

REAL ESTATE

Property owners puzzle over increased tax rates

By Tracy Seipel

tseipel@mercurynews.com

That conflicted look you're seeing on your neighbors' faces? That's the gaze of 51,485 Santa Clara County property owners caught in a quandary: They're watching their property values finally going up, which is a good thing, and their property taxes surging as well, which doesn't feel so good.

And for many of those — 37,120 to be exact — the look may be puzzlement, even anger. Their property taxes are rising more than 2 per-

MORE INSIDE

How your property tax rate can rise, and how you can complain about it. **PAGE A6**

cent this year. But isn't it illegal under Proposition 13 for property taxes to go up more than 2 percent? Nope.

Karen Kreshel's home is worth far less than what she and her husband paid for it in 2007, but over the past two years, the value of their Willow Glen Craftsman-style house has slowly started ris-

See **TAXES**, Page 6

Taxes

Continued from Page 1

ing — to the point where the couple's property tax bill this year is expected to go up 9.4 percent.

"It's a double-edged sword," said Kreshel, a senior manager at eBay. "The value is going up and so are my property taxes, even though it's still below what I had to pay for it," noted the mother of two with a sigh. "It's part of being a homeowner."

Confusion over law

Not everyone is handling the news of paying more taxes with Kreshel's composure. Anxious inquiries already have started pouring in from many Bay Area property owners confused about how much their taxes are rising.

Didn't Proposition 13 — passed by voters in 1978 — limit the growth of a property's assessed value to no more than 2 percent a year?

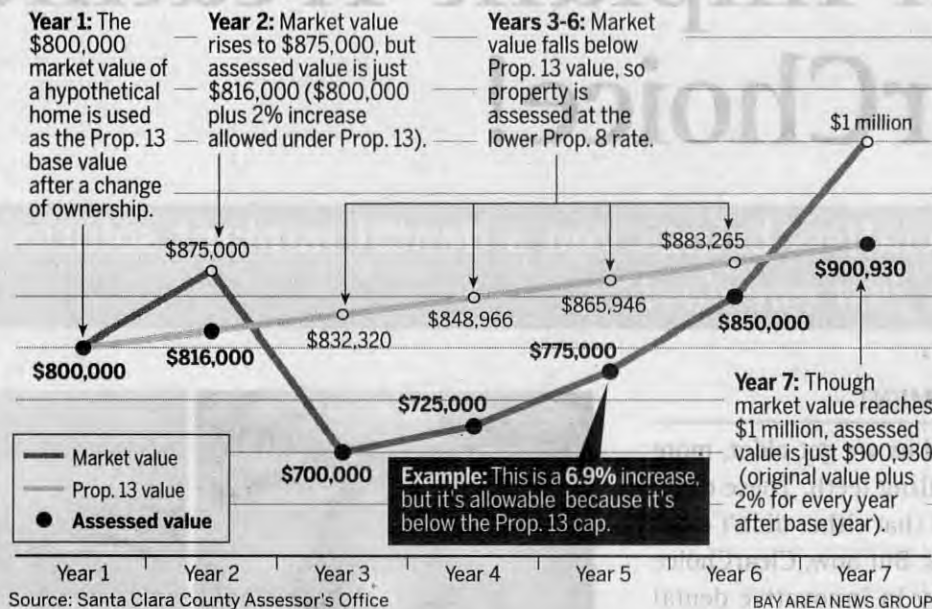
Well, yes, said Santa Clara County Assessor Larry Stone — except that many forget about an addendum: If the assessed value of a property falls below the property's most recent purchase price, then when values start to go back up, there is no limit of 2 percent, at least not until the value has returned to its original value, plus annual increases allowed under Proposition 13.

That's the gist of 1978's Proposition 8 — not to be confused with the more recent anti-gay marriage Proposition 8 passed by voters in 2008 — which sets the rules for how property taxes change in down real estate markets. It allows assessors to temporarily reduce assessments to reflect the lower market value.

Things get squishy, however, when after years of receiving Proposition 8 reductions in their property taxes, property owners feel

How your property taxes can go up — way up

California's Proposition 13 caps the growth of a property's assessed value at no more than 2 percent a year unless the market value of a property falls lower. When that happens, Proposition 8, which also passed in 1978, allows the property to be temporarily reassessed at the lower value. However, as the value of the property rises, the assessed value and resulting property taxes may increase more than 2 percent a year up to the annually adjusted Proposition 13 cap.



the impact of a rebounding real estate market. That strict 2 percent limit, as set by Proposition 13, doesn't kick back in until the property's value reaches the level it would have hit if the real estate market hadn't crashed.

Similar partial restorations are occurring for about 15,000 property owners in Alameda County and about 3,350 in San Mateo County, officials said.

Terry Flinn, with the San Mateo County Assessor's office, said the area has witnessed significant Proposition 8 reductions once every decade, starting in the early 1980s, early 1990s, early 2000 and then right after the 2008 economic collapse, with partial restorations on the rise every year since.

"I find that confusing. I think I just kind of got it into my head that it wouldn't be more than 2 percent because of Prop. 13," said Shannon Odam, another Willow Glen resident whose home's value has dropped below its 2007 purchase price. But since 2009, as the



JOSIE LEPE/STAFF

Karen and Jay Kreshel, of San Jose, are expecting their property tax bill to go up 9.4 percent this year.

home's market value has increased under Proposition 8, the tax has grown by 12 percent, then 6.7 percent and now 2.9 percent.

The tax on partial restorations may seem unfair, but it's perfectly legal.

"I get that question a lot," said Stone, because "the largest single asset most people own is their home, and its value has gone down

now because of the collapse in 2008."

Like other county assessors, Stone recently sent out notices that calculated property assessments, which determine property tax bills owners will receive in October.

A positive trend

For many counties, including San Mateo and Al-

ameda, the overall trend is positive, because assessed values are rising more robustly than in past years. In Santa Clara County, the Bay Area's largest by population, assessed values rose 3.25 percent to \$308.8 billion this year compared to \$299.1 billion in 2011.

In Santa Clara County, property owners who might be confused about their Proposition 8 situation or any other aspect of the notice they recently received can go online or call and ask for a review by Aug. 1; all requests will be considered on a first-come, first-served basis until Aug. 15. If Stone's office can't get to all of them, or doesn't agree to the review, property owners can file a formal appeal with the county's Assessment Appeals Board by Sept. 17.

But Kreshel said she won't be asking for a review; after all, last year, her property tax bill went up by 3 percent when, for the first time since late 2007, the home's assessed value — while still below the Proposition 13 level — crept up \$13,000. This year, the property tax hit will be greater because it gained another \$40,000 in market value, which means a \$400 increase in her property tax bill this year. But her tax bill, even with the 9.4 percent increase, is still less than it would be had her home stayed at Proposition 13 levels, Stone said.

Kreshel said since her home's assessed value had been decreasing all along until last year, Proposition 8 has "actually been saving me money" on property taxes. That savings will help pay the 9.4 percent hike she and her husband owe this year, she said. And Stone said: Don't forget, the market value of her home has increased, which is welcome news. While she hasn't yet experienced the direct benefit of Proposition 13, Kreshel understands the benefit of Proposition 8.

"Now I know how it works," Kreshel said.

How property values are assessed

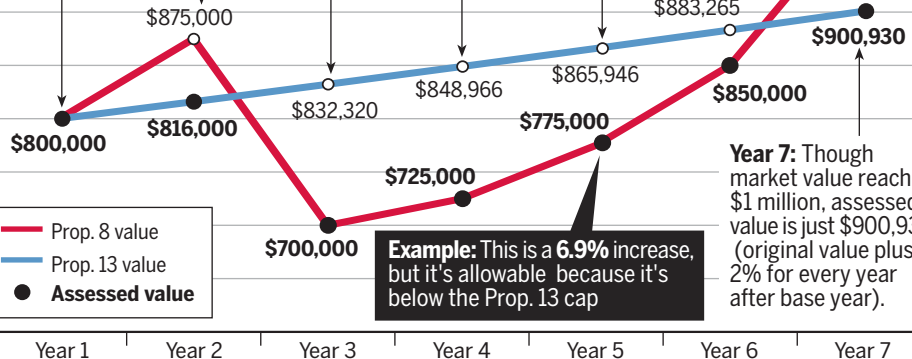
California's Proposition 13 caps the growth of a property's assessed value at no more than 2 percent a year unless the market value of a property falls lower. When that happens, Proposition 8, which also passed in 1978, allows the property to be temporarily reassessed at the lower value. However, as the value of the property rises, the assessed value and resulting property taxes may increase more than 2 percent a year up to the annually adjusted Prop. 13 cap.

Year 1: The \$800,000 market value of a hypothetical home is used as the Prop. 13 base value after a change of ownership.

Year 2: Market value rises to \$875,000, but assessed value is just \$816,000 (\$800,000 plus 2% increase allowed under Prop. 13).

Years 3-6: Market value falls below Prop. 13 value, so property is assessed at the lower Prop. 8 rate.

Year 7: Though market value reaches \$1 million, assessed value is just \$900,930 (original value plus 2% for every year after base year).



Example: This is a 6.9% increase, but it's allowable because it's below the Prop. 13 cap