

CALIFORNIA ASSESSORS' ASSOCIATION

White Paper on a “Generic” Split Roll (10/22/18)

Executive Summary

County assessors will play a critical role to achieve accurate and equitable administration of a split roll system. For assessors to do their job a number of factors will be necessary including adequate funding for additional and adequate staff, a reasonable preparation and implementation period, and careful attention to laws or regulations that may be enacted to clarify the how a split roll should be administered.

Without a dramatic increase in additional resources and new technology, valuation accuracy and customer service levels for all taxpayers will decline dramatically. The California Assessors' Association (CAA) commissioned a non-partisan and independent analysis by Capitol Matrix, which is available upon request. According to that analysis, the cost to complete the annual assessment roll would increase between \$380 million and \$470 million annually, statewide, during the first five to ten years. Projected cost increases do not include the cost to upgrade existing technology systems to accommodate a split assessment roll.

What are the Impacts of a Split Roll on the Administration of the Property Tax System?

Without sufficient resources—including substantial increases in the appraisal staffing, training, and technology—implementation during the first five to ten years of a Split Roll system could have a devastating impact on the operations of California assessors and their ability to deliver quality customer service to taxpayers. A change in the law of such magnitude poses significant administrative problems for assessors, in addition to enormous start-up expenditures.

Statewide, based upon the “BOE 2016-17 Budget Work Load Report”, there are 642,502 C&I properties that would require periodic re-assessment. Under current laws that drive assessments when change in ownership or new construction occurs, Santa Clara County, reassesses approximately 2,000 C&I annually. Under a split roll, that number would increase 12-fold. It would be expected that similar increases would result in all counties.

A split roll would also trigger significant downstream effects for Tax Collectors, Clerks of the Assessment Appeals Board, and County Counsels. Homeowners would probably experience declines in service levels as assessors reallocate staff resources to focus on the new commercial valuation and assessment appeal responsibilities triggered by a split roll.

Projected Costs to Administer Split Roll

The California Assessors' Association retained the services of Capitol Matrix Consulting to independently review the results of a comprehensive 64 question survey of assessors, conducted in 2015. Responses were received by counties representing two-thirds of the assessed value in California as well as the geographical diversity of the state. The survey sought information on the costs of administering a property tax system requiring annual reassessment of C&I properties at market value.

Predicated upon a reasonable implementation period, Capitol Matrix estimated that the annual costs to California counties would increase between \$380 million and \$470 million in the first five to ten years. Also important to note, this cost range is neither inclusive of technology upgrades required to properly administer a split roll system, nor does it factor in additional cost burdens on downstream agencies who will also experience increased workload. These cost estimates apply only to County Assessors' offices. In Santa Clara County, it was estimated that the additional financial impacts of a split roll on the County Finance Agency, County Counsel, and Clerk of the Assessment Appeals Board, would increase by 36 percent. Applied statewide, the additional total projected annual statewide costs would range from \$517 million to \$639 million. In Santa Clara County, the County Counsel, for example, stated that we would need to add at least four trial attorneys, and two AAB Counsel lawyers dedicated to property tax assessment appeals, as well as support staff and overhead costs. In Santa Clara County the Assessor, County Executive, Finance Director (Tax Collector, Controller, etc.), County Counsel and the Clerk of the AAB have issued a detailed memo outlining the dire impacts on County Administration and have recommended the Board of Supervisors oppose a split roll as proposed for the 2020 ballot.

Major Staff Challenges to Administering Split Roll Tax Increase

According to Capitol Matrix, as many as 900 new positions would need to be created statewide to manage the increase in workload. Practical administrative challenges would make it all but impossible to annually assess the massive increase in C&I properties to market value without significant and sustained investment in the county appraisal workforce. The most important impact would be the enormous amount of new staffing and training required to develop a workforce that is proficient in property appraisal. Training new appraisers and auditors to assess complex appraisal and business audits typically requires up to five years.

“According to California Employment Occupational Department, the typical number of openings for appraisers is just 130 jobs per year, statewide. The 900 new positions needed by County Assessors would overwhelm the system. It would take years for counties to fill these positions. To defend assessed values created by the significant increase in assessment appeals, assessors would be competing with the large demand from the private sector appellants.” For example, in Calaveras County attempts to recruit an advanced level appraiser capable of appraising complex income-producing properties have resulted in no qualified candidates. Those are the properties that will need to be appraised if the split roll passes.

Assessment Appeals will increase dramatically

Capitol Matrix also noted, “Beyond the need for additional appraisal staff, counties would need to create new or expanded assessment appeals boards, along with staff to manage the significant increase in cases. The number and complexity of appeals submitted will likely result in a major backlog requiring multiple years to resolve.”

Conclusions

County assessors are essential to the successful implementation of a new split roll system in California. This success depends on the proper resourcing for assessors to complete their Constitutionally mandated role under a new system, including but not limited to providing:

- Adequate funding to resource assessor's offices through implementation and heightened workload moving forward. Initial analysis suggests \$380-\$470 million in funding for assessor's offices, as well as additional funding for upgrading technology systems to accommodate a split roll.
- Adequate multi-year phase in period.
- Support for recruitment, hiring and training qualified appraisal staff and support professional, including funds for competitive wages.
- Commensurate increases in training programs and providing adequate new resources to the Board of Equalization to offer guidance and certified training programs.
- Continuous and open dialogue with policy-makers to codify laws that provide Assessors with tools to effectively implement split roll.
- Robust access to market data for commercial and industrial properties, including changes in laws.

What is a Split Assessment Roll?

A Split Assessment Roll means that one segment of the assessment roll is treated differently from another segment of the same assessment roll. In California, all property is assessed at a base year value that was established in 1975 or when the property changed ownership or had new construction. That base year value cannot increase by more than 2 percent every year.

The proposal that has qualified for the 2020 ballot would require commercial and industrial properties, as well as vacant land not intended for housing or commercial agriculture, to be assessed more often, perhaps annually. Those properties would not have any of the protections established by the Constitution. In other words, those properties would be treated differently in that their assessed values could increase depending on annual changes in market conditions.

Objective

As a policy, the California Assessors' Association does not currently take a position on any specific split roll initiative.

The purpose of this white paper is to inform policy makers, community leaders and the public of the significant administrative and budgetary implications of a split roll proposal to assess non-residential, commercial and industrial properties (excluding agricultural and multi-family) at market value approximately every three years.

The analysis is not intended to justify or refute the policy merits of a split roll for assessment, but rather to analyze the potential impacts on personnel and infrastructure on county assessors.