



County of El Dorado

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TO: Members, Board of Supervisors
FROM: Don Ashton, Chief Administrative Officer
SUBJECT: PROPOSITION 90 (PROPERTY TAX PORTABILITY) UPDATE REPORT

BACKGROUND

Under Proposition 13, the value of a home for property tax purposes is reassessed to market level whenever a change in ownership takes place. This usually results in higher property taxes for the homebuyers as homes reassess at sale. In November 1988, the State's voters approved Proposition 90, which provides anyone over the age of 55 with relief from reassessment 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, value.

Proposition 90 is a "local-option" law which means that each county has the option of participating. The counties of Alameda, El Dorado, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo, Santa Clara, Ventura and Tuolumne have an active Proposition 90 program. A number of counties have also considered and rejected implementing the program. 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.

The Board of Supervisors adopted Ordinance 4832 on December 15, 2009, implementing Proposition 90 base year value transfers in El Dorado County. The Ordinance implements Revenue and Taxation Code Section 69.5 (Proposition 90) 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 2015; with an expiration date of October 1, 2016. On August 30, 2016, the Board of Supervisors approved a five year extension of the Ordinance, with the understanding that the Chief Administrative Office would provide an annual status report on the impact of Proposition 90 in El Dorado County.

This report presents data and other information in an effort to provide the Board additional input on the benefits and costs of Proposition 90 in the County. The loss in property tax revenue and impacts to the General Fund are easily quantified through property assessment data, and this data can be tracked over time. However, it has been argued that Proposition 90 also provides

benefits to the community. These community benefits are much more difficult to quantify. This update report attempts to provide information in a balanced fashion, based on prior discussions regarding the positive and negative aspects of implementing a Proposition 90 program.

Below, property assessment data is presented along with the outcomes of two questionnaires, one each for the buyers and sellers of Proposition 90 homes, the results of the analysis of impacts to special districts, and some information on building permit activity in the County as it relates to Proposition 90 home improvements. Attached to the report are several back-up data sets and two maps that show the location that Proposition 90 buyers moved from, and the communities within the County that have seen the highest numbers of Proposition 90 buyers.

IMPACT ON PROPERTY TAX REVENUE

The following is updated information obtained from the El Dorado County Assessor identifying the impact to tax revenue overall and the County's General Fund. These numbers are dynamic, since home sales and Proposition 90 filings are occurring throughout the year, and each year new adjustments may affect prior year statistics. The figures are based on the Assessor's data on August 25, 2017.

As reported by the Assessor's office, the average price of non-Proposition 90 homes purchased in 2016 was approximately \$429,000, while the average purchase price of homes purchased with or approved for the Proposition 90 benefit in 2016 totaled approximately \$592,000. However, the average value used for assessment for Proposition 90 homes was \$261,844. This difference represents an average single-year loss of \$3,304 per newly approved Proposition 90 home in 2016, or a cumulative loss of \$555,125 in property tax revenue (total all agencies).

As shown in the chart below, the impacts of Proposition 90 are cumulative, since the base tax year for all Proposition 90 homes continues to provide a lower tax rate each year than the market value of the home.

PROPERTY TAX IMPACT

Year of Sale	# of Sales	Roll Year* 11/12	Roll Year 12/13	Roll Year 13/14	Roll Year 14/15	Roll Year 15/16	Roll Year 16/17	Roll Year 17/18	Roll Year 18/19
2010	16	\$48,652	\$49,625	\$50,618	\$50,847	\$51,863	\$52,654	\$53,707	\$54,781
2011	53		\$141,873	\$144,710	\$145,367	\$148,272	\$150,533	\$153,544	\$156,615
2012	47			\$133,106	\$133,710	\$136,382	\$138,462	\$141,231	\$144,056
2013	56				\$158,123	\$161,282	\$163,742	\$167,017	\$170,357
2014	85					\$240,103	\$243,765	\$248,640	\$253,613
2015	121						\$385,669	\$393,382	\$401,250
2016	168							\$555,125	\$566,228
2017	68**								\$214,459
Total	614	\$48,652	\$191,498	\$328,434	\$488,048	\$737,902	\$1,134,824	\$1,712,646	\$1,961,358

*Roll Year represents the calculation of loss in tax revenue based on the sales during the previous year.

**2017 Sales (Roll Year 18/19) data reflects Proposition 90 transactions approved as of June 30, 2017, and therefore shows a partial calendar year.

The above amounts for each year were determined based on the purchase price of each Proposition 90 home, the base year value of the Proposition 90 buyer's previous home, and the amount that is therefore excluded from property tax assessment. The property tax amount lost is equal to 1% of the assessed value that is excluded from reassessment. The totals represent lost revenue to schools, special districts, and the County General Fund, combined. The chart factors the trend upward in value during times of economic growth and rising home prices, which has occurred over the last eight years. Value inflation factors are based on the California Consumer price Index, which varies each year but does not exceed 2%.

The following table reflects 25% of this lost revenue, which is the approximate share of property tax revenue that goes to the County General Fund.

GENERAL FUND IMPACT

Year of Sale	# of Sales	Roll Year 11/12	Roll Year 12/13	Roll Year 13/14	Roll Year 14/15	Roll Year 15/16	Roll Year 16/17	Roll Year 17/18	Roll Year 18/19
2010	16	\$12,163	\$12,406	\$12,654	\$12,712	\$12,966	\$13,164	\$13,427	\$13,695
2011	53		\$35,468	\$36,177	\$36,342	\$37,068	\$37,633	\$38,386	\$39,153
2012	47			\$33,277	\$33,428	\$34,096	\$34,616	\$35,308	\$36,014
2013	56				\$39,531	\$40,321	\$40,936	\$41,754	\$42,590
2014	85					\$60,026	\$60,941	\$62,160	\$63,403
2015	121						\$96,417	\$98,345	\$100,312
2016	168							\$138,781	\$141,557
2017	68								\$53,615
Total	614	\$12,163	\$47,874	\$82,109	\$122,013	\$184,476	\$283,707	\$428,162	\$490,340

As shown in the General Fund Impact table, the total number of homes purchased using Proposition 90 has increased over the years, resulting in increasing General Fund impacts each year. Out of the 614 Prop 90 homes, 16 have since been resold to non-Proposition 90 buyers, resulting in approximately \$55,000 in recovered property tax for all years, or about \$14,000 in General Fund Revenue. The cumulative General Fund loss for FY 2017-18 is therefore approximately \$414,000.

IMPACT BASED ON BUILDING PERMIT DATA

County building permit data was reviewed to determine whether any useful information or conclusions could be drawn. Staff reviewed the number of improvements, number of new construction permits, and the estimated value of improvements to Proposition 90 homes.

Although the data showed the building and improvement activity for Proposition 90 properties, tracked improvement values are estimates developed for permitting purposes only, and firm conclusions could not be drawn from the data.

Additionally, Proposition 90 buyers are entitled to "additional treatment" meaning that improvements to a property will not be subject to reassessment if total fair market value remains

under the fair market value of the sold residence. While improvements made to Proposition 90 homes would not likely increase the assessed property tax due to the additional treatment rule, it can be said that the improvements: 1) bring funds into the local economy, where homeowners used contractors and other businesses associated with the improvements; and 2) add equity to the property which may result in a higher-priced sale or a quicker sale of the home in the future, potentially to a non-Proposition-90 home buyer.

IMPACT TO SPECIAL DISTRICTS

Previous reports presented some evidence that Proposition 90 home buyers are less likely to generate demand for county criminal justice services, county road expenditures, and that the lower number of residents per household creates less demand for county services. As stated elsewhere in this report, these outcomes are difficult to quantify. The following impacts to fire districts, schools, and other special districts are approximated based on assessment data and service areas that contain a large number of Proposition 90 home sales.

District	FY 15-16	FY 16-17	FY 17-18	3-Year Total
Fire Districts	\$40,000	\$104,500	\$194,500	\$339,000
CSA 7 (Ambulance)	\$4,400	\$11,000	\$23,000	\$38,400
Special Districts	\$14,500	\$35,000	\$70,000	\$119,500
Schools	\$96,000	\$253,000	\$487,000	\$836,000

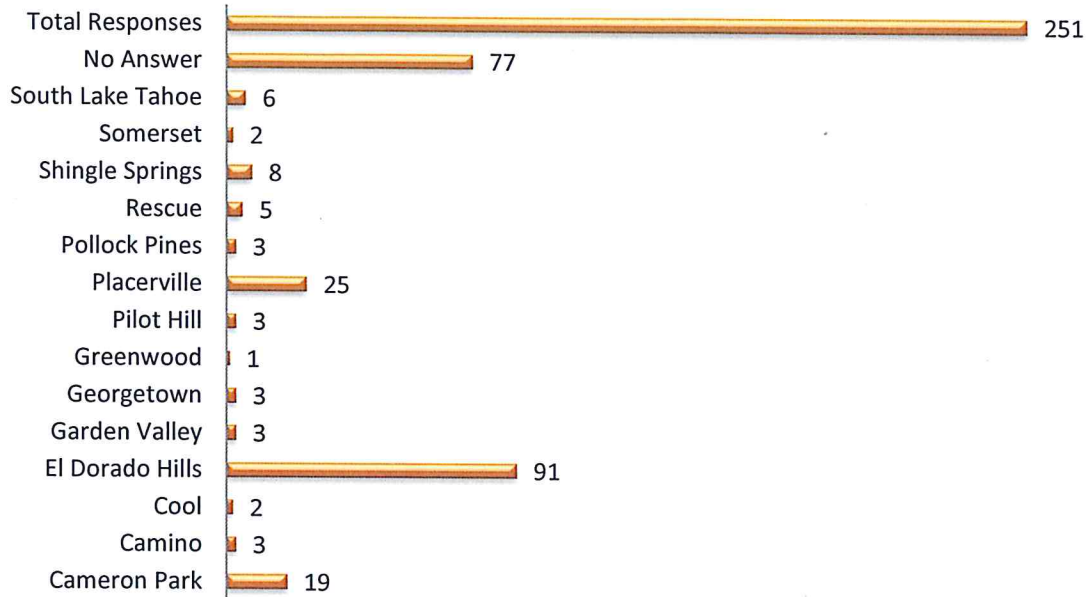
This data represents the approximate amount of property tax revenue lost to special districts over a three-year period. These totals equal only about 60% of the total property tax revenue, since the figures do not include the County share of tax revenue (25%), or the smaller shares of revenue that go to organizations such as CSA 3, water agencies, roads, or CSDs (15%). As this three-year data demonstrates, the impacts to Special Districts also compound over the years as more homes are purchased using Proposition 90. Again, this trend of compounding value would be typical during years of economic growth where home prices are rising.

PROPOSITION 90 BUYER QUESTIONNAIRE

Following a review of the assumptions made for the proponents and opponents of Proposition 90 in El Dorado County, the Chief Administrative Office, Assessor, and Association of Realtors formulated questions to be asked of buyers benefiting from Proposition 90 and sellers of the homes they purchased.

A questionnaire was mailed to all owners on record who have utilized Proposition 90 for the purchase of their home in El Dorado County. The questionnaires were mailed on July 7, 2017, and included an option to answer the questions online. Of the 611 mailed, 251 replies were received by the County, resulting in a 41% response rate.

Although the question was identified as "optional", many respondents included the location of their home. The greatest numbers of respondents' homes are located in El Dorado Hills (91), with Placerville (25) and Cameron Park (19) with a much lower response, at second and third highest, respectively.



Proponents of Proposition 90 have proposed that Proposition 90 enhances the purchasing power of qualified home buyers since property taxes are relatively lower, and that the savings in property tax that Proposition 90 buyers enjoy is often used to make home improvements, which brings a greater amount of sales to the County and results in increased business for contractors in the County. Opponents have raised questions as to how this would affect the County in the long term, as the benefit of these purchases are not realized year after year since remodeling or other projects conclude, while the loss of property tax revenue is realized annually. There was also a question raised about whether this money is spent in El Dorado County, or whether most people buy and use contractors based out of Folsom or Sacramento County. In the questionnaire, the following questions were asked:

If you made improvements to your property, such as remodeling or adding onto your home, adding a new pool, landscaping, etc., how much money did you spend?

- Less than \$5,000 \$20,001-\$40,000 \$5,001-\$10,000
 More than \$40,000 \$10,001-\$20,000

If you have plans for further improvements, how much do you plan to spend?

- Less than \$5,000 \$20,001-\$40,000 \$5,001-\$10,000
 More than \$40,000 \$10,001-\$20,000

Did you select El Dorado County-based Contractors and home improvement companies for the work performed on your property?

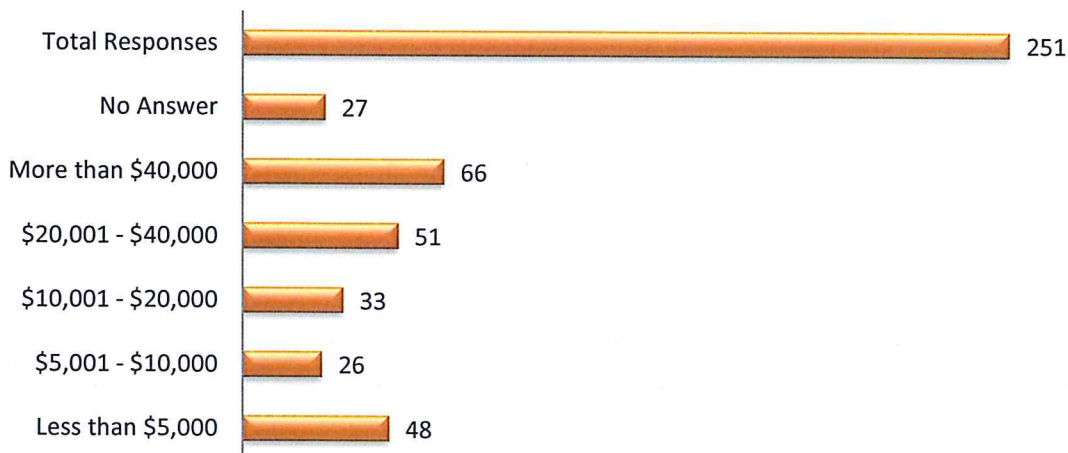
- Yes No

Approximately what percentage of purchases of materials for your property were from stores located in El Dorado County?

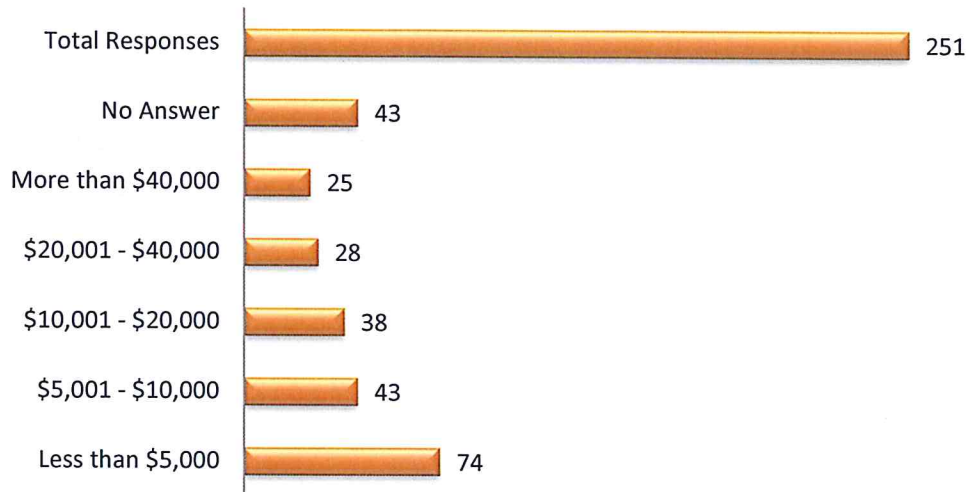
- None 0-10% 11-25%
 26-50% 50-75% 76+%

These questions were intended to provide some indication of how much Proposition 90 homeowners have spent and plan to spend on home improvements, and what approximate amount of these purchases were made in El Dorado County. The responses were as follows:

If you made improvements to your property, how much money did you spend?

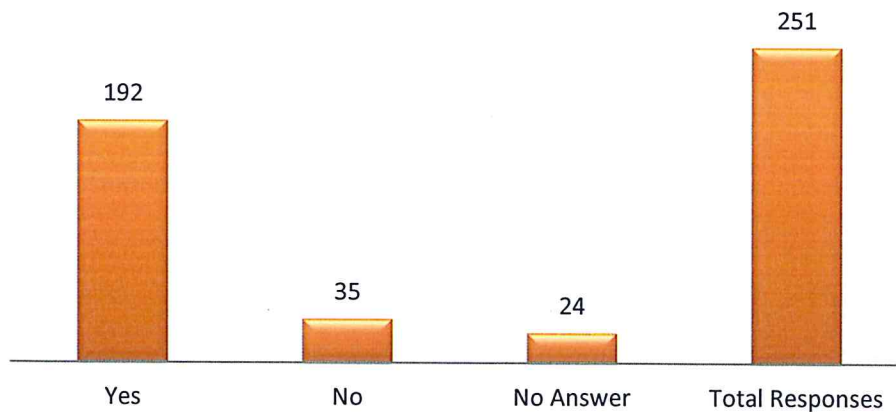


How Much is Planned for Future Home Improvements?



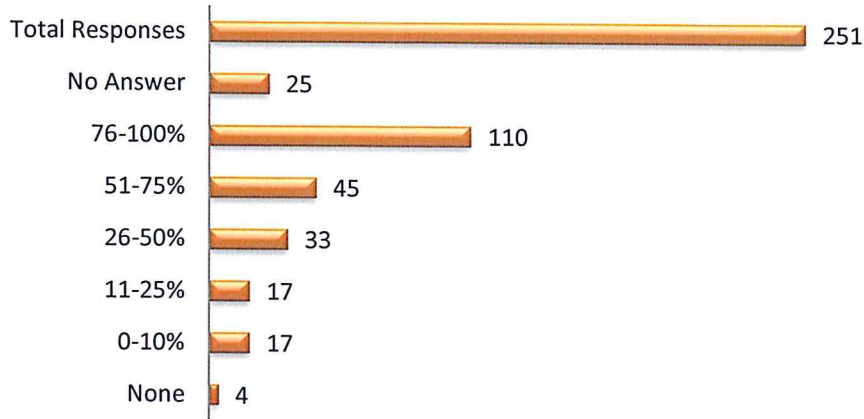
According to this data, a majority of respondents spent over \$10,000 on improvements to their homes, with the highest number of respondents reporting that they spend \$40,000 or more. The majority of respondents also have plans to spend more money on future improvements, although the more expensive projects (\$20,000-plus) are not represented as highly, based on the responses, as the completed home improvement projects.

Were EDC-Based Contractors and Home Improvement Companies Selected for Work Performed?



For those respondents that made home improvements, the majority indicate that they selected El Dorado County based companies. It is important to note that although this provides benefits to the local economy, transactions for services performed are generally not subject to sales tax.

**Approximate Percentage of Materials Purchased from
 Stores in EDC**



Materials purchased for these improvements were purchased at El Dorado County-based stores, with the highest number of responses in the category of more than 75%. For those respondents that made home improvements, the majority responded that they selected El Dorado County based companies.

Material or product purchases (i.e., new appliances) made in El Dorado County will generate sales tax revenue to the County or the Cities of South Lake Tahoe or Placerville, dependent on where the point of sale lies. Sales Tax increases provide a benefit, however, will likely not match the respective loss of property tax. For example, if the average tax loss per year per Proposition 90 home is \$3,300, the average loss to the County General Fund is \$825 per year per Proposition 90 home, as counties receive a standard 1% of the tax. Therefore, a Proposition 90 homeowner would need to spend approximately \$82,500 per year in taxable sales to fully offset the loss in property tax revenue to the General Fund.

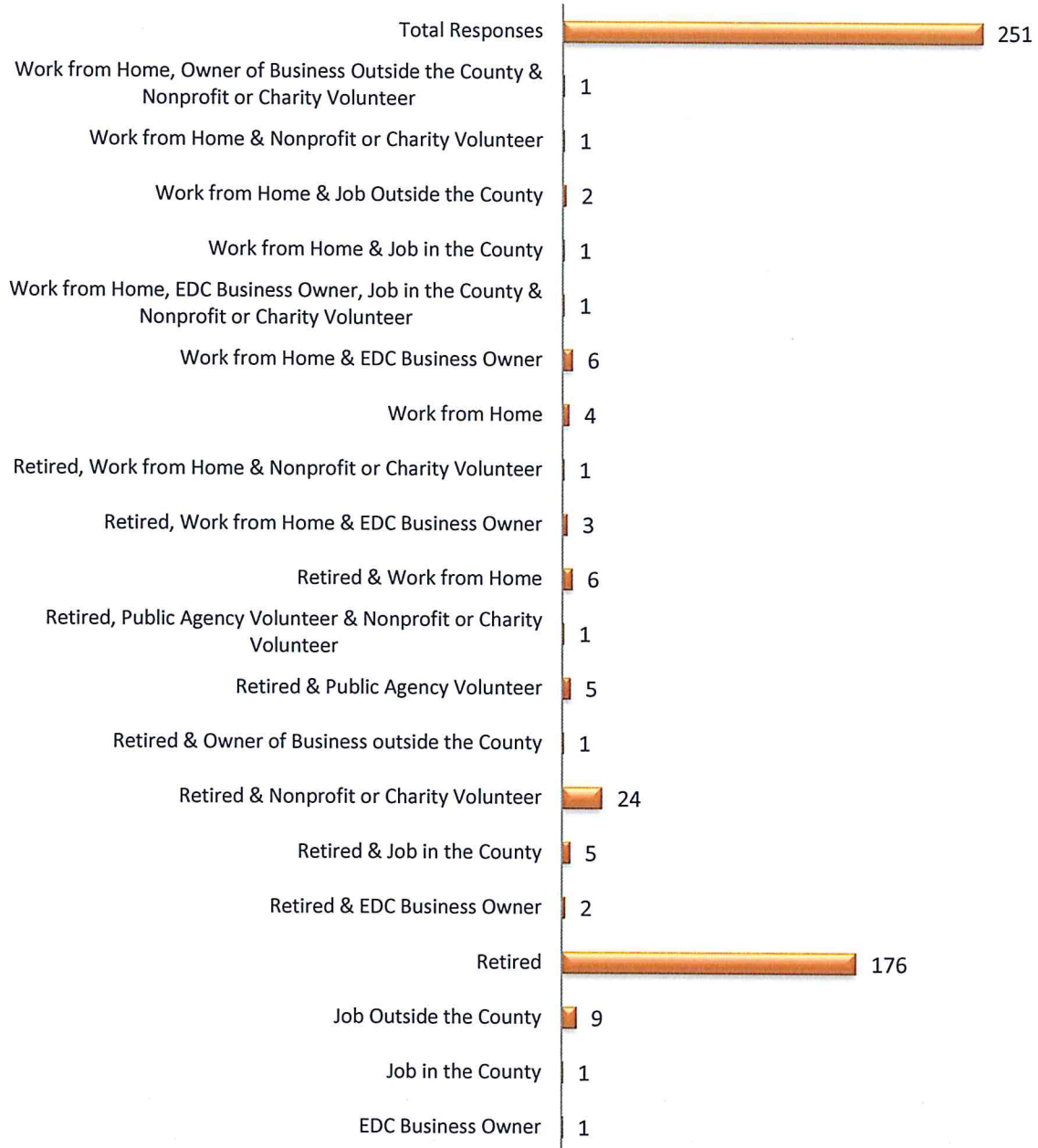
Opponents of Proposition 90 have argued that the loss in revenue that results from Proposition 90 affects the community, while supporters of Proposition 90 say that these home buyers are more likely to volunteer time to local non-profits and other community organizations. The following question was included in the questionnaire:

Which best describes the way you spend your time? Select all that apply:

- Retired Work From Home El Dorado County Business Owner
- Job outside County Job in the County Owner of Business Outside the County
- Public agency volunteer (Library, Sheriff, etc) Nonprofit or charity volunteer

This question was repeated for the co-owner of the home to capture how each owner might contribute to the community. Because respondents were able to make all that applied to them, there were many combinations of answers. Responses were as follows:

Which Best Describes How You Spend Your Time (Owner 1)



Which Best Describes How You Spend Your Time (Owner 2)



The majority of the respondents indicated that they are retired. Although a number of respondents indicated that they volunteer for nonprofits, charities, or public agencies, the majority of the responses did not indicate that time is spent volunteering.

Proponents of Proposition 90 have indicated that the property tax savings are a significant motivator in the decision making process of prospective new residents, and previous reports indicated that 32% of the Proposition 90 homebuyers have stimulated family and friends to move to El Dorado County. The following questions were included in the questionnaire:

What were the two most important reasons you purchased a home in El Dorado County?

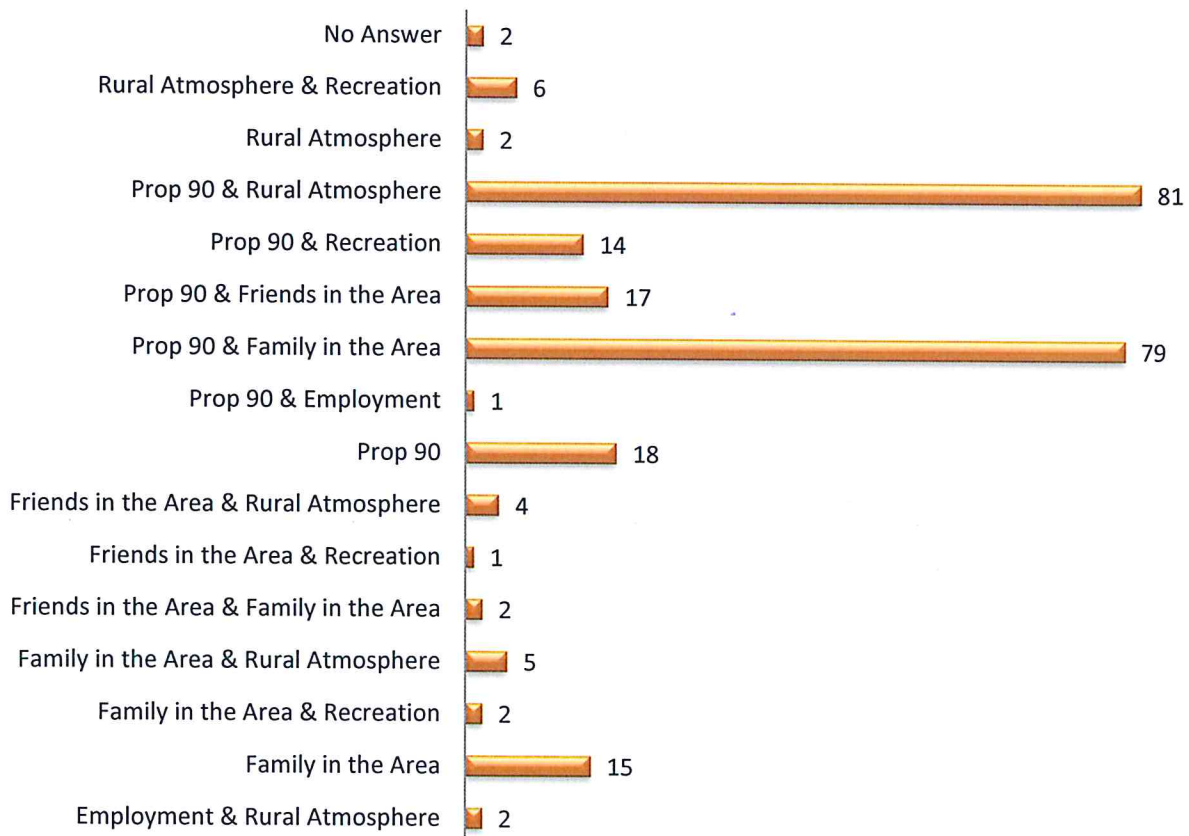
- Employment Proposition 90 Family in Area
 Friends in Area Rural Atmosphere Recreation

Since moving to El Dorado County, have others you know purchased a home in El Dorado County? Select all that apply:

- No Yes, friends
 Yes, family Yes, business affiliates

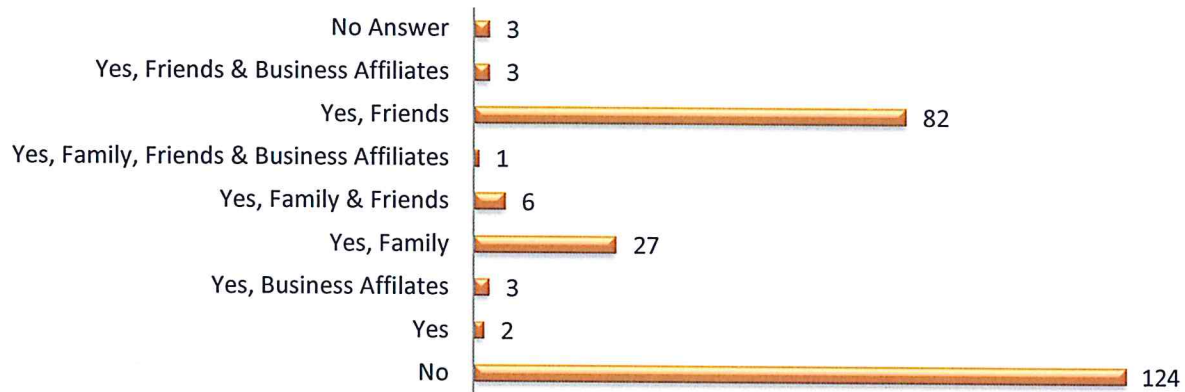
Although there are likely a number of reasons that a buyer may choose to purchase a home in El Dorado County, the responses received indicate that Proposition 90 was a major factor. The responses were as follows:

Most Important Reasons Homes Were Purchased in El Dorado County



A majority of respondents also indicated that their friends, family, and/or business affiliates also purchased a home in El Dorado County.

Since Moving to EDC, Have Others You Know Purchased a Home in the County



PROPOSITION 90 SELLER QUESTIONNAIRE

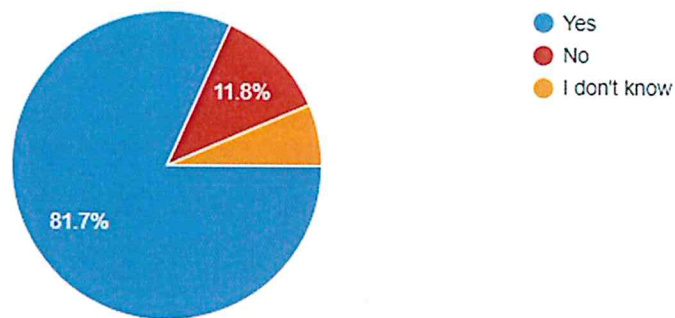
Additional information was determined to be accessible only from the sellers of homes to Proposition 90 buyers. Following discussions with the County Chief Administrative Office and the Assessor, the El Dorado County Association of Realtors (EDCAR) formulated questions and assembled a questionnaire to be emailed to seller's agents. EDCAR coordinated this questionnaire because they have access to the agents' information in the local Metrolist Multiple Listing Service (MLS), while the County does not.

There were 220 properties approved for Proposition 90 benefits during the survey period. Of these 220 properties, 132 were posted in MLS and therefore afforded access to the contact information of real estate agents that represented the seller of a home that was purchased by a Proposition 90 buyer.

Of the 132 properties, 96 Agents responded to the Survey; however, 3 responses were determined to be unusable due to agents citing addresses that are not on the county's approved list. Ninety-three (93) responses were valid (70%) and the results are shown below.

Was the home sold the Seller's personal residence for two out of the last five years of their ownership?

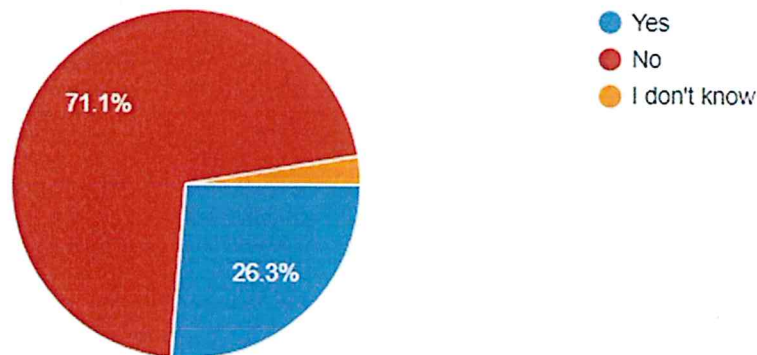
93 responses



According to this result, the majority of agents responded that the home sold was the owner's personal residence and a county resident for at least two out of five years. The majority these homes were not rental or investment properties prior to the sale. The following question was asked only to those that answered "yes" to this question.

Did the Seller of the property purchase another home for their personal residence in El Dorado County?

76 responses

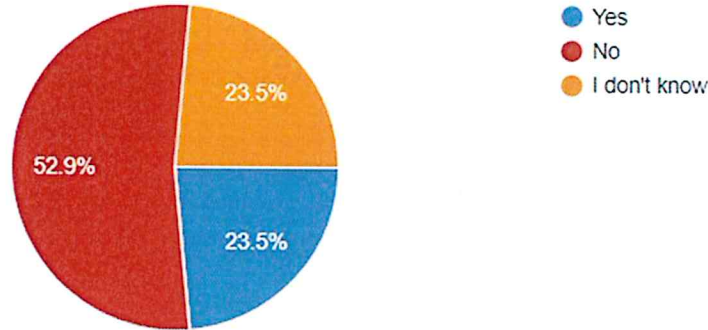


The majority of respondents indicated that of those who sold their personal residence in El Dorado County did not purchase another residence in the County. Twenty respondents answered yes, indicating that they did purchase another home in the County. The questionnaire did not ask the purchase price of the properties the Sellers purchased, and there was not a question on whether Proposition 60 or 90 was applicable to these purchases. The next question was for those sellers that did not live in the home that was sold, and therefore their homes were

purchased by a Proposition 90 buyer, but the seller would not be eligible for Proposition 90 or 60 for a property that is not their primary residence.

Did the Seller of the property purchase another property in El Dorado County?

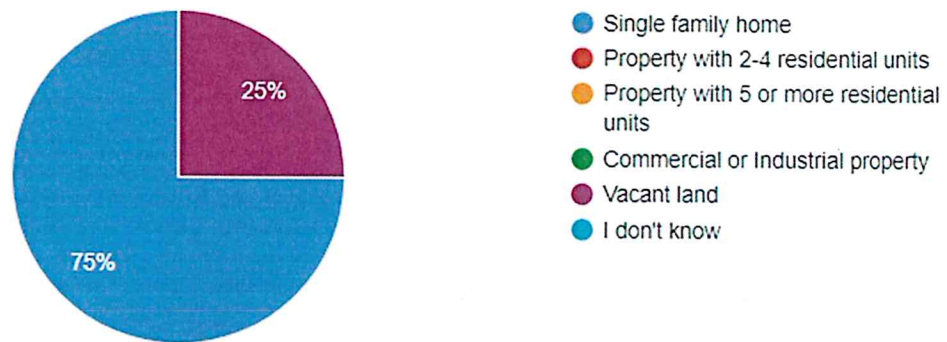
17 responses



Of 17 respondents that indicated that the home sold was not the primary residence of the seller, or that they did not know, the majority did not purchase another property in El Dorado County. Four respondents indicated that yes, the seller did purchase another property in El Dorado County. These four respondents were prompted to answer the next question.

What type of property was purchased?

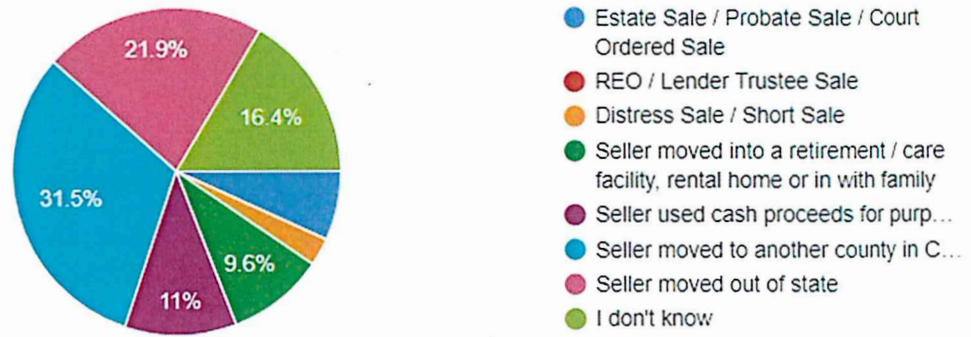
4 responses



Of these four, three purchased a Single Family Home, and 1 purchased Vacant Land.

Why was the property sold?

73 responses



There were 73 responses to this question. The results show that the majority of respondents indicated that the seller either moved to another County in California or moved out of state.

In summary:

- 93 of 132 Listing Agents completed the survey (70%)
- 24 of the 93 responses indicated that the seller remained in the County
- 20 Sellers sold their primary residence and purchased another home in El Dorado County
- 4 Sellers had not lived in the home and purchased another property in El Dorado County
- 8 Listing Agents either didn't know why the Seller sold the home, or the reason was not described in the 7 other available options

CLOSING

As was mentioned previously, this report presents data and other information that has been gathered and analyzed by staff, in an effort to provide the Board additional input on the benefits and costs of Proposition 90 in the County. The loss in property tax revenue and the impact to the General Fund are easily quantified through property assessment data. However, the discussed community benefits are more difficult to identify and assign a value to.