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Kim Dawson <kim.dawson@edcgov.us>

Fwd: El Dorado Hills Community Services District Comment - RE: County to Receive Annual Report on Economic Impact of Proposition 90

1 message

Sue Hennike <sue.hennike@edcgov.us>

Sun, Oct 22, 2017 at 12:25 PM

To: Jim Mitrisin <jim.mitrisin@edcgov.us>, Jim Mitrisin <james.mitrisin@edcgov.us>, Kim Dawson <kim.dawson@edcgov.us>, Kyra Scharffenberg <kyra.scharffenberg@edcgov.us>

Jim, please see the attached from Kevin Loewen at the EDH CSD, regarding the upcoming discussion on Prop 90. He has asked for his comments to be included in Legistar, including the LAO report he references. Thank you,

----- Forwarded message -----

From: Kevin Loewen <kloewen@edhcsd.org>

Date: Sun, Oct 22, 2017 at 12:17 PM

Subject: El Dorado Hills Community Services District Comment - RE: County to Receive Annual Report on Economic Impact of Proposition 90

To: Sue Hennike <sue.hennike@edcgov.us>, David Roberts <drobotts@edhfire.com>, Thomas Keating <tkeating@edhfire.com>, Greg Schwab <gschwab@georgetownfiredepartment.com>, Mike Hardy <hardym@eldofire.com>, Clive Savacool <csavacool@gardenvalley.org>, Katherine Wood <admin@pioneerfire.org>, Chief Dwyer <edwyer@mfpd.us>, Bryan Ransdell <bransdell@diamondfire.org>, Tim Alameda <alameda@caltahoefire.net>, Lindgren, Scott@CALFIRE <scott.lindgren@fire.ca.gov>, cclark@gdrd.org <cclark@gdrd.org>, Richard Ramirez <rramirez@cameronpark.org>, Gary Gerren <ggerren@fllcsd.org>, Admin <Admin@cameronpark.org>

CC: Donald Ashton <don.ashton@edcgov.us>

Hello Sue,

Thank you for notifying all of us in the Special Districts, as the impacts of Proposition 90 are felt directly by all of our agencies. The El Dorado Hills Community Services District (District) request that El Dorado County abandon Proposition 90. The report on this topic provided by the CAO's office clearly describes a net loss year over year, and essentially a subsidization of public services to newer residents upon the backs (e.g., tax funds) of existing residents.

This program has the intent to speed housing growth, which will in turn speed the availability of property tax revenue. Unfortunately, the pursuit of quick money and the possibility of other revenue (sales tax) shortchanges all agencies through a lower revenue stream today, and tomorrow. Now, although all agencies are affected from this, the potential for any sort of return on that investment will primarily go to those that benefit from sales tax. Essentially, this program runs the gamble of "maybe money" instead of the assurance of stable and reliable revenue from property tax.

Also important to note is that the cost for the provision of services (e.g., parks & recreation; fire/safety; roads; etc.) to residents does not change – only the available funds/revenue to apply to those service needs through Prop 90. Therefore, it is only a matter of time at which the level of service will be impacted. A good comparison that can be provided to elaborate this point is a current challenge that the District has been faced with for some of the lighting & landscaping assessment districts (LLAD). Earlier-formed LLADs have no inflationary factor, thus, the District is now, or will-soon-be, faced with a shortfall in funding available to provide basic landscape maintenance work. In this example those LLADs will distinctly be affected and its fairly easy to measure that affect. For Proposition 90 the impacts vis-à-vis loss of property tax revenue is also measureable, while the sought after benefits are much more nebulous.

Just this past week the District received a letter from the County indicating that it – the County – was seeking a tax redistribution for the Bass Lake North subdivision in El Dorado Hills. That redistribution was in the form of transferring property tax revenue that would otherwise be allocated to the District and Fire District, to the El Dorado Irrigation District

(EID). It should be noted that both the Fire District and El Dorado Hills Community Services District are not enterprise fund operated, whereas EID is – or at least it appears to be by way of charges for water delivery and usage, and the schedule of rate increases approved in recent years. The topic at-hand does beckon many questions, with the following very relevant one, “would the revenue otherwise received from Proposition 90 be adequate to offset the County seeking a revenue reduction to the focused safety services provided by EDH Fire or the quality of life services provided by the District?”

As an aside, a June 2017 California Legislative Analyst's Office (LAO) report spoke to other revenue-affecting opportunities that could be taken advantage of, such as for the Parent-to-Child Transfer Exclusion (Propositions 58 in 1986 and Proposition 193 in 1996). El Dorado County was specifically called out in the following way, “The widespread use of this exclusion has had a notable effect on local government property tax revenues. We estimate that in 2014-15 parent-to-child exclusions reduced statewide property tax revenues by around \$1.5 billion from what they would be in the absence of the exclusion. This is about 2.5 percent of total statewide property tax revenue. This share is higher in some counties, such as San Luis Obispo (7 percent), El Dorado (6 percent), Sonoma (6 percent), and Santa Barbara (5 percent). Figure 7 reports our estimates of these fiscal effects for the 25 counties where these effects are the largest,” with an accompanying estimate of nearly \$16 million in revenue loss in FY 2014-15 for El Dorado County alone. The report may be found here: http://lao.ca.gov/publications/report/3693?utm_source=subscription

Although the upcoming Board of Supervisors meeting agenda has already been posted, I'd appreciate this message and the LAO report be provided to the full Board and added to the record of comment of received. Please inform me if that is not possible so that I may read the District's statement during the meeting.

Respectfully Submitted,

Kevin A. Loewen

General Manager

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From: Sue Hennike [<mailto:sue.hennike@edcgov.us>]

Sent: Thursday, October 5, 2017 1:12 PM

To: David Roberts <droberts@edhfire.com>; Thomas Keating <tkeating@edhfire.com>; Greg Schwab <gschwab@georgetownfiredepartment.com>; Mike Hardy <hardym@eldofire.com>; Clive Savacool <csavacool@gardenvalley.org>; Katherine Wood <admin@pioneerfire.org>; Chief Dwyer <edwyer@mfpd.us>; Bryan Ransdell <bransdell@diamondfire.org>; Tim Alameda <alameda@caltahoefire.net>; Kevin Loewen <kloewen@edhcsd.org>; Lindgren, Scott@CALFIRE <scott.lindgren@fire.ca.gov>; cclark@gdrd.org; Richard Ramirez <rramirez@cameronpark.org>; Gary

Gerren <ggerren@fllcsd.org>; Admin <Admin@cameronpark.org>

Subject: County to Receive Annual Report on Economic Impact of Proposition 90

As many of you are aware, last year the Board of Supervisors approved a five-year extension of the County's Proposition 90 ordinance, which authorizes receipt by the County of El Dorado of inter-county tax base year transfers.

Proposition 90 provides anyone over the age of 55 with relief from reassessment by allowing them to "transfer" their assessed home value from one county to another, provided that the home that is purchased in the new county is of the same, or lower, value.

With the extension of Prop 90, the Board also directed that the Chief Administrative Office provide an annual status report on the economic impact of Proposition 90 in El Dorado County.

The 2017 report is scheduled discussion during the Board meeting on October 24, 2017 at 10 AM.

Sue Hennike

Principal Administrative Analyst

Chief Administrative Office

County of El Dorado

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Budget and Policy Post

June 20, 2017

How Will Aging Baby Boomers Affect Future Property Tax Revenues?

Summary

California's homeowners are getting older. In recent years, this has contributed to declining property sales and depressed property tax growth. As California's homeowners continue to age, however, these patterns are likely to reverse. Home sales likely will pick up. This, in turn, should lead to faster property tax growth, especially in communities with more older homeowners and where past home price appreciation was highest. These potential future property tax gains could be lessened by an increase in transfers of homes from parents to children, which often are exempt from revaluations that trigger higher property tax payments. These parent-to-child exclusions have been a notable and consistent share of home transfers in recent years, currently reducing annual property tax revenues by around \$1.5 billion statewide. This amount is likely to grow in the future as homeowners continue to age and look to transition their properties to their children.

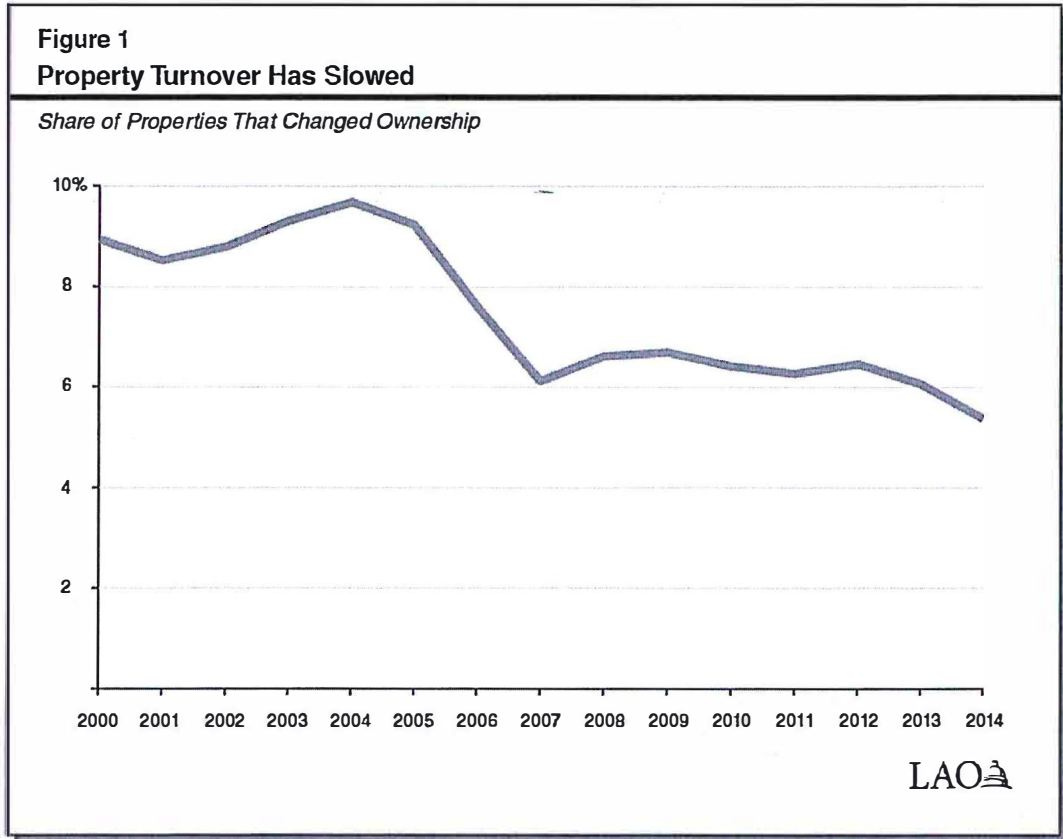
Turnover Key to Property Tax Growth

Under Proposition 13, Property Turnover Drives Property Tax Growth. Proposition 13 was a landmark decision by California's voters in 1978 to limit property taxes. One key provision of Proposition 13 was a switch from taxing property based on its market value (what it could be sold for) to taxing it based on its purchase price. In the year a property is purchased, it is taxed at its purchase price. Each year thereafter, its taxable value is increased by inflation or 2 percent, whichever is lower. Upon resale, it is again taxed at its purchase price. Under this system, most homes are taxed at a value well below what they could be sold for. Property sales therefore typically trigger an increase in a property's taxable value. This, in turn, leads to higher property tax collections for local governments.

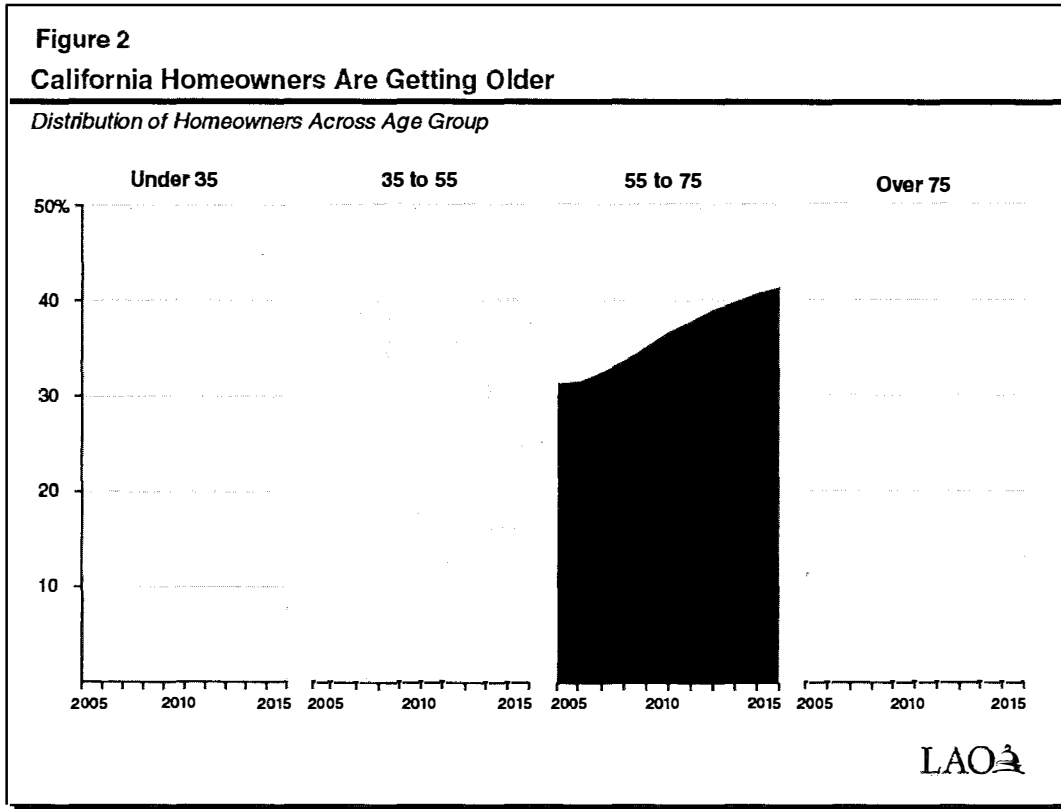
Turnover of Certain Homes Generates More Property Taxes. The bump in property taxes from home sales is highest for homes with long-tenured owners and homes with significant past appreciation in their market values. This is because the difference between a property's taxable value and market value tends to grow with increases in the (1) length of time the home has been owned and (2) pace of appreciation in the home's market value.

Slow Turnover Has Depressed Past Revenue Growth

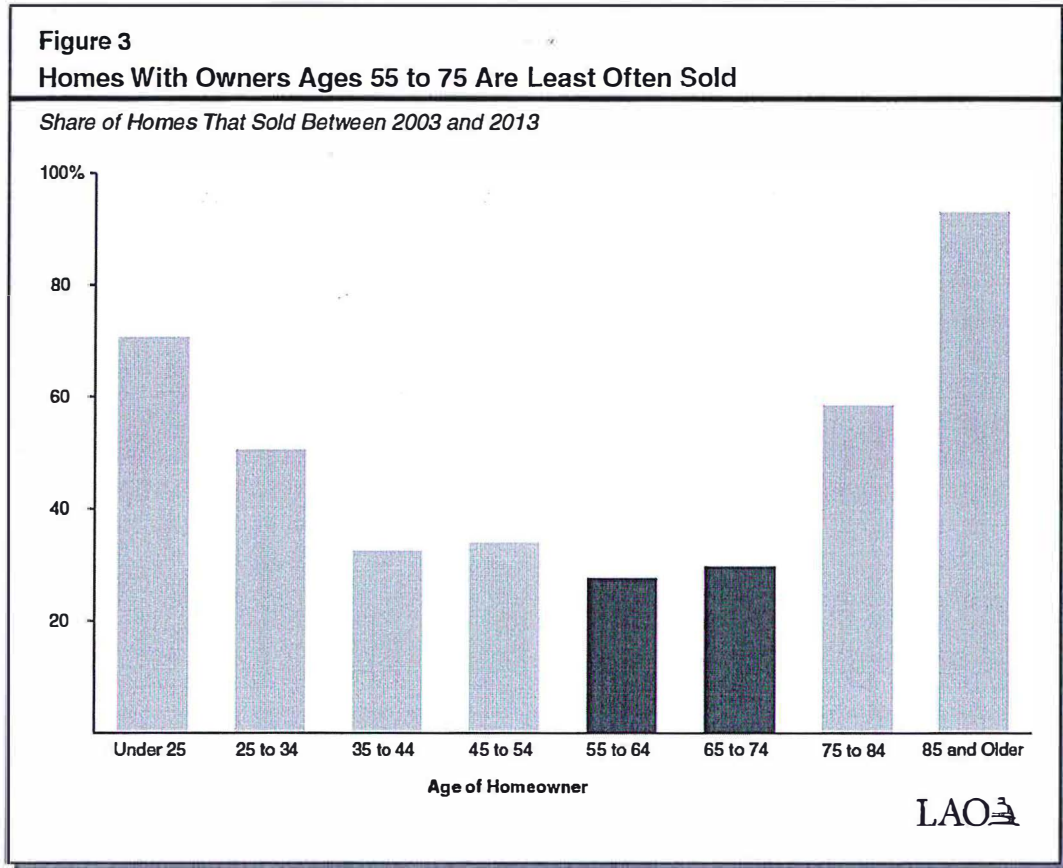
Past Declines in Property Turnover Have Depressed Property Tax Growth. Property turnover has been on a downward trajectory for many years—as can be seen in Figure 1. Because of the importance of turnover to property tax growth, this slowdown has depressed property tax growth. We previously discussed <http://lao.ca.gov/LAOEconTax/Article/Detail/215> how this depression of property tax growth has been evidenced by the fact that recent gains in home prices have translated into less new property taxes than in the past.



Aging Population Contributes to Falling Turnover. Several factors contribute to declining property turnover, including Proposition 13 <http://lao.ca.gov/Publications/Report/3497#Does_Proposition.A013_Reduce_Property_Turnover.3F> . Another major contributor is that the state’s homeowners are getting older. Figure 2 shows how the age composition of homeowners has changed in recent years. The share of homes owned by 55 to 75 year olds has been growing for several years, increasing from 31 percent in 2005 to 41 percent in 2015. At the same time, this share dropped from 46 percent to 38 percent for ages 35 to 55 and from 11 percent to 8 percent for those under 35.



As Figure 3 shows, homeowners between ages 55 and 75 tend to be less likely to sell their homes than other homeowners, both younger and older. Because of this, as more and more homeowners fall into this age group, home sales have slowed.



Higher Turnover and Property Tax Growth Likely in Future

Home Sales Likely to Pick Up as Homeowners Get Older. Although the aging of California’s homeowners has depressed home sales in past years, this pattern is likely to reverse in the future. As California’s homeowners continue to age—transitioning from the 55 to 75 age group to the over 75 age group—more and more will begin to downsize, move into assisted living or with family, or die. When this occurs, home sales are likely to rise. Between 2003 and 2013, over two-thirds of homes in California with owners 75 or older were sold to a new owner, compared to less than one-third of homes with owners ages 55 to 75.

Older Homeowners Tend to Have Owned Their Homes Longer. Homeownership tenure tends to increase with age. Figure 4 demonstrates this relationship. The typical 25 to 35 year old homeowner has been in their home for about four and a half years. In contrast, the typical homeowner over 65 has been in their home for over 20 years. A consequence of this is that the aging of California’s homeowners will not just increase turnover, it will increase turnover of homes that have not changed hands in many years.



Uptick in Sales by Long-Tenured Owners Would Accelerate Property Tax Growth. As discussed above, turnover of properties that have been owned for many years generates the greatest boost in property tax revenues. An increase in home sales by older homeowners therefore could mean a significant uptick in property tax revenues for local governments in coming years.

Potential for Future Property Tax Gains Vary Across Communities. Potential property tax gains from rising turnover among older homeowners will vary across communities. This variation will be based on two key factors (1) concentration of older homeowners and (2) past home price appreciation. Communities with higher concentrations of older homeowners generally will see a bump in property tax revenue. The extent of this effect, however, will depend on past home price appreciation in the community. The largest boost in revenues will come in communities where home prices have risen the most in past years. Where prices have not risen as sharply, revenue gains will be smaller.

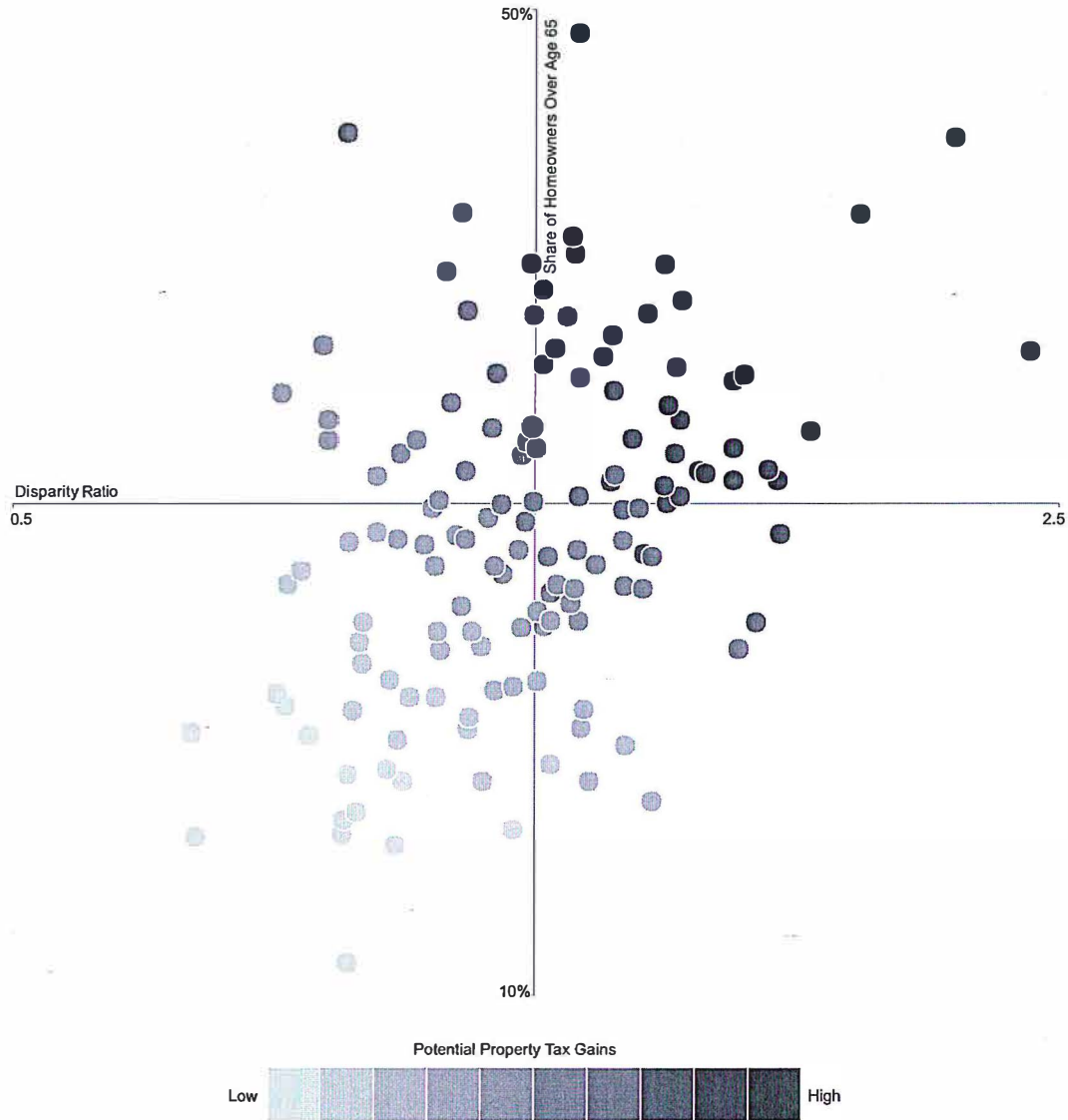
Examining Different Types of Communities. Figure 5 demonstrates how these factors drive future property tax growth potential and its variation across communities. The vertical axis plots the share of homeowners in each community who are over 65 years old, increasing from bottom to top. The horizontal axis shows the average disparity ratio for homes in each community, increasing from left to right. A disparity ratio is a property's market value divided by its taxable value. Disparity ratios provide a good measure of the extent to which past home price appreciation has driven a wedge between homes' taxable values and market values. The higher the value, the greater the wedge. The center of the graph (where the axes cross) represents the average of all the communities—30 percent of homeowners over 65 and a disparity ratio of 1.5.

Figure 5 (Interactive)

Potential Property Tax Gains From Sales By Older Homeowners Vary Across Cities

California Cities With Populations 60,000 or More, 2015

(Mouse Over Elements for More Information)



Each quadrant of the graph above demonstrates one of four general types of communities:

- **Top Right: Older Homeowners, Higher Home Price Growth.** Cities in this group—such as Palo Alto, Santa Barbara, and Walnut Creek—have both a high concentration of older homeowners and high past home price growth. These cities have the greatest potential for future revenues gains due to sales from older homeowners.
- **Top Left: Older Homeowners, Lower Home Price Growth.** Cities in this group—such as Hemet, Redding, and Richmond—have a significant amount of older homeowners but have experienced less home price growth in prior years. Potential revenues gains are more moderate for these cities.
- **Bottom Right: Younger Homeowners, Higher Home Price Growth.** Cities in this group—such as Lakewood, Mountain View, and Santa Clara—have experienced high home price growth but have fewer older homeowners. Potential revenues gain also are moderate for these cities.
- **Bottom Left: Younger Homeowners, Lower Home Price Growth.** Cities in this group—such as Fontana, Palmdale, and Perris—have fewer older homeowners and have experienced less home price growth. These cities have the least potential for revenue gains.

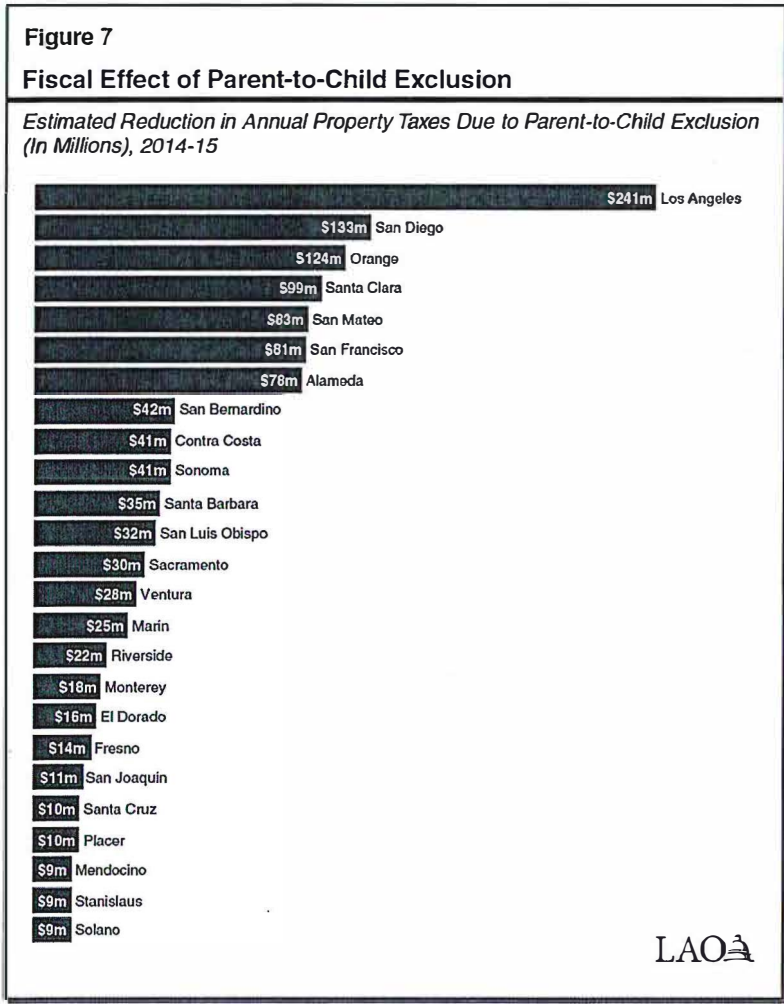
Use of Inheritance Exclusions Could Rise, Dampening Property Tax Growth

Different Rules Apply to Homes Passed From Parents to Children. In general, when a home is transferred to a new owner, its taxable value is reset to its purchase price. California voters, however, passed Proposition 58 in 1986, which amended the California Constitution to exempt transfers between parents and children (and later grandparents and grandchildren under certain circumstances under Proposition 193 [1996]) from revaluation. This allows a child to inherit their parent's lower taxable property value.

Parent-to-Child Exclusions Have Had a Notable Impact on Revenues. Over the past decade, around 10 percent of property transfers have taken advantage of the parent-to-child exclusion to prevent an increase in property tax payments. Figure 6 shows how many of these exclusions have been used each year during the past decade.



The widespread use of this exclusion has had a notable effect on local government property tax revenues. We estimate that in 2014-15 parent-to-child exclusions reduced statewide property tax revenues by around \$1.5 billion from what they would be in the absence of the exclusion. This is about 2.5 percent of total statewide property tax revenue. This share is higher in some counties, such as San Luis Obispo (7 percent), El Dorado (6 percent), Sonoma (6 percent), and Santa Barbara (5 percent). Figure 7 reports our estimates of these fiscal effects for the 25 counties where these effects are the largest.



Increase in Parent-to-Child Exclusions Could Offset Future Property Tax Gains. It is likely the fiscal effect of this exclusion will grow in future years as California’s homeowners continue to age and look to transition their homes to their children. Recent experience supports this expectation. As Figure 8 shows, during the past decade counties that had more older homeowners also had more parent-to-child exclusions. This suggests a relationship between aging homeowners and parent-to-child exclusions. Should an uptick in exclusions occur, this could erode some of the potential future property tax gains expected from the continued aging of California’s homeowners.

Figure 8
Counties With More Older Homeowners Had More Parent-to-Child Exclusions

Share of Transfers That Were Parent-to-Child

