the first time. First, exhibit 7 shows how much parcel tax revenue has been raised since 2016. Parcel tax revenue has grown from $1.49 billion in 2016 to $1.91 billion in 2018—a 28-percent increase in 2 years.

Exhibit 7

Summary Statistics from Official Financial Reports in FY 2018

	Cities	Counties	Special Districts	Total
Revenue ($ million)	749	543	619	1911
Revenue Increase from the previous year	0%	18%	45%	17%
Number of Entities	144	13	252	409
Number of Parcels Subject to a Parcel Tax	4,302,598	5,825,265	7,119,500	17,247,363
Number of Parcels Exempted	34,689	693,558	106,793	835,040
Percent of Parcel Taxes without an expiration date	62%	50%	71%	66%

Data source: "Government Financial Reports," 2016–2018, California State Controller's Office (*www.bythenumbers.sco.ca.gov*).

The largest revenue increase occurred in special districts between 2017 and 2018, with a 45-percent climb, which appears consistent with the recent proliferation of special districts and their increasing role in local public good provision (Bauroth, 2015). Because many parcel taxes are

permanent and more parcel taxes are getting approved, parcel tax revenues are expected to grow cumulatively in the future.

Second, in 2018, the total parcel tax revenue of $1.9 billion was raised from more than 17 million parcels. Approximately 835,000 parcels were exempt from the tax for various reasons. Third, more than one-half of parcel taxes are a permanent tax without an expiration date.

Economists have advocated for the property tax as a good tax because it leads to the least market distortion. They agree that ad valorem property taxes with few exemptions and classifications are essential for efficient and equitable property tax design (Ihlanfeldt, 2013). From this perspective, the newly available data reveal that the parcel tax deviates from a good tax. In practice, the parcel tax is plagued with excessive classification and subclassification of land use, atypical non-standardized tax base, and lenient exemption policies. Although the parcel tax is one of the few ways to extract local revenue from real estate wealth, it is clear that it has lost the simplicity, efficiency, and equity advantages of property taxes.

Conclusion

This article presents compiled parcel tax election data and the state's official parcel tax data resulting from a new state mandate. The data can be used to assess the effect of parcel taxes on local fiscal conditions (Lee and Tosun, 2019), a distributional impact of parcel taxes on households by the design variations, the role of special districts in local public good provision, the effect of parcel taxes on land use decisions, and the effect of overlapping tax jurisdictions on tax incidence. The data also can be useful for political scientists to understand the factors that affect the success and failure of local parcel tax elections.

Acknowledgments

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