

Parcel Tax

Definition and Examples

A flat-rate parcel tax, paid annually, on all 200,000+ San Francisco parcels.

Parcel taxes are commonly used by local governments in California because of the limitations Proposition 13 (1978) placed on the imposition of *ad valorem* property taxes. While *ad valorem* property taxes are assessed based on the market value of a property and its improvements, a parcel tax can be based on any distinguishing factor of a piece of property other than its market value. Parcel taxes can vary by the size of a particular parcel, the number of residential or commercial units per parcel, or even by type of zoning, however it is most common for parcel taxes in California to be flat, that is, a parcel tax is assessed on all parcels in a particular jurisdiction at an equal rate. In California, 36% of parcel tax funds raised support schools, 25% support infrastructure, and 15% support healthcare.¹

San Francisco voters have approved parcel taxes for various purposes, including the November 2016 fifteen-year renewal of the \$99-a-year parcel tax to support City College of San Francisco.

Establishment and Administration

In order to impose a parcel tax, a local jurisdiction or special district governing board needs to vote to place a parcel tax on the ballot for voter approval. Once placed on the ballot, a parcel tax dedicated to a specific purpose (e.g. transportation), would need the approval of 2/3 of voters. In San Francisco either the Board of Supervisors or the SFMTA Board of Directors could place a parcel tax on the ballot. A parcel tax can be one of the simplest local taxes to administer, especially if it is assessed at a flat rate on all parcels. Parcel taxes are collected on a property owner's annual property tax bill sent to them by the City and County of San Francisco Office of the Treasurer and Tax Collector.

Expenditures

Parcel taxes can be used to fund a wide range of expenditures, but as a "special tax" all revenues must be dedicated to a specific purpose. A parcel tax dedicated to transportation would be able to fund many different types of projects including operations and maintenance, transit fleet and facilities, and roadway, transit and bike/pedestrian infrastructure.

Revenues

Because a parcel tax could be assessed in many different ways ranging from a flat rate per parcel to a varying parcel tax based on the type of zoning and square footage of an improvement, the amount of revenue that could be generated varies tremendously. For the purposes of this analysis, a flat parcel tax of \$50 to \$250 per year is assumed to be assessed on each of the over 200,000 parcels in San Francisco.

- First year (2018/19): \$10.2 - \$50.8 million
- 25-year total (in \$2017): \$187.8 - \$938.8 million

Most parcel taxes are set for a fixed period of time (e.g. 10 years) at a fixed amount per year, although a parcel tax can include provisions to escalate the tax in the future by indexing it to inflation, wages, or other measures

¹ <http://www.caltaxfoundation.org/reports/parceltax-fullreport.pdf>

not directly linked to property values. Because the number of parcels in San Francisco does not change significantly from year to year, the revenue generated would be quite stable.

Policy and Equity Considerations

Traditional parcel taxes are regressive. Because the amount per parcel is fixed, the tax burden as a percentage of income is higher for low-income landowners. Some parcel taxes are structured to ameliorate the regressivity by, for example, taxing square footage or exempting certain types of owners. However, since a parcel tax cannot closely resemble an *ad valorem* tax on property, options to make the tax more progressive are limited.