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09-0992

North State BIA- Board Item 39: Prop 90 Extension- Letter of Support

1 message

Scott Whyte <scott@northstatebia.org>

Fri, Jan 23, 2015 at 1:22 PM

To: "bosone@edcgov.us" <bosone@edcgov.us>, "bostwo@edcgov.us" <bostwo@edcgov.us>, "bosthree@edcgov.us" <bosthree@edcgov.us>, "bosfour@edcgov.us" <bosfour@edcgov.us>, "bosfive@edcgov.us" <bosfive@edcgov.us>
Cc: "edc.cob@edcgov.us" <edc.cob@edcgov.us>

Honorable Board of Supervisors,

On behalf of the North State Building Industry association, we would like to express our support for the extension of Proposition 90. Our letter of support is attached. Please let me know if you have any questions.

Thank you for your time and consideration.

Sincerely,

Scott Whyte
Legislative Advocate
North State BIA
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North State BIA- Prop 90 Support Letter.pdf
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January 23, 2015

Honorable Chairman Veerkamp and Board Members
County of El Dorado
330 Fair Lane
Placerville, CA 95667

RE: Item #39: Proposition 90 Extension- Letter of Support

Honorable Chairman Veerkamp and Board Members,

On behalf of the North State Building Industry Association (BIA) and our 500 member companies involved in home building and land development in the Sacramento region, **we would like to express our support for the extension of Proposition 90 in El Dorado County.**

Proposition 90 was first approved nearly five years ago and is set to expire on April 1, 2015, unless the Board of Supervisors acts to extend it prior to that date. The program was first established to give an important economic incentive to future homebuyers (new or re-sale) within El Dorado County. We firmly believe that Proposition 90 has been a success and that an extension would continue to strongly benefit the County. As County staff wrote last fall in regards to the extension, "Prop 90 gives El Dorado County an economically competitive edge in the market place for property owners seeking to relocate from more inhabited areas of the state."

As our fragile local real estate market begins to slowly recover, incentives such as this should continue to be encouraged to support economic investment and job creation within our community. This action would help potential new homebuyers better afford local housing and increase consumer demand for County real estate. We respectfully request you to support the extension of this important measure.

Thank you for your time and consideration.

Sincerely,

Scott Whyte
Legislative Advocate
North State Building Industry Association

bae urban economics

Memorandum

To: Laurel Bent-Bumb, CEO, El Dorado County Chamber of Commerce

From: Matt Kowta, MCP, Principal

Date: January 23, 2015

Re: Fiscal Impacts of El Dorado County Prop. 90 Program

The purpose of this memo is to convey my findings from a review of El Dorado County's Proposition 90 property tax assessment transfer program and an assessment of the fiscal impacts of the program. Specifically, the objective was to determine whether the reduced property taxes paid by Prop. 90 program participants in El Dorado County, combined with the typical public service demand associated with homeowner households aged 55 and over who participate in the Prop. 90 program, would be likely to create a fiscal burden on El Dorado County.

Summary of Conclusions

As detailed below, I conclude that, in all likelihood, the Prop. 90 program does not have an adverse fiscal impact on the County and, furthermore, the increased demand for residential real estate created by the program should contribute to the overall health of the El Dorado County housing market.

- El Dorado County households who participate in the Prop. 90 program pay property taxes that are comparable to the average property taxes paid by all owners of single-family detached homes in El Dorado County
- Prop. 90 program participants most likely have smaller household sizes compared to the County average, meaning that there are fewer residents per household to create demand for County services and the average property tax revenues generated per capita are likely higher for Prop. 90 program participants versus the county average.
- Because of their particular demographic characteristics, households participating in the Prop. 90 program most likely create reduced service demand, as compared to all owner-occupants of single-family detached residences in El Dorado County
- Due to their age, Prop. 90 program participants are likely to generate substantially below-average demand for County criminal justice services, which represents one of the County's largest operating expenditure categories.
- Also due to their age, Prop. 90 program participants would likely generate below-average demand for County road expenditures.

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Washington, DC 20005
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New York City
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New York, NY 10001
212.683.4486

- The County does provide a range of health and social services, including a number of services targeted specifically to seniors; however, expenditures in those service categories most likely to serve seniors represent less than 16 percent of countywide expenditures. Further, Prop. 90 program participants would not likely be heavy users of these services, given their household financial resources. To the extent that Prop. 90 program participants do take advantage of the County's senior services, large portions of those operating budgets are funded by State or Federal funds, or other revenue sources, rather than property taxes or other General Fund monies.

Effects of Prop. 90 Program Participation on Assessed Value

In brief, the Prop. 90 program allows homebuyers who are aged 55 and over to transfer the assessed value of the home they previously owned in a different California county to their newly purchased home in El Dorado County, as long as the new home purchase price is not higher than the sale price of their prior home. This program is beneficial to homebuyers who have had an assessed value on their prior home that is significantly below the purchase price of their new home in El Dorado County. The program can function as incentive for households aged 55 and over to purchase a home in El Dorado County versus other counties that do not participate in the program, where the homebuyer would have to pay property taxes on their new home, based on the full purchase price of the property. This program is enabled by state law, and Counties must opt into the program, in order to let qualifying homebuyers participate in the program.

A memo dated August 1, 2014, from County Assessor Karl Weiland to County Supervisor Ron Briggs, which was presented to the Board of Supervisors at their September 9, 2014 meeting provides key background information about the impacts of the program on the property taxes paid by participating El Dorado County homeowners. The Assessor indicated that the average base year value transferred for 2014 was \$303,000 (as of August 2014). The average sales price of the replacement homes purchased by participating homeowners was \$514,000; thus, the discount on assessed value was approximately \$211,000 per home. The Assessor noted that the trend over time was for increasing base-year transfer values. For comparison, in 2010, the Assessor's memo indicated the average assessed value reduction was approximately \$294,000.

Comparison of Prop. 90 Participant Assessed Values to Countywide Assessed Values

While the difference between assessed value and the home purchase prices has declined substantially between 2010 and 2014, the average \$211,000 per home reduction in assessed value for 2014 applicants is not insignificant; however, it is important to recognize that aside from participants in the Prop. 90 program, many homeowners in El Dorado County benefit from paying property taxes that are based on assessed values that are substantially below the market value of their homes, due to the provision of Proposition 13 that limits

assessed value increases to a maximum of 2.0 percent per year, unless a property is sold or improved. Table 1 summarizes information from the Assessor's memo.

Table 1: El Dorado County Prop. 90 Program Participation

<u>Year</u>	<u>Approved Applications</u>	<u>Average Replacement Sales Price</u>	<u>Average Base Year Assessed Value Transferred</u>	<u>Difference</u>
2010	29	\$546,000	\$252,000	\$294,000
2011	49	\$459,000	\$178,000	\$281,000
2012	53	\$456,000	\$198,000	\$258,000
2013	60	\$506,000	\$218,000	\$288,000
2014	19 (23 pending)	\$514,000	\$303,000	\$211,000

Source: El Dorado County Assessor's Office, memo dated August 1, 2014.

For comparison, BAE obtained data from the El Dorado County Assessor's Office, which indicates that the 2014 countywide average assessed value for single-family homes was approximately \$304,000. As mentioned previously, data for the Prop. 90 program compiled by the Assessor's Office indicate that the average base value transfer for homeowners enrolling in El Dorado County's Prop. 90 program in 2014 (as of August 2014), was \$303,000. Assuming that the standard California homeowner's property tax exemption of \$7,000 applies to each of the Prop. 90 program participants, the net assessed value for the program participants would be \$296,000. This means that the Prop. 90 program participants would be paying ad-valorem property taxes equal to about 97 percent of the average for all owners of single-family homes, countywide. In other words, participants entering the Prop. 90 program in 2014 pay property taxes based on an assessed value that is very comparable to the average countywide assessed value for single-family homes.

It is also important to note that participation in the Prop. 90 program does not exempt homebuyers from paying increased property taxes on any improvements that they make to their property, subsequent to purchasing the property. Thus, if Prop. 90 homebuyers make renovations or other improvements to their properties that increase value, the Assessor would increase the assessed value accordingly, and higher property taxes would be paid. BAE inquired with the County Assessor's office to request information on whether they could provide information about the tendency for participants in the Prop. 90 program to make improvements to their properties after entering the program, but has not received information as of this date. To the extent that this does occur, the roughly three percent difference between the transferred base value granted to Prop. 90 program participants and the average countywide assessed value for single-family residences would be reduced.

Comparison of Estimated Prop. 90 Participant Property Tax Per Capita versus Estimated Countywide Property Tax Per Capita

Although the data presented previously indicates that homeowners participating in El Dorado County's Prop. 90 program pay property taxes based on assessed values that are very similar

to the average countywide assessed value for single-family homes, it should also be pointed out that households qualifying for the Prop. 90 program are likely to be significantly smaller than the average countywide household size. This means that while property taxes paid will be comparable, on a per capita basis, the Prop. 90 households are likely to actually generate higher property tax revenues per capita than the overall average for all households occupying single-family homes in the county.

BAE analyzed population and household data collected by the U.S. Census bureau on El Dorado County households, in order to compare the average persons per household countywide, to the average persons per household for households where at least one member is aged 55 or over (i.e., the minimum qualifying age to participate in the Prop. 90 program). According to the data, the average household size in El Dorado County during the 2008-2012 period covered by the Census Bureau's American Community Survey, was 2.64 persons. In contrast, the average household size for households where at least one member aged 55 and over was 1.74 persons. This means that although the assessed value for homeowners participating in the Prop. 90 program was about three percent less than the countywide average, the number of persons generating demand for County services would likely be about 34 percent less for households participating in the Prop. 90 program, assuming that their household size follows is in line with the figure for all households aged 55 and over. Thus, on a property tax revenue per capital basis, households participating in the Prop. 90 program probably generate significantly more revenue than the average for all county households occupying single-family homes. Table 2 summarizes the average household size data.

Table 2: El Dorado County Average Household Sizes, 2008-2012

	El Dorado County	
	Total	Householder 55+ Years of Age
Total Population in Households	180,441	54,624
Total Occupied Housing Units	67,846	31,393
Persons per Household	2.64	1.74

Sources: U.S. Census Bureau, 2008-2012 ACS 5-year Estimate, 2015; U.S. Census Bureau, Current Population Survey, 2012 Annual Social and Economic Supplement, 2012; BAE 2015

Overall Impact of Prop. 90 Program on County Property Tax Revenues

Even with increasing interest in the program, a very small portion of the County's annual home sale involve buyers who participate in the Prop. 90 program. For example, in the August 1 memo, the Assessor estimated that total homebuyers participating in the program for 2013 might reach 70 to 80 applications for the full year of 2014. This compares to 3,339 home sales in El Dorado County in 2013, according to the DQ News web site, or about two percent of the total sales from the prior year. The Assessor's memo further indicated that the cumulative

effect of the Prop. 90 program was only about .00203% (i.e., two tenths of one percent) of the total countywide tax roll value.

Prop. 90 Participation and Other County Revenue Generation

The County’s concern about the effect of the Prop. 90 program on property tax revenue is valid, given that 26.2 percent of the County’s operating revenues comes from property taxes; however, this indicates that the vast majority of the County’s other operating revenues come from other sources, that would not be affected by allowing qualifying homeowners to participate in the Prop. 90 program. Table 3 below summarizes the County’s operating revenues for the 2013-2014 fiscal year, based on data from the El Dorado County, Counties Financial Transactions Report, 2014.

Table 3: El Dorado County Operating Revenues, FY 2013-2014

<u>Revenue Source</u>	<u>Amount</u>	<u>% of Total</u>
Property Taxes	\$76,938,567	26.2%
Other Taxes	\$14,764,958	5.0%
Licenses, Permits & Franchises	\$7,583,415	2.6%
Fines, Foreitures & Penalties	\$5,565,295	1.9%
Use of Money & Property	\$532,373	0.2%
State	\$87,052,783	29.6%
Federal	\$42,669,003	14.5%
Other In-Lieu Taxes and Other Govt. Agencies	\$9,316,020	3.2%
Charges for Services	\$38,096,570	13.0%
Miscellaneous Revenues	\$10,340,714	3.5%
Other Financing Sources	\$31,740	0.0%
Operating Transfers In	\$1,221,102	0.4%
Total	\$294,112,540	100.0%

Source: El Dorado County, Counties Financial Transactions Report, 2014

Beyond ad-valorem property taxes, the only other County revenue source that could be impacted by the Prop. 90 program is Property Tax In-Lieu of Vehicle License Fees (ILVLF). This is a revenue that the County distributes to local jurisdictions based on increases in the total assessed value within the jurisdiction. As assessed value increases, the ILVLF allocations increase proportionately. While the reduced Prop. 90 assessment granted to program participants would also translate to a reduced increase in the overall countywide assessed value, it has already been shown that the Prop. 90 program participants’ assessed value is within a few percentage points of the average countywide assessed value for single-family homes; thus, their contribution to another important county revenue source, Property Taxes In-Lieu of Vehicle License Fees (ILVLF), which is based on the County’s total assessed value, will also be near average.

Beyond property tax and ILVLF, which are affected only minimally by the Prop. 90 program, other County revenues should not be affected. Further, while the Prop. 90 program limits the amount of property tax assessment for participating homeowners to an amount that is comparable to the countywide average assessment, the data indicate that the homebuyers

participating in the program are buying homes that are significantly more expensive than the average home sales price within the County. For example, as summarized in Table 1, the Assessor indicated that the average purchase price for homeowners participating in the Prop. 90 program in 2013 was \$506,000 (rising to \$514,000 in 2014). Meanwhile, according to DQ News, the average countywide home sales price in 2013 was \$332,000.

More expensive home purchase prices are likely to correlate to higher levels of household wealth. As a result, Prop. 90 program participants are likely to have substantial financial resources and this would enhance their ability to pay for goods and services. Also, as homeowners, these program participants are likely to make higher expenditures on household furnishings, property maintenance services, and other homeowner related expenses, as opposed to renter households, who typically live in smaller units and do not have the same types of home maintenance expenses. This could translate to higher levels of expenditures in the local economy on goods and services for the Prop. 90 program participants, which would generate favorable increases in County sales tax revenues.

Demand for County Services by Residents 55 and Over

In addition to concerns regarding the Prop. 90 program's impact on County revenue, it is worth considering how the revenues generated relate to the service demands that are likely created by participants in the Prop. 90 program. The most significant finding in this regard is the fact that the average household size for households with at least one member who is aged 55 or older is significantly smaller than the average household size for all households in El Dorado County, as previously indicated in Table 2. This means that there are fewer persons per household to generate demand for services, which means that impacts on County service costs should be reduced as compared to the average El Dorado County household. Table 4 below shows the County's total operating expenditures, as reported in the Counties Annual Financial Transactions Report, for the 2013-2014 fiscal year. BAE has grouped and highlighted certain types of functions that represent major expenditure categories.

Table 4: Operating Expenditures, 2013-2014

<u>Expenditure Category</u>	<u>Amount</u>	<u>% of Total</u>
<i>Legislative and Administrative</i>	\$3,192,767	1.2%
<i>Finance</i>	\$9,396,651	3.5%
<i>Counsel</i>	\$2,756,559	1.0%
<i>Personnel</i>	\$1,336,690	0.5%
<i>Elections</i>	\$1,364,589	0.5%
<i>Communication</i>	\$3,216,907	1.2%
<i>Property Management</i>	\$4,815,758	1.8%
<i>Plant Acquisition</i>	\$27,568	0.0%
<i>Promotion</i>	\$1,255,999	0.5%
<i>Other General</i>	\$15,402,520	5.8%
Sub-total, General Government	\$42,766,008	16.1%
<i>Judicial</i>	\$21,546,451	8.1%
<i>Police Protection</i>	\$29,933,759	11.2%
<i>Detention and Correction</i>	\$25,419,581	9.5%
Sub-total, Criminal Justice	\$76,899,791	28.9%
<i>Flood Control</i>	\$1,642,482	0.6%
<i>Protective Inspection</i>	\$5,244,593	2.0%
<i>Other Protection</i>	\$15,072,660	5.7%
Roads	\$45,873,442	17.2%
<i>Public Health</i>	\$10,354,016	3.9%
<i>Mental Health</i>	\$12,263,659	4.6%
<i>Drug and Alcohol Abuse Services</i>	\$1,534,182	0.6%
<i>Welfare</i>	\$31,954,542	12.0%
<i>Social Services</i>	\$15,495,563	5.8%
<i>General Relief</i>	\$91,583	0.0%
<i>Veteran's Services</i>	\$392,680	0.1%
<i>Other Public Assistance</i>	\$2,498,770	0.9%
Sub-total, Health and Social Services	\$74,584,995	28.0%
<i>Library Services</i>	\$3,156,580	1.2%
<i>Recreation Facilities</i>	\$608,356	0.2%
<i>Cultural Services</i>	\$114,177	0.0%
<i>Transfers to Airport</i>	\$128,685	0.0%
<i>Other Transfers</i>	\$133,270	0.1%
Total	\$266,225,039	100%

Source: El Dorado County, Counties Financial Transactions Report, 2014

As shown in the table, major expenditure categories include General Government (16.1 percent of operating expenditures), Criminal Justice (28.9 percent), Roads (17.2 percent), and Health and Social Services (28.0 percent). The remaining expenditure categories combined represent only about 10 percent of the County's operating expenditures.

Service Demand from Prop. 90 Households for General Government Services

Due to their smaller average household size, households that participate in the Prop. 90 program are likely to generate a smaller demand for General Government services than the average El Dorado County household.

Service Demand from Prop. 90 Households for Road Services

Due to their age, it is likely that households participating in the Prop. 90 program would drive less than average. For example, many of the people participating in the Prop. 90 program are

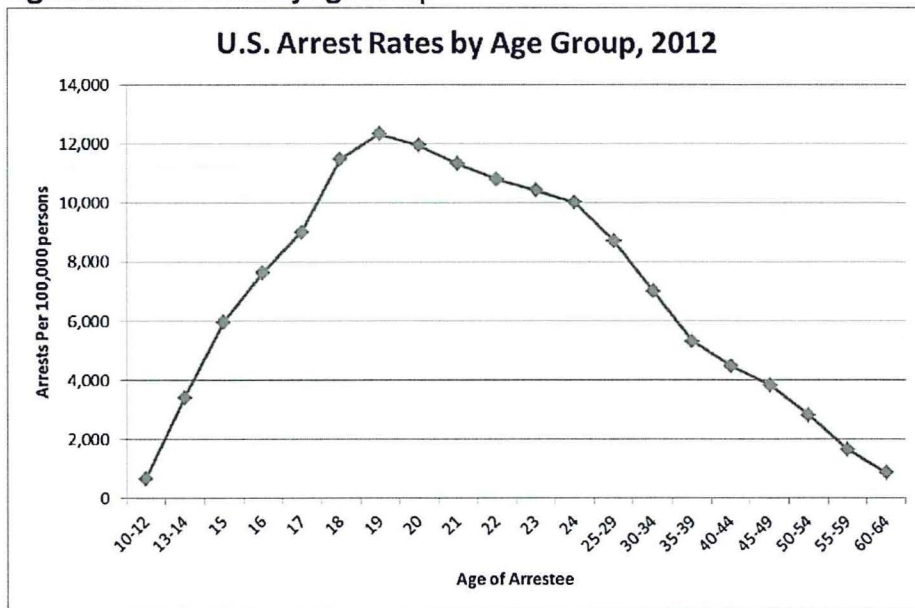
retirees and, therefore, they would not have daily commuting needs. In addition, as they age, these older residents are likely to drive less frequently, and shorter distances.

Service Demand from Prop. 90 Households for Criminal Justice Services

Criminal Justice expenditures represent the single largest category of El Dorado County operating expenditures, and it is likely that households participating in the Prop. 90 program generate below-average demand for these services. The criminal justice system include functions such as the Sheriff’s department patrol and investigation activities and arrests, review of charges and prosecutions by the District Attorney’s office, criminal defense services provided by the Public Defender’s office, jail services operating by the Sheriff’s department, and various probation and parole services. Arrest statistics can provide an indicator of the level of demand that various age cohorts generate for the County’s criminal justice system, because arrests should correlate fairly well with the activities of the rest of the criminal justice system.

Due to their age, homeowners participating in the Prop. 90 program are likely to generate demand for criminal justice services at rates that are substantially below average for county residents as a whole. As evidence of this, Figure 1 shows national statistics on the rate of arrests per 1,000 persons, by age group. As shown, the highest rates of arrests are associated with youth and young adults, with arrest rates declining precipitously as people age beyond about 20 years, with persons over the age of 55 years among the cohorts least likely to be arrested. This indicates that Prop. 90 participants are likely to have an impact on the County’s criminal justice services that is substantially below average.

Figure 1: Arrest Rates by Age Group



Source: U.S. Bureau of Justice Statistics, 2014.

As further evidence of the limited impact of older households on the criminal justice system, Table 5 summarizes data regarding the El Dorado County Jail inmates as of January, 2015.

Table 5: El Dorado County Population and El Dorado County Jail Inmates

	<u>El Dorado County</u>	Residents	Residents
		<u>18 Years Old and Over</u>	<u>55 Years Old and Over</u>
Total Population (a)	181,737	142,769	61,928
<i>Percent of Total Population</i>	<i>100%</i>	<i>78.6%</i>	<i>34.1%</i>
<i>Percent of Population Aged 18 and Over</i>	<i>n.a.</i>	<i>100.0%</i>	<i>43.4%</i>
		<u>Total Inmates</u>	<u>Total Inmates</u>
		<u>18 and Over</u>	<u>55 and Over</u>
Total Inmates (b)		365	32
<i>Percent of Inmate Population 18 and Over</i>		<i>100%</i>	<i>8.8%</i>

Notes:

(a) Population reported by U.S. Census for 2013.

(b) Total inmates aged 18+ in El Dorado County Jail as of January 12, 2015.

Sources: U.S. Census Bureau, 2013 1 Year-Estimate, Tables B01003, DP05, 2015; El Dorado County, Jail Datalist, 2015; BAE 2015

As shown in the table, there were a total of 365 inmates (aged 18 and over) in the County jail. Of those, there were 32 who were aged 55 and over, representing about 8.8 percent of the inmate population. By comparison, the population aged 55 and over in El Dorado County represents about 43.4 percent of the County's total population aged 18 and over.

Both the national statistics and the statistics concerning the local resident population and the local inmate population make it clear that the demographics of those participating in the Prop. 90 program indicate that this population will generate substantially below-average demand for County criminal justice services.

Service Demand from Prop. 90 Households for Health and Social Services

In general, older households can tend to be significant users of health and social services and this could have an effect on demand for El Dorado County health and social services; however, many of the health and social services that El Dorado County provides tend to be "safety net" services, for people who are not able to pay privately for necessary services. According to County staff, most of the programs are not means tested, and for the most part, it is not possible to determine which percentage of the clientele for County senior services is lower-income households versus households at the income levels that would tend to participate in the Prop. 90 program.

Based on a review of the senior program descriptions, and funding information provided by County staff, it is BAE's opinion that Prop. 90 program participants should not generate demand for the County's senior services at a level such that the cost for the County to serve them would be out of line with the County revenues that these households would generate, based on the following considerations:

- Prop. 90 program participants are likely to be relatively well-off and not in need of County services for the elderly, based on their status as homeowners, with an average home purchase price of \$514,000 as of 2014.
- Any demand for County health or social services created by Prop. 90 program participants, due to their age, would have a relatively small impact on the County General Fund as a whole:
 - As shown in Table 4, County expenditures for categories that might be particularly affected by households with members 55 and over - Public Health (3.9% of operating expenditures), Mental Health (4.6%), Social Services (5.8%) and Other Public Assistance (0.9%) – total to only about 15.3 percent of the County's 2013-2014 expenditures.
 - As shown in Table 6, of the programs targeted primarily to seniors, only the Public Guardian function and Long-Term Care Ombudsman are funded more than 50 percent by the General Fund (which receives property taxes). In other words, the reduced property taxes that Prop. 90 program participants pay has a relatively small impact on the resources that are used to pay for the senior services.

Table 6: General Fund Expenditures on Key Services for the Elderly

<u>Program</u>	<u>Percent General Fund</u>
Adult Protective Services	0%
In-Home Support Services	0%
Family Caregiver Support	41%
IHHS Public Authority	7%
Long-Term Care Ombudsman	62%
Multi-Purpose Senior Services	22%
Public Guardian	75%
Senior Day Care	43%
Senior Legal Services	47%
Senior Nutrition Services	48%
Senior Services	42%

Source: El Dorado County, Department of Health and Human Services, 2015.

Potential Indirect Benefits from Homeowners Who Participate in the Prop. 90 Program

In the August 1, 2014 memo, the Assessor also noted that there appeared to be increased interest in the program, as indicated by the 2014 application levels, and that his discussions

with property owners and real estate professionals indicated that the program “gives El Dorado County an economically competitive edge in the marketplace for property owners seeking to relocate from more inhabited areas of the state.” In BAE’s opinion, the increased demand for housing stimulated by the availability of the Prop. 90 program may help to maintain and enhance countywide residential property values, which may translate to stable or increased property values for all other single-family homes within the County.