



Memorandum

Date: June 21, 2016

To: Members of the Board of Supervisors

From: Jeff McLaughlin, Manager
Chief Administrative Office/Economic Development

RE: **IMPACTS OF PROPOSITION 90 PROPERTY TAX PORTABILITY IN EL DORADO COUNTY**

BACKGROUND:

General Background: Under Proposition 13, the value of a home for property tax purposes is re-assessed to market level whenever a change in ownership takes place. This usually results in higher property taxes for the homebuyer as homes reassess at sale. In November 1988, the State's voters approved Proposition 90, which is designed to induce greater turnover of homes owned by senior citizens. The measure provides anyone over the age of 55 with relief from Proposition 13 by allowing them to move from one county to another without undergoing a change in their base property taxes, provided that the home that is purchased in the new county is of the same, or lower, value¹.

Proposition 90 is a "local-option" law; which means that each county has the option of participating. If a county has adopted a Proposition 90 ordinance, it accepts transfers of property tax base assessments from other California counties. If the county that the homeowner is moving from does not have a Proposition 90 ordinance, this does not affect the eligibility of the homeowner.

Currently the counties of Alameda, El Dorado, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo, Santa Clara, and Ventura have an active Proposition 90 program.

Please note that Proposition 60 is a similar law passed by the state's voters two years prior to Proposition 90. It allows seniors to keep their property tax base assessment when they move within the same county.²

El Dorado County Proposition 90 History: The Board of Supervisors adopted Ordinance 4832 on December 15, 2009 implementing Proposition 90 base year transfers in El Dorado County. This Ordinance implements Revenue and Taxation Code Section 69.5 (Propositions 90 and 110) authorizing receipt by the County of El Dorado of inter-county tax base year transfers. The Ordinance became effective in February 2010 for a five-year period, and was extended for an 18-month period in April of

¹ Although it should be noted that pending Assembly Bill 2668 would expand the current statewide property tax transfer program for seniors and persons with a disability to homes of greater value and automatically apply to intra and intercounty transfers, which could impact assessments as high value homes would have an artificially low assessment. See: <http://www.counties.org/csac-bulletin-article/prop-90-counties-should-take-note-property-tax-threat>.

² <http://www.car.org/governmentaffairs/localgovernmentaffairs/prop90/>

2015, with an expiration date of October 1, 2016 (technically expires on 9/30/16 and is no longer in effect on October 1, 2016).

Board Questions from Prior Hearings: During the last hearing to extend Ordinance 4832, the Board posed several questions for staff analysis in considering any prospective renewal. Staff has reviewed the Board hearings from 2015 and is providing brief information/analysis on the following Board questions:

- 1. Comparison of other Counties that have Proposition 90; and**
 - a. (1a) reasons some counties have opted out of the program;**
- 2. El Dorado County Proposition 90 information and net County loss in a Proposition 90 transaction;**
- 3. Adherence of Proposition 90 to the County’s newly adopted Economic Development Strategy;**
- 4. Concerns regarding the impacts of an accelerating age demographic in the County; and**
- 5. Cost versus return on investment.**

Caveats for Analysis: *It should be noted that the above questions relate to issues that can be very broad, cutting across multiple social and economic issues, and/or where precise data is unavailable. For the analysis that follows, staff provides the best, most concise, analysis possible based on available data, but notes that some of the information provided may be inconclusive.*

General findings: *What staff has generally found is that the costs to the County of offering the Proposition 90 exemption can be defined in terms of lost property tax revenue. However, the benefits, while possible, are indirect and therefore difficult or impossible to track based on available data. Moreover, the benefits of offering Proposition 90 exemptions will reduce property tax revenues at a time when the County’s expanding senior demographic will add substantially to discretionary costs for services. Positive impacts of the program are likely, but available measurements are inconclusive.*

1. Comparison of El Dorado with other Counties that have Proposition 90.

An economic snapshot is provided as Attachment “C” for each of the 10 California counties that have an active Proposition 90 program. The chart below gives some preliminary information (listed from largest to smallest county based on population).

County Name	Population in 2014	10-Year Population Growth
Los Angeles	14,100,516	4%
San Diego County	3,265,700	11.8%
Orange County	3,144,961	6.4%
Riverside County	2,328,329	26.2%
San Bernardino County	2,110,386	11.2%
Santa Clara County	1,896,040	13.6%
Alameda County	1,612,850	11.9%
Ventura County	846,119	7.5%
San Mateo County	758,333	9.6%
El Dorado County	183,050	7.4%

Source: U.S. Economic Development Administration www.statsamerica.org

As the above chart shows, El Dorado County is the smallest county, based on population, with a Proposition 90 program. The next largest county (San Mateo) has over 550,000 additional residents. Larger counties may have a greater tax base upon which to offer tax incentives without the danger of impacting service delivery. Moreover, an overview of the above counties shows that Proposition 90

counties statewide tend to be coastal and/or have larger and more diverse economics. Diversification in county economies may make them less dependent on particular revenue flows, such as property taxation. We also note that 8 of the 10 counties had a higher population growth rate than El Dorado County. Population growth insures, in the long term, that tax revenues will exist to cover the inevitable increased costs of offering government services.

a. Reasons some counties have opted out of the program.

The California Association of Realtors notes³ that the counties of Monterey, Kern, and Modoc passed Proposition 90 programs, but later let the programs sunset or rescinded the ordinances. Staff has received feedback from the Assessor's Offices in three of the above counties:

1. Monterey - Rescinded in 2001. Costing the County too much tax revenue with base year transfers from the Bay Area.
2. Kern County - Rescinded in 2004. Costing too much tax revenue with base transfers from Los Angeles and Orange counties (\$9-\$11 million annually for 2002/2003/2004).
3. Modoc County – Rescinded in 2005. Only 35 applicants over 16 years of having the exemption in place. Only 1 recorded applicant used the exemption as a reason for moving. County rescinded because of staff costs involved⁴.

2. El Dorado County information and net County loss for a Proposition 90 transaction.

Staff has worked with the County Assessor's Office and can provide the following overview of transactions in El Dorado County:

- 1) Number of applications received/accepted in FY 2015/16
 - a. Received: 130 Accepted: 124 (95% Acceptance)
- 2) Number of applications received/accepted since ordinance effective date (February 15, 2010)
 - a. Received: 424 Accepted: 403 (95% Acceptance)
- 3) Gross property taxes that would have been paid by recipients in FY 2015/16
 - a. Approximately \$735,000
- 4) Net loss to the County in FY 2015/16 by granting the base year transfer
 - a. Approximately \$99,000
- 5) Gross property taxes that would have been paid since ordinance effective date
 - a. \$2.13 million
- 6) Net loss to the County since adoption by granting the base year transfer?
 - a. \$300,000

The County has mapped the origin of all Proposition 90 accepted applicants, and where they settle in the County of El Dorado, as two separate maps presented as Attachments "A" and "B" of this analysis.

3. Adherence to the County's newly adopted Economic Development Strategy.

The County's Economic Development Strategy does not speak directly to the impacts of an aging population or the needs for age diversity of workers in the local economy. The Strategy does speak to the needs of strengthening local education standards and forming connections between business and educators, which would speak to the issues related to retaining younger workers. Further, the Strategy speaks to the goals of providing lower cost housing which can, in turn, be used to attract and retain

³ <http://www.car.org/governmentaffairs/localgovernmentaffairs/prop90/>

⁴ It is assumed that all staff costs for El Dorado County are met with the \$500 application fee.

younger workers, but is an issue (housing affordability) that cuts across all age groups in California. Broadly, the Economic Development Strategy encourages a social and economic diversity for the County as a way for it to remain viable in the long term.

4. Concerns regarding the impacts of an accelerating age demographic in the County.

Any discussion here must start with the acknowledgement that the United States is now a demographically aging country. The U.S. Department of Health and Human Services notes that, “[b]y 2060, there will be about 98 million older persons, more than twice their number in 2013.”⁵ For El Dorado County, the aging trend is accelerating. A recent report to the Board by the County Long Range Planning Division⁶ notes that the peak in population age is advancing, by ten years, every ten years; in 2003 the modal County population peaked in the 40-49 age range, in 2013 the modal (largest number of residents) peaked in the 50-59 age range. In 2023 the County modal age population is projected to be in the 60-69 age range. El Dorado County is aging an accelerating pace. By 2020, the U.S. Census estimates 62,453 seniors 60 and older living in El Dorado County. By 2050, it is estimated that there will be approximately 99,698 seniors age 60 and older living in El Dorado County.

5. Cost versus return on investment.

Home sales: The El Dorado County Assessor’s Office notes that the Proposition 90 exemption cost the County approximately \$99,000 in lost property tax revenue for Fiscal Year 2015/16. It is assumed that County staff costs are reimbursed by the \$500 application fee for a Proposition 90 exemption. As 124 of 130 applications were accepted last year (95% acceptance rate), we can generally assume that granting an exemption led to the successful purchase of a property in El Dorado County⁷. Information obtained from the El Dorado County Association of Realtors (EDCAR) notes there were slightly over 3,000 property sales Countywide in 2015.⁸ Proposition 90 exemptions amount to approximately .04% of all home sales in the County last year. It should be noted that as property sales increase in a recovering property market, the number of exemptions (2015 accounted for over 30% of all granted County exemptions since program inception), and the cost to the County in lost revenue may increase,⁹ but this cost impact may be seen as negligible in an improving housing market where Proposition 90 accounts for a very small percentage of home sales.

The potential net loss to the County can be expected to accelerate. Using a conservative estimate of Proposition 90 property tax loss growth of 15% annually, with the 2015 figure as a base, a four hundred thousand-dollar annual loss occurs in year ten (e.g., 2025), barring future market downturns.

2015	-	\$99,000
2016	-	\$113,850
2017	-	\$130,927
2018	-	\$150,566
2019	-	\$173,151
2020	-	\$199,124

⁵ http://www.aoa.acl.gov/aging_statistics/index.aspx

⁶ File # 16-0477. Slide page 20 of 74. Sources: U.S. Census, U.S., Bureau of Labor Statistics, and EMSI International.

⁷ The Assessor’s Office reports that each applicant is asked the following question, “[w]as the potential availability of Proposition 90 benefits a major influence in your decision to relocate to El Dorado County? Or were there other compelling reasons?” Of the 424 applicants, 278 or 66% answered yes.

⁸ http://edcar.org/Stats/stats_march2016.pdf

⁹ EDCAR notes 640 property sales as of March of 2016.

2021	-	\$228,993
2022	-	\$263,341
2023	-	\$302,843
2024	-	\$348,269
2025	-	\$400,510

This above loss cannot be underestimated, as it will occur in a period when the cost to the County for senior services is expected to increase dramatically. For example, the County is already experiencing substantial costs in Emergency Medical Services (EMS) from County residents above age 60, with 57% of all such services required by seniors from 2013-2015. As Medicare is the most prevalent way for reimbursement of EMS costs for the County, and only 32% of costs are reimbursed by Medicare, the County is already experiencing increased costs and decreased revenues to the EMS system during the same period when Proposition 90 tax portability is weakening one of the primary ways to pay for senior care. As senior services administered by the Health and Human Service Agency currently cost the General Fund approximately \$2.2 million/year, the inverse relationship between lower tax revenues and increased costs cannot be overlooked. Finally, to meet the increased demand for senior services at current service levels, with little to no increase in federal and state funding for aging programs anticipated, the HHS administered senior programs will continue to depend on the General Fund as a revenue source.

Possible Returns on Investment: Previous reasons for supporting a Proposition 90 policy center on consumer spending of potential clients who are attracted to move to the County using the exemption. Data provided by the County Assessor’s Office notes that approximately 45% of Proposition 90 applicants purchase in the El Dorado Hills area. Assuming an El Dorado Hills geography, the closest analysis that Staff can obtain is a Buxton sales tax leakage report for El Dorado Hills. A Buxton sales tax leakage report indicates that El Dorado Hills fails to meet consumer demand in a wide number of consumer areas, and that a strong number of potential sales (and sales taxes) leave the area. This is the sales tax “bleed” issue. However, there are strong caveats to using this data for the purposes of Proposition 90 analysis. El Dorado Hills borders a much more economically developed market in the City of Folsom and Sacramento County. Broadly, El Dorado County in total exhibits sales tax leakage in many consumer areas. Finally, the data cannot be precisely tracked to the estimated 185 Proposition 90 recipients that reside in El Dorado Hills. If we analyze macro data for El Dorado Hills, we can assume that the County only sees a small percentage of any potential sales tax return, and a well-defined property tax reduction.

It has been previously noted that Proposition 90 may be a tool for local realtors; that it assists fixed income residents; and that seniors who move to the County under the exemption are likely to attract family members. Each of these arguments is plausible. However, Proposition 90 exemptions are a very small driver in an accelerating real estate market recovering from a recessionary period. Proposition 90 exemptions may assist some fixed income seniors (a rationale for the original law); but Buxton notes that in El Dorado Hills, where the majority of exemptions are granted, the income for a residence with a head of household ages 55-59 is \$148,231 in 2015. Lastly, it may be that seniors who move to the County invite family and friends who subsequently purchase homes and contribute to the local economy; an associative factor that may be at work but cannot be verified without more research and data collection.

Summary

The cost to the County is currently relatively nominal, but cannot be discounted as the cost (in terms of lost revenue) is expected to increase over time. Additionally, it is expected that direct service costs, tied to populations attracted to El Dorado County by the Proposition 90 offerings, will likely consume a larger part of the County's discretionary budget.

Should the Board not elect to move forward with Proposition 90 property tax portability, staff has confirmed that those properties which are currently assessed under the current ordinance will not lose the benefit of the reduced assessment. However, in order to prevent a negative impact to individuals who are in the process of purchasing property and taking advantage of the Proposition 90 exemption prior to the expiration of the existing ordinance on September 30, 2016, the Chief Administrative Office is recommending that staff be directed to work with the Assessor's Office and County Counsel to identify a process, if possible, in which those individuals are not negatively impacted, and if necessary, return to the Board to extend the existing ordinance for those specific individuals.

Attachments: A: Proposition 90 origin and
B: County location maps
C: County Profiles - Largest to Smallest with Proposition 90