

HISTORICAL PROPERTY TAX ADJUSTMENT WORKSHEET GUIDE

The following is an EXAMPLE showing the possible tax benefits to the property owner of an owner-occupied single-family dwelling under an Income Approach to Valuation (Mills Act value). *This form is a guideline only. Your reduced property tax under a Mills Act contract is not guaranteed to match this calculation.* This form is also used by staff to calculate the potential lost revenue to the City by the granting of the Historical Property Contract.

EXAMPLE: 2000 sf single-family dwelling property
 Current Assessed Value of Property = \$800,000
 Value of Land = \$550,000, Value of Improvements = \$250,000 (information found on tax bill)
 Estimated Monthly Rent at \$1.80 per sf = \$3,600 (use a realtor or online source for fair market rental data)

A. Determine Annual Income and Annual Operating Expenses

\$3,600 per month rent x 12 months equals gross income of	\$43,200
Vacancy and collection loss of 3% =	-1,296
Effective Annual Income =	\$41,904
Less Expenses @ 20% = (utilities, water, garbage, insurance, maintenance, management)	-8,381
Net Income	\$33,523

B. Determine Capitalization Rate

Add the following together to determine the Capitalization Rate:

The Interest Component is determined by the Federal Housing Finance Board and is based on conventional mortgages. While this component will vary from year to year, the State Board of Equalization has set this at **3.75%** for 2017.

The Historical Property Risk Component of **4%** applies to *owner-occupied, single-family dwellings* (as prescribed in Sec. 439.2 of the State Revenue and Tax Code). A **2%** risk component applies to *all other properties*.

The Property Tax Rate = **1.02%**

The Amortization Component is a percentage equal to the reciprocal of the remaining life of the structure and is set at the discretion of the County Assessor for each individual property. In this example the remaining life of a wood frame building is set at 50 years. The amortization component is calculated as follows: Improvements to Land Value ratio (250,000/550,000) x Building Amortization (1/50) = (0.45) x (0.02) = 0.009 or **.09% (approximately 1%)**

Now add the following:

$3.75\% + 4.0\% + 1.02\% + 1\% = 9.77\% = \text{Capitalization Rate of } 0.0977$

C. Calculate Income Approach/Mills Act Assessed Value and Estimated Tax Reduction

The new assessed value is determined by dividing the annual net income (**\$33,523**) by the capitalization rate **0.0977** (9.77%) to arrive at the new assessed value of **\$343,122**.

D. Calculate Estimated Tax Reduction

Lastly, determine the amount of taxes to be paid by taking .0102 (1.02%) of the assessed value \$343,122.

Compare with current property tax rate for land and improvements only (be sure not to include voter indebtedness, direct assessments, tax rate areas and special districts items on your tax bill):

- Current general levy property tax: 1.02% of original assessed valuation of \$800,000 (\$800,000 x 0.0102 = **\$8,160**).
- Mills Act property tax: 1.02% of new assessed value of \$343,122 is **\$3,500**.

Annual property taxes have been reduced by **\$4,660** (\$8,160 minus \$3,500), an approximately **57% property tax reduction**.

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Property Address: 1234 MAIN STREET
 (Number and Street Name)

A: DETERMINE ANNUAL INCOME AND ANNUAL OPERATING EXPENSES

Gross Income (Monthly Rent x 12)	\$43,200
Less 3% Vacancy & Collection	-1,296
Effective Annual Income =	\$41,904
Less 20% Expenses	-8,381
Annual Net Income =	\$33,523

B: DETERMINE CAPITALIZATION RATE

2017 Interest Component	3.75%
Historical Property Risk Component (4% for owner-occupied single family dwelling, 2% for all other properties)	4% or 2%
Property Tax rate	1.02%
Amortization Component (Improvement Value/Land Value) x 0.02 <i>Values are found on the tax bill</i>	1%
Capitalization Rate (sum of the above) =	0.0977

C: CALCULATE MILLS ACT ASSESSED VALUE

Annual Net Income/Capitalization Rate =	\$343,122
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D: DETERMINE ESTIMATED TAX REDUCTION

Current Taxes (Current Assessed Value x 0.0102)	\$8,160
Less Mills Act Taxes (Mills Act Value x 0.0102)	\$3,500
Potential Mills Act Property Tax Savings =	\$4,660

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Property Address: _____
(Number and Street Name)

A: DETERMINE ANNUAL INCOME AND ANNUAL OPERATING EXPENSES

Gross Income (Monthly Rent x 12)	
Less 3% Vacancy & Collection	
Effective Annual Income =	
Less 20% Expenses	
Annual Net Income =	

B: DETERMINE CAPITALIZATION RATE

2017 Interest Component	3.75%
Historical Property Risk Component (4% for owner-occupied single family dwelling, 2% for all other properties)	4% or 2%
Property Tax rate	1.02%
Amortization Component (Improvement Value/Land Value) x 0.02 <i>Values are found on the tax bill</i>	
Capitalization Rate (sum of the above) =	

C: CALCULATE MILLS ACT ASSESSED VALUE

Annual Net Income/Capitalization Rate =	
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D: DETERMINE ESTIMATED TAX REDUCTION

Current Taxes (Current Assessed Value x 0.0102)	
Less Mills Act Taxes (Mills Act Value x 0.0102)	
Potential Mills Act Property Tax Savings =	