



# CALIFORNIA ASSESSORS' ASSOCIATION

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## California Assessors' Association Split Roll-Split Rate Initiatives White Paper

To date there are five initiatives circulating that would materially change California's property tax system. Each adversely impacts, to varying degrees, the Assessor's ability to annually close the assessment roll on time in a manner consistent with professional standards and state law. While individual Assessors may personally support or oppose an initiative, the CAA, in this white paper, will broadly point out the impacts associated with implementing each of these initiatives.

The five initiatives can be broadly divided into three major categories: split roll, split rate or split California Consumer Price Index (CCPI). A summary of the five initiatives is attached and a detailed analysis can be retrieved from the Legislative Analyst Office (LAO).

### Split roll

The split roll initiatives propose changing the frequency by which non-residential properties are reassessed. Currently all properties, residential and non-residential, are assessed at market value upon acquisition or new construction.

Implementation of the split roll, in the short term, would have a devastating impact on the operations of California Assessors and their ability to close the assessment roll on time and consistent with state law. This type of law change poses many administrative problems for Assessors, in addition to enormous start-up costs.

An immediate concern becomes how "Non-residential Real Property" is defined? At what point does vacant land become considered residential property? Is all vacant land to be reassessed annually? How are mixed-use properties to be assessed?

Another concern will be how do Assessors staff for this type of transition? Requiring Assessors to annually reassess most non-residential properties would create, in the first five years, a nearly impossible situation to manage as the assessment of these types of properties are typically the most complex and time consuming to complete. As would be expected, these properties require the most experienced staff members to complete the assessment. Typically these individuals have a minimum of five years of experience assessing increasing difficult properties. Unfortunately this pool of talent has diminished as fewer and fewer individuals have entered the appraisal field in response to reduced demand caused by the S&L debacle in the late 80's.

The reduced talent pool has already impacted counties. In Santa Clara County for example, only one person from outside the county applied for a Senior Appraiser position, and that individual was holding a similar position in another county! To attract as many as 1000 new appraisers and support staff into Assessor's Office's statewide, in one year, would certainly inflate the cost to purchase these services.

Additionally, it is very unlikely that Assessor's would be immediately able to contract for appraiser services from the private sector since these professionals are not typically certificated by the State Board of Equalization as required by Revenue and Tax Code Section 670.

The LAO has conservatively estimated the annual cost to Assessors in the low tens of millions. That estimate is likely to be low. In Santa Clara County it is estimated the appraisal and support staff would need to increase by 20%. In Los Angeles County, using statistics from 2004, they estimate a split roll would demand an additional 300 appraisers and supervisors to handle the new annual reassessments and subsequent assessment appeals. In Los Angeles County alone the cost to staff these positions is estimated at over \$24 million. Additional facilities costs and clerical support would add another \$2 million for a total of \$26 million. These costs would be permanent, ongoing and would increase over time; in contrast the assessed values of non-residential properties would fluctuate, both up and down in response to the market.

To date, there are no provisions in these initiatives to immediately fund Assessors and provide the startup costs necessary to implement the change. Administration of the property tax system has been challenged to provide adequate service since the passage of SB188 in 1991 that exempted schools from paying their fair share of the property tax administration. Without the proper funding this change will only exacerbate the current statewide problem. Additionally, the supplemental revenue that Assessors currently receive, for non-residential properties, to augment their budgets would disappear.

Within the split roll measures there is on going disagreement over whether a split roll would be "ramped up" over a four to five year period or implemented immediately. Regardless of approach, both contain significant unanswered questions.

If there is a "ramp up" period, which eliminates any anticipated quick revenue gain, the biggest obstacle is where, physically, do you start? How do you choose which properties will experience the joy of being the first in their county to be re-appraised at market value even though the property has not had a change in ownership or new construction in years? If the selection is totally random, how does the (hotel, gas station, shopping center, office-building, etc.) owner compete with the same type of property down the street or across town? If it is done by industry, how fair is it to the gas station owners to pay taxes based upon current market value when the hotel owners aren't? If it is done by geographic area, how fair is it for non-residential property owners in one city to be appraised at market value if a neighboring city is not? Regardless, there would be a myriad of lawsuits.

Since Proposition 13 was enacted the number of commercial appeals filed annually became manageable. However, with annual reassessment, regardless as to how it is implemented, the filing of appeals and reviews would once again become a very real burden for Assessors.

If a split roll was implemented immediately the cost to the counties, as discussed above, would be exorbitant. Assessors would likely, of necessity, have to contract in the first few years with a mass appraisal firm to come in and perform the major portion of the appraisal work to get it done within a one-year time frame, and as discussed above, even the ability to do that is questionable. Certainly, for all counties, the quality and independence of appraised values would be sorely tested and the number of challenges would grow exponentially.

#### Split rate/Split CCPI

Unlike a split roll, the cost to implement a split tax rate or split CPI would not be nearly as significant for the assessor. The concept of a split rate is that there would be one tax rate for residential properties and another rate for non-residential properties. Similarly a Split CCPI has a different CCPI depending upon whether the property is residential or not.

The first year, Assessors would have to carefully review their database to ensure the use codes and zoning designators were accurate. Assessors would also have to plan for an increase in public service and appraisal time for the investigation of disputed uses. In the case of a split CCPI it would require additional software programming which would not be difficult, as counties already must be prepared to annually adjust the CCPI.

## Split Roll Initiative Summaries

### Annual Reassessment:

*Tax Fairness for Homeowners Act of 2005* – Lenny Goldberg, representing public employee unions.

- Annual reassessment of all non-residential property except for multifamily units intended to be used as a permanent residence and agricultural property.
- Exclusion of \$500,000 in personal property for all businesses.

*Tax Fairness Act of 2005* – Wayne Ordos, trial lawyer, possibly representing a law enforcement organization.

- Same reassessment and exclusions as the Goldberg initiative.
- Mandates that 50% of the additional revenue raised must go to the schools, 15% to transportation projects, 20% to the Senior Citizens' Property Tax relief program and 15% to enhance public safety.

*The Economic Recovery Tax Relief Act* – law firm of Remcho, Johansen and Purcell.

- Annual reassessment of all non-residential property except for multifamily units intended to be used as a permanent residence and agricultural property.
- Increases corporate tax rate from 8.84% to 9.3%. Imposes an oil severance tax and an insurance premiums tax.
- Any additional revenue from this act must be deposited into the Economic Recovery Tax Relief Fund, not to be used by the General Fund. A reduction in the state sales tax will be made commiserate with the amount of the revenue in this Fund.

### Split Rate:

*The Tax Reduction and Taxpayer Equity Act of 2005* – Ken Heredia, City of San Jose Firefighters' and Police Officers' Retirement Board.

- The tax rate for the first \$2,000,000 of residential value is 1%. Amounts in excess of \$2,000,000 for residential property to be taxed at a rate not less than 2% or more than 3%. Non-residential real property to be taxed at a rate of between 2% and 3%. The Board of Supervisors, by majority vote, sets the rate based on the needs of local government agencies.

- Limits the CPI increase (not to exceed 2%) in assessed value only to residential property less than \$2,000,000. For all other properties there would be no CPI adjustment of their acquisition value.
- Legislature, by a majority vote, may adjust the tax rate for personal property, but not greater than the non-residential tax rate in the same taxing jurisdiction.
- HOX increased to \$70,000 for everybody plus:
  - \$10,000 for persons over 61
  - \$10,000 for those who work within 5 miles of their home
  - \$10,000 for those with a severe disability
  - \$10,000 for an unmarried spouse of a deceased veteran
  - \$10,000 for the parent of a deceased veteran
- Any increase in HOX exemptions shall be matched by an equivalent amount for qualified renters.
- Generally increases taxes on corporate income.
- Changes the vote-approval requirement for local bonds from 55% for schools bonds and 2/3 for all other bonds to a simple majority for all bonds.

*High Quality Classrooms Act* – law firm of Remcho, Johansen and Purcell on behalf of the California Teachers Association. This initiative is very similar to the previous Rob Reiner / CTA initiative.

- Tax rate of 1.50% on commercial real property.
- Excludes residential income and agricultural property.
- 10% of the additional revenue generated from this initiative is to be distributed as aid for businesses. The remainder must be appropriated to the schools (K – 12).

Note: There is a second version of this initiative that mandates a tax rate of 1.30% for commercial real property.