



# County of El Dorado

## Chief Administrative Office

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August 4, 2016

TO: Members, Board of Supervisors

FROM: Don Ashton  
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**SUBJECT: IMPACTS OF PROPOSITION 90 TAX PORTABILITY IN EL DORADO COUNTY – REVISED**

In accordance with Board Policy A-3, on June 28, 2016, the Economic Development Division presented a report pertaining to Ordinance 4832 which is based on California Proposition 90 – Property Tax Portability and allows qualified homeowners to transfer the base year value of a principal residence in another county to a newly constructed residence or newly purchased principal residence in El Dorado County. Based on that discussion, the Board directed staff to extend Ordinance 4832 for a period of five years.

Due to inaccuracies contained in the June 28, 2016, report, specifically relative to the number of counties currently participating in Proposition 90 and the fiscal impact of Proposition 90, as well as important omissions identifying the benefits of Proposition 90, this staff report is meant to replace the June 28, 2016, report in its entirety. While this information may not impact the Board's decision whether to extend Ordinance 4832 for an additional five, years, it is essential that the Board make their decision based on accurate information.

In preparing this report, staff discussed the advantages and disadvantages of Proposition 90, as well as the difficulty in quantifying the benefits, with the Assessor, with proponents of Proposition 90 including the El Dorado County Association of Realtors and the El Dorado County Chamber of Commerce, as well as opponents of Proposition 90.

### 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. 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.

As of May 2016 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.

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

### **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 (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 expiration date of October 1, 2016 (expires on September 30, 2016 and is no longer in effect on October 1, 2016).

### **BENEFITS OF A PROPOSITION 90 PROGRAM**

Proponents of Proposition 90 identify the following benefits to local communities:

- 1) Proposition 90 enhances the purchasing power of qualified home buyers since property taxes are less.
- 2) The average purchase price of homes purchased with the Proposition 90 benefit from November 25, 2014 through June 3, 2016, totaled approximately \$578,000, while the average purchase price of non-Proposition 90 purchases totaled approximately \$438,000.
- 3) The average home buyer taking advantage of Proposition 90 has more money to spend on home improvements. Data demonstrates 95% of these home buyers select local contractors for improvements/repairs, and 90% when practical, purchase materials from El Dorado County businesses. In addition, as a result of having higher amounts of income, 18.6% of Proposition 90 home buyers pulled building permits to upgrade their home. It should also be noted that many repairs and improvements of a property do not require a building permit, and as a result the County has no way of quantifying non-building related improvements made by Proposition 90 home buyers. *While this is relevant, it should be noted that these home improvements are only one time in nature so the benefit is not realized year after year, while the loss of property tax revenue is realized annually.*
- 4) 36% of Proposition 90 homebuyers who later sold their homes purchased another home in El Dorado County.

- 5) 32% of the Proposition 90 homebuyers have stimulated family and friends to move to El Dorado County.
- 6) Proposition 90 home buyers are more likely to volunteer time to local non-profits and other community organizations. Data provided by two local non-profits identified that at one non-profit, 60% of the volunteers are over 55 years old, and at another non-profit 80% of the volunteers are over 55 years old.
- 7) Proposition 90 home buyers donate more money to non-profits. While staff was unable to identify data specific to El Dorado County, the *Chronicle of Philanthropy* concluded “*U.S. philanthropic institutions still rely on the remaining members of the G.I. generation (those born between 1912 and 1924) and the silent generation (those born between 1925 and 1945). Baby boomers account for just 24 percent of the largest donors and the X generation and millennials just 16 percent. This distribution shouldn’t be surprising, given the fact that most among the younger generations are still in the stage of life at which they’re accumulating, rather than distributing, assets.*”
- 8) A January 2015, report from ‘*bae urban economics*’ concluded that Proposition 90 home buyers are less likely to generate substantially below average demand for county criminal justice services, as well as below average demand for county road expenditures. In addition, the report concluded Proposition 90 homeowners are likely to 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 Proposition 90 program participants versus the county average.
- 9) Proposition 90 and the property tax savings are a significant motivator in the decision making process of prospective new residents.

**COMPARISON OF EL DORADO COUNTY WITH OTHER COUNTIES THAT HAVE PROPOSITION 90**

The chart below provides some demographic information (listed from largest to smallest county based on population).

County Name	Population in 2015	% Growth Since 2010 Census
Los Angeles	10,170,292	3.5%
San Diego	3,299,521	6.3%
Orange	3,169,776	5.0%
Riverside	2,361,026	7.2%
San Bernardino	2,128,133	4.2%
Santa Clara	1,918,044	7.3%
Alameda	1,638,215	8.2%
Ventura	850,536	3.1%
San Mateo	765,135	6.3%
El Dorado	184,452	1.8%
Tuolumne	53,709	-2.7%
Source: U.S. Economic Development Administration <a href="http://www.statsamerica.org">www.statsamerica.org</a>		

The California Association of Realtors notes that the counties of Monterey, Kern and Modoc passed Proposition 90 programs, but later let the programs sunset or rescinded the ordinances. Staff received the following feedback from the Assessor’s Office in each of these counties:

1. Monterey County – 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.
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 involved.<sup>1</sup>

Conclusions relative to the demographics of counties who participate in Proposition 90

1. While the majority of counties who participate on Proposition 90 are much larger, there are no material conclusions that should impact the Board’s decision based on this information or other demographic information.

**IMPACT ON PROPERTY TAX REVENUE AS A RESULT OF PROPOSITION 90**

The following is based on information obtained from the El Dorado County Assessor identifying the impact to the County’s General Fund:

<b>Year</b>	<b>Claims</b>	<b>FY 10/11</b>	<b>FY 11/12</b>	<b>FY 12/13</b>	<b>FY 13/14</b>	<b>FY 14/15</b>	<b>FY 15/16</b>
FY 10/11	29	\$21,334	\$21,495	\$21,925	\$22,363	\$22,465	\$22,913
FY 11/12	49		\$34,494	\$35,184	\$35,888	\$36,050	\$36,771
FY 12/13	53			\$34,252	\$34,937	\$35,096	\$35,797
FY 13/14	60				\$43,236	\$43,432	\$44,300
FY 14/15	88					\$64,468	\$65,756
FY 15/16	124						\$99,510
<b>Total</b>	<b>403</b>	<b>\$21,334</b>	<b>\$55,989</b>	<b>\$91,360</b>	<b>\$136,424</b>	<b>\$201,511</b>	<b>\$305,047</b>

The Assessor indicates the primary reason for the significant increase in Proposition 90 homebuyers from FY 13/14 to FY 15/16 is due to the strong housing market in the San Francisco Bay Area, and the Bay Area housing market is directly linked to the number of Proposition 90 homebuyers looking to relocate to our region. In the event housing demand in the Bay Area begins to slow, the number of Proposition 90 homebuyers will decrease as well. It should also be noted that discussions about implementing Proposition 90 in Sacramento County and Nevada County are occurring. In the event these counties choose to implement Proposition 90, it will provide Proposition 90 homebuyers with additional options in the Sacramento region. If those counties implement Proposition 90 and El Dorado County chooses to allow our ordinance to expire, during an economic downturn it would make El Dorado County less desirable for Proposition 90 homebuyers and potentially impact the ability to sell houses, especially in our age restricted developments.

Conclusions relative to the fiscal impact:

1. The number of Proposition 90 claims has increased each year over the last six years, resulting in increasing General Fund impacts each year.

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<sup>1</sup> It is assumed that all staff costs for El Dorado County are covered with the \$500 application fee.

2. The County Assessor confirmed the General Fund loss in FY 15/16 totaled approximately \$305,000, which does not account for the loss of property tax revenue to local schools, community colleges and special districts which total an additional \$800,000 - \$900,000 each year.<sup>2</sup>
3. Valid arguments can be made to assume the number of Proposition 90 homebuyers will decrease in future years, and valid arguments can be made to assume the number of Proposition 90 homebuyers will increase in future years. As a result, any assumptions relative to future year impacts are difficult. Assuming the number of Proposition 90 claims remains flat over the next five years (e.g., approximately 124 claims/year) and assuming no one who purchased a home under Proposition 90 has sold the home which resulted in the property being reassessed at its full value, the estimated annual General Fund loss will total approximately \$875,000.

### **ADHERENCE TO THE COUNTY'S 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 speaks to the goals of providing lower cost housing, which can, in turn, be used to attract and retain younger workers, but is an issue (housing affordability) that cuts across all age groups in California. Broadly, the Economic Development Strategy encourages social and economic diversity for the County as a way for it to remain viable long term.

Based on data provide by the El Dorado County Association of Realtors, from March 1, 2010 through June 3, 2016, 399 homes were purchased using the Proposition 90 program. During that same period, there were a total of 16,249 homes purchased through the Metrolist MLS, resulting in 2.5% of homes purchased under Proposition 90.

#### Conclusions relative to the adherence to the Economic Development Strategy:

1. Considering only 2.5% of home sales have been purchased under the Proposition 90 program since its inception, Proposition 90 does not have a material impact, either positive or negative, relative to the adherence to the County's Economic Development Strategy.

### **CONCERNS REGARDING IMPACTS OF AN ACCELERATING AGE DEMOGRAPHIC**

Of primary importance is the acknowledgement that the United States is now a demographically aging country. The U.S. Department of Health and Human Services notes that, "by 2060, there will be about 98 million older persons, more than twice their number in 2013."<sup>3</sup> A recent report to the Board of Supervisors by the County Long Range Planning Division notes that the peak in population age is advancing, by ten years, every ten years; in 2003 the modal (largest number of residents) County population peaked in the 40 – 49 age range, in 2013 the modal population peaked in the 50 – 59 year age range. In 2023 the County modal age population is projected to be in the 60 – 69 age range. In addition, El Dorado County is aging at an accelerating pace. By 2020, the U.S. Census Bureau estimates 62,450 seniors 60 and older living in El Dorado County and by 2050, approximately 99,700 seniors age 60 and older living in El Dorado County.

#### Conclusions relative to the impact of an accelerating age demographic as it relates to Proposition 90

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<sup>2</sup> This assumes that all people who purchased a home and claimed the Proposition 90 benefit have not sold their home to a family ineligible for Proposition 90, resulting in a full assessed value.

<sup>3</sup> [http://www.aoa.acl.gov/aging\\_statistics/index.aspx](http://www.aoa.acl.gov/aging_statistics/index.aspx)

1. Considering the aging population taking place throughout the United States, as well as the U.S. Census Bureau estimates specific to El Dorado County, and taking into consideration that since the inception of Proposition 90 in El Dorado County only 2.5% of homes were purchased under the Proposition 90 program, Proposition 90 does not have a material impact, either positive or negative, relative to age demographics.

However, it should be noted that as the population of the county increases, there will likely be more people wanting to take advantage of Proposition 90 in future years.

#### **SUMMARY**

While the loss of property tax revenue can be tracked over time, and the benefits of Proposition 90 to the community are valid, it is difficult to quantify the fiscal benefit of those impacts. During a housing downturn, it is in the best interest of counties to have a Proposition 90 program in place since it will attract home buyers. However, during strong housing markets, the benefits of Proposition 90 are lessened since it is likely the home will sell to another buyer. While there are many benefits of a Proposition 90 program, which again are very difficult to quantify, there is also a significant fiscal impact to the General Fund which totaled approximately \$305,000 as well as an additional loss of property tax revenue to local schools, community colleges and special districts totaled an additional \$800,000 - \$900,000 in Fiscal Year 2015/16

If the Board chooses to allow the ordinance to expire, staff recommends that all Proposition 90 homebuyers who filed the appropriate paperwork to receive the benefits of Proposition 90 prior to October 1, 2016, be permitted to participate in the Proposition 90 program.