



# CALIFORNIA ASSESSORS' ASSOCIATION

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## CAA Opposes 2020 Split Roll Initiative

June 2, 2020

After careful consideration the California Assessors' Association must oppose The California Schools and Local Communities Funding Act of 2020 (initiative No. 19-0008-Amendment 1).

Since 2017 The California Assessors' Association (CAA) has monitored and analyzed the administrative complexities and the estimated costs of implementing two proposed initiatives commonly referred to as "split roll initiatives." These initiatives generally would require regular reassessment of Commercial and Industrial property at current market value, and would eliminate Proposition 13 protections for significant numbers of those properties. "The California Schools and Local Communities Funding Act of 2020", the most recent version of "Split Roll" has now qualified for the November 3, 2020 ballot.

The implementation costs and administrative issues raised by our analysis have only become more problematic due to pending budget cuts and hiring freezes which are being implemented by counties across the State. Current local budgetary realities will make implementation of the initiative extremely difficult.

The CAA, through our Split-Roll Ad Hoc Committee, has surveyed the various California Assessor's Offices to obtain projected costs of the substantial staff increases and technology costs necessary to implement this initiative, if it is passed by the voters. To obtain the most accurate projection of costs, the CAA commissioned an in-depth analysis of the data by Capitol Matrix Consulting. The CAA undertook this project to provide information to our members, to policy makers and to the public for use in their overall evaluation of the Split Roll initiative.

The "Policy Briefing Paper on Split Roll Initiative" prepared by the CAA and the "Split Roll Implementation – Estimated Costs to County Assessors" provided by Capitol Matrix Consulting are the result of CAA research and analysis. Both reports are attached to this statement.



## **CALIFORNIA ASSESSORS' ASSOCIATION**

### **EXECUTIVE COMMITTEE**

The major discussion points below are discussed in detail in the attached documents.

- Cost to implement is projected at \$1.01 Billion during the three-year phase in period
- Implementation would require a trained workforce that is not available today and would not be available for many years.
- Exclusions with complicated rules to review and approve requiring coordination with all counties
- Disparate impacts on the States Counties and likelihood that the initiative would trigger negative roll growth in small and rural counties due to exemptions and exclusions

The Assessors' of California are committed to fair and impartial implementation of the of the Constitution and the laws of the State of California and, as always, Assessors will faithfully implement the will of the people.

However, given the immense anticipated Statewide implementation costs and complexities, the limited resources of Assessors and the disparate impacts to the various California counties we are compelled to oppose this initiative.

The California Assessors' Association advises a no vote on The California Schools and Local Communities Funding Act of 2020 (initiative No. 19-0008-Amendment 1) on the November 3, 2020 ballot.

Sincerely,

A handwritten signature in blue ink, reading "Don H. Gaekle".

Don H. Gaekle, President  
California Assessors' Association

Attachments:

Policy Briefing Paper on Split Roll Initiative (CAA)

Split Roll Implementation – Estimated Costs to County Assessors (Capitol Matrix Consulting)

**CALIFORNIA ASSESSORS' ASSOCIATION**  
**Policy Briefing Paper on Split Roll Initiative**  
(Initiative No.19-0008-Amendment 1)

Objective

The purpose of this paper is to inform policy makers, community leaders, and the public of the significant administrative and budgetary implications of "The California Schools and Local Communities Funding Act of 2020 (Initiative).<sup>1</sup>

The analysis is not intended to justify or refute the policy merits of a split assessment roll, but rather to analyze the potential impacts on personnel and infrastructure which a split roll would create for California County Assessors.

Executive Summary

Commonly referred to as a split roll, this initiative seeks to assess non-residential, commercial and industrial properties (excluding multi-family and agricultural land only) at market value no less than every three years for the purposes of increasing. If enacted, the assessed value of all commercial and industrial properties would increase from approximately \$1.3 trillion (2018-19) to \$2.5 trillion in 2022. In addition, the initiative would create multiple layers of new administrative burdens for assessors, some for the purpose of delaying or mitigating the financial impacts of a split roll on the owners of small businesses. A detailed chart is attached describing the major components of the initiative in relationship to existing law.

As county assessors are responsible for the administration of the assessment roll, the initiative similarly mandates assessors with the accurate and equitable administration of the split roll.

For assessors to implement the initiative, a number of factors will be required, 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 how a split roll could be administered.

Without an unprecedented increase in resources, including new technology, valuation accuracy and customer service levels for all taxpayers, principally homeowners, 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 Capitol Matrix's analysis, the estimated cost to implement the initiative over the course of the proposed three-year phase-in, is just over \$1 billion statewide (\$360 million a year). Projected cost increases do not

*Major Takeaways*

- ✓ *Assessors cannot add \$1.2 Trillion in assessed value by 2022*
- ✓ *The cost to implement is projected at \$1.01 billion during the 3-year phase in*
- ✓ *Initiative will trigger negative roll growth in small and rural counties*

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<sup>1</sup> Initiative No.19-0008-Amendment 1, pending Secretary of State approval

include the commensurate increase in costs for County Controllers, Tax Collectors, Assessment Appeal Boards or County Counsels.

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

Without sufficient resources—including substantial increases in 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 and their local government partners in property tax administration, in addition to enormous start-up expenditures. There will also be additional compliance costs for taxpayers.

Statewide, based upon the “BOE 2016-17 Budget Workload Report”, there are 642,502 commercial and industrial properties that would require periodic reassessment. Currently, Santa Clara County reassesses approximately 2,000 commercial and industrial properties annually, for changes of ownership or new construction. Under a split roll, that number would increase an estimated 12-fold. It is expected that similar increases would result in all counties.

A split roll would also trigger significant downstream impacts 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 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 two comprehensive surveys of California assessors. The first survey exclusively focused on the cost to reassess all commercial and industrial property to market value. The second survey focused exclusively on the cost to administer new administrative requirements specific to the split roll. The counties that participated represented about three quarters of total commercial parcels and 83 percent of the commercial assessed value in California. The detailed surveys sought information on the costs of administering a property tax system requiring annual reassessment of commercial properties to market value.

Predicated upon the reassessment of one-third of all commercial properties annually, the Capitol Matrix’s analysis projects one-time costs of \$24 million, and ongoing annual increases of between \$356 million and \$446 million, which equates over a billion dollars in assessor only costs during the first three years. However, it is anticipated costs will be significantly higher due to the practical expectation that most commercial property owners will file assessment appeals requiring revaluation more than once every three years. In addition, the cost estimate does not account for an increase in staff salary expenses necessary to recruit and retain hundreds of new senior appraisers.

Projected costs do not include other costs which would be incurred by related agencies who will experience similar increases in workload. Capitol Matrix’s estimates apply only to county assessors. In Santa Clara County, it was estimated that the financial impact of a split roll on the County Finance Agency, County Counsel, and Clerk of the Assessment Appeals Board, would increase by 36 percent. The Santa Clara County Counsel, for example, stated that the County would need to add at least four trial attorneys, and two Assessment Appeals Board counsel lawyers and support staff dedicated to property tax assessment appeals.

In Santa Clara County, the Assessor, County Executive, Finance Director (Tax Collector, Controller, etc.), County Counsel and the Clerk of the AAB issued a detailed memo in 2019, outlining the dire impacts on county administration, concluding that the Board of Supervisors should oppose the split roll initiative.

#### Major Staff Challenges to Administering Split Roll Tax Increase

According to Capitol Matrix, hundreds of 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 reassess to market value the overwhelming number of commercial properties without significant and sustained investment in the county appraisal workforce. The most significant impact would be the enormous amount of new staffing and training necessary to develop an appraisal workforce that is proficient in property appraisal. Training new appraisers and auditors to assess complex commercial and business properties typically requires up to five years of on the job experience.

According to California Employment Occupational Department, the number of openings for appraisers is just 130 jobs per year, statewide. The number of new positions needed by county assessors would simply overwhelm the system. It would take many years for counties to fill these positions.

To properly defend assessed values created by the increase in assessment appeals, assessors would be competing against a large demand from the private sector appellants. For example, Calaveras County's attempt to recruit a single, advanced level appraiser capable of appraising complex income properties has resulted in no qualified candidates.

#### Assessment Appeals will increase dramatically

Capitol Matrix also stated in their first report, "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."

#### Catch-22: Small and Rural Counties

Many assessors in small and rural California counties are predicting that a split roll will trigger, paradoxically, a potential net decline in assessed added value. They anticipate very few commercial properties will be subject to split roll valuation, negating the promised increase in property taxes. A survey of assessors representing small to mid-sized counties<sup>2</sup> indicate that less than 10 percent of the commercial properties will be subject to split roll re-assessment as most properties do not have a market value in excess of the \$3 million exclusion. For example, Plumas County has 2,000 commercial parcels, just 16 currently have assessed value in excess of \$2.5 million. Of those, three are subject to welfare exemptions, three are already valued annually and four are subject to annual Prop 8 review, as their assessed values remain below their inflation adjusted purchase price. Most of the remaining properties have transferred recently, or are otherwise close to their market values. Commercial properties that do exceed \$3 million are not anticipated to increase significantly beyond the \$3 million exclusion.

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<sup>2</sup> Fifteen Counties from the Central and Sacramento Valleys, the foothills, Sierra Nevada Mountains, Warner Mountains and the North Coast participated. There are 30 counties with Assessed Values less than \$26 Billion in Assessed Value

In contrast, most of the businesses in small counties, such as farms and small independent businesses, have assessed values below the \$500,000 threshold necessary for the assessment of business property. Many of these businesses will be able to take advantage of opportunities in the split roll initiative to eliminate or reduce their property tax obligation on equipment and machinery. The Plumas Assessor estimates an assessment reduction in excess of \$90 million. Cumulatively, the loss in assessed value will exceed the gain from the split roll assessment of commercial properties. Eighty-seven percent of small counties reported that the value exemption on business equipment would not be offset by properties with market values in excess of \$3 million.

Property tax revenue is anticipated to decline in many small counties, without the means to recover costs to administer a split roll. Small counties project workload increases ranging from 20% to 50%. Reimbursements for increased administrative costs are predicated upon assessment roll growth.

County Supervisors in many small counties are not expected to fund the positions necessary to implement the split roll due to actual loss in property tax revenue. Counties would be reluctant to borrow money from the state for implementation without new revenue to repay the loans.

The Split Roll Initiative did not consider that the funding of additional property tax administrators would actually result in a net loss for many small counties.

#### Conclusion:

County assessors are essential to the successful implementation of a new split roll system in California. Success depends on the proper financial resources for assessors to complete their constitutionally mandated responsibilities, including but not limited to:

- Adequate funding for a significant increase in workload and staff. Analysis suggests a one-time cost of \$24 million and ongoing annual cost increases of between \$356 million and \$446 million.
- Adequate multi-year phase in period.
- Financial support for recruitment, hiring and training qualified appraisal staff and support professionals, including funds for competitive compensation for senior appraisers.
- Commensurate increase in training programs, including new resources to the Board of Equalization for certified training programs.
- Continuous and open dialogue with policymakers to expeditiously codify laws that provide assessors with tools to effectively implement a split roll.
- Robust access to market data for commercial and industrial properties.

	Proposition 13—current law (Passed June 1978)	California Schools and Local Communities Funding Act of 2020 Initiative 19-0008, amdt 1
Official Ballot Title per Attorney General	<ul style="list-style-type: none"><li>• Limits ad valorem taxes on real property to 1% of value except to pay indebtedness previously approved by voters.</li><li>• Establishes 1975-76 assessed valuation base for property tax purposes. Limits annual increases in value.</li><li>• Provides for reassessment after sale, transfer, or construction. Requires 2/3 vote of Legislature to enact any change in state taxes designed to increase revenues.</li><li>• Prohibits imposition by state of new ad valorem, sales, or transaction taxes on real property. Authorizes imposition of special taxes by local government (except on real property) by 2/3 vote of qualified electors.</li></ul>	<ul style="list-style-type: none"><li>• Increases funding for public schools, community colleges, and local government services by changing tax assessment of commercial and industrial property.</li></ul>
Financial Impact (direct excerpt from Attorney General ballot summary)	Commencing with fiscal year beginning July 1, 1978, would result in annual losses of local government property tax revenues (approximately \$7 billion in 1978-79 fiscal year), reduction in annual state costs (approximately \$600 million in 1978-79 fiscal year), and restriction on future ability of local governments to finance capital construction by sale of general obligation bonds.	Net increase in annual property tax revenues of \$7.5 billion to \$12 billion in most years, depending on the strength of real estate markets. After backfilling state income tax losses related to the measure and paying for county administrative costs, the remaining \$6.5 billion to \$11.5 billion would be allocated to schools (40 percent) and other local governments (60 percent).  Proponents have noted that the allocation is a statewide average which varies by county
<u>Property Category:</u> Vacant or Improved Residential and Multi Family (apt) with less than 25% C&I.  Agricultural Real Property <u>(Excluding C&amp;I structures)</u>	<ul style="list-style-type: none"><li>• Reassessment to market value upon change in ownership/control and new construction</li><li>• Annual Reassessment of 2% or statewide California CPI whichever is lower</li><li>• Limits general property tax rate on assessed value to 1%</li></ul>	<ul style="list-style-type: none"><li>• No change</li><li>• No change</li><li>• No change</li></ul>
<u>Property Category:</u> Small Business Real Property Exclusion from Split Roll and remain protected by Proposition 13	<ul style="list-style-type: none"><li>• Reassessment to market value upon change in ownership/control and new construction</li><li>• Annual Reassessment of 2% or statewide California Consumer Price Index whichever is lower</li><li>• Limits general property tax rate on assessed value to 1%</li></ul>	<ul style="list-style-type: none"><li>• Commercial and industrial property (improved and land) OR Improvements on excluded agricultural land such as processing facilities where none of the entity’s owners have a cumulative fair market value in excess of \$3 million adjusted every 2 years, starting in 2025, by a floating inflation factor to be set by elected board of equalization at county level and based upon average commercial and industrial market values in those counties</li><li>• Temporary deferral until 2025 of new assessment provisions for commercial and industrial real property where 50% or more of the occupied square footage is occupied by “small business” as defined below</li><li>• Land used for producing commercial agricultural commodities</li><li>• Residential property, vacant land zoned for residential use</li></ul>
<u>Property Category:</u> All other properties, primarily Commercial and Industrial (C&I) vacant or improved. C&I Structures and other improvements to commercial agricultural real property.	<ul style="list-style-type: none"><li>• Reassessment to market value upon change in ownership/control and new construction</li><li>• Limits general property tax rate on assessed value to 1%</li></ul>	<ul style="list-style-type: none"><li>• Reassesses at least every three years to fair market value.</li></ul>
Assessment Methodology	<ul style="list-style-type: none"><li>• Fair Market Value (fee simple) based upon property use</li></ul>	<ul style="list-style-type: none"><li>• Fair Market Value (fee simple) based upon property use</li></ul>

	Proposition 13—current law (Passed June 1978)	California Schools and Local Communities Funding Act of 2020 Initiative 19-0008, amdt 1
Small Business Exemption of fixtures, machinery and equipment (personal property). Generally, business property equipment is valued annually on original cost, property classification and type of business (and depreciated).  Annual Application	<ul style="list-style-type: none"><li>• Upon County approval the assessor excludes business personal property assessed at \$10,000 or less. (Taxpayer not defined)</li></ul>	<ul style="list-style-type: none"><li>• Exempts First \$500,000 of business personal property for a single taxpayer. Single taxpayers to be defined by the legislature as related entities, including but not limited to any subsidiaries, holding companies, or parent corporations.</li><li>• Exempts all business personal property owned by a “small business” as defined*</li></ul>
Small Business Definition	N/A	<ul style="list-style-type: none"><li>• 50 or fewer annual full-time employees</li><li>• The business is independently owned and operated such that the business ownership interests, management and operation are not subject to control, restriction, modification or limitation by an outside source, individual or another business.”</li><li>• The business owns real property located in California.</li></ul>
Phase-In		<ul style="list-style-type: none"><li>• Reassessment of qualifying properties effective January 1, 2022, phased-in over two or more years by statute passed by the Legislature</li><li>• Taxpayers afforded a “reasonable timeframe” to pay increased taxes as determined by the Legislature</li><li>• Reassessment deferred until 2025 for commercial and industrial property occupied by small businesses</li></ul>
Assessment Appeals	<ul style="list-style-type: none"><li>• Disputes adjudicated by independent assessment appeals board (AAB) of property tax professionals appoint by County Supervisors</li><li>• AAB must make decision generally within 2 years unless applicant extends deadline otherwise Applicant’s opinion of value enrolled</li><li>• Burden of proof on non-residential property taxpayer in most circumstances</li><li>• All AAB Valuation decisions are final and not subject to appeal to superior court</li></ul>	For properties subject to split roll, calls on legislature to: <ul style="list-style-type: none"><li>• Develop a targeted, new process for hearing appeals</li><li>• require taxpayer to provide evidence relevant to any appeal in the initial application to AAB</li><li>• Increase burden of proof threshold</li><li>• Create expedited process for hearing appeals</li><li>• Eliminate mandatory enrollment of applicant’s opinion of value if not adjudicated within current deadlines (generally two year unless extended by taxpayer)</li></ul>
Effective Date	July 1, 1978	January 1, 2021
Implementation date	January 1, 1979	<ul style="list-style-type: none"><li>• January 1, 2022. then phased-in over two or more years TBD in consultation with Task Force, by the Legislature</li><li>• After the initial reassessment properties shall be periodically reassessed no less frequently than every three years as determined by the Legislature.</li><li>• Exemptions for business personal property effective January 1, 2024</li><li>• Taxpayers obligated to pay the taxes resulting from split roll and afforded an undefined “reasonable timeframe” to pay increased taxes as determined by the Legislature</li><li>• Reassessment deferred until 2025 for commercial and industrial property occupied by “small businesses” as defined</li></ul>



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## **Split Roll Implementation — Estimated Costs to County Assessors**

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**May 2020**

*Prepared for:*

**California Assessors' Association**

**Ad Hoc Committee on Split Roll**

*Prepared by:*

**Michael C. Genest, Founder and Chairman**

**Capitol Matrix Consulting**

**Brad Williams, Chief Economist**

## About the Authors

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The authors are partners with Capitol Matrix Consulting (CMC), a firm that provides consulting services on a wide range of economic, taxation, and state-and-local government budget issues. Together, they have over 80 years of combined experience in economic and public policy analysis.

**Mike Genest** founded Capitol Matrix Consulting (originally Genest Consulting) in 2010 after concluding a 32-year career in state government, which culminated as Director of the California Department of Finance (DOF) under Governor Arnold Schwarzenegger. Prior to his four-year stint as the Governor's chief fiscal policy advisor, Mr. Genest held top analytical and leadership positions in both the executive and legislative branches of government. These included Undersecretary of the Health and Human Services Agency, Staff Director of the Senate Republican Fiscal Office, Chief of Administration of the California Department of Corrections and Rehabilitation, and Director of the Social Services section of California's Legislative Analyst's Office.

**Brad Williams** joined Capitol Matrix Consulting in 2011, after having served in various positions in state government for 33 years. Mr. Williams served for over a decade as the chief economist for the Legislative Analyst's Office, where he was considered one of the state's top experts on the tax system, the California economy, and government revenues. He was recognized by the Wall Street Journal as the most accurate state economic forecaster in the 1990s, and has authored numerous studies related to taxation and the economic impacts of policy proposals. Immediately prior to joining CMC, Mr. Williams served as a consultant to the Assembly Appropriations Committee, where he advised leadership of the majority party on proposed legislation relating to taxation, local government, labor and banking.

## Summary

This report presents our analysis and statewide cost estimates associated with the our previous analysis of of a survey conducted by the California Assessors Association and an update based on our review of their second survey. The previous analysis focused on the direct costs to perform appraisals, while this second analysis and survey focuses on the *administrative costs* of implementing the provisions of “The California Schools and Local Communities Funding Act of 2020” (“Initiative”). These costs - which are related to hiring, training, and setting up new systems to track properties and handle exemption requests - are *in addition* to those identified in the initial survey, which focused on the *direct* “front-line” expenditures for assessment and appeals. Our key findings are:

- Taking into account both (1) our updated estimate of assessment and appeals costs identified in the first survey, and (2) the administrative costs identified in the second survey, we estimate that combined costs to implement the Initiative would be \$1.2 billion over the first three fiscal years following voter approval. This consists of:
  - \$360 million *per year in ongoing costs* - representing a roughly 50-percent increase in the statewide combined annual budget totals for county assessor’s offices in California.
  - \$74 million in *one-time costs* for IT, training and other start up activities.
- As a point of comparison regarding annual costs, our firm had previously developed an in-depth estimate of costs to San Bernardino County of administering the split roll. Applying the San Bernardino result to all 58 counties would imply a cost increase of \$686 million in 2022-23 (and more if salary increases are included). All counties are unique; thus, extrapolation of one-county’s experience statewide may result in an over- or underestimate of statewide costs. Notwithstanding this limitation, the results from the in-depth San Bernardino County estimate *may* suggest that when a specific implementation plan is modeled and all overhead and salary-related considerations are accounted for, statewide costs could exceed those identified in our two surveys
- Numerous issues arose during our review and follow-up interviews regarding the second survey. These included challenges relating to hiring and training staff in a short period of time, tracking combined property holdings and employees across the state, and dealing with appeals and refunds.

## Introduction

Capitol Matrix Consulting has been commissioned by the California Assessors Association (CAA) to develop an estimate of the statewide costs to county assessors of implementing the “split roll” as proposed by “The California Schools and Local Communities Funding Act of 2020” (Initiative 19-0008, Amendment 1).<sup>1</sup> The Act would amend Proposition 13 by creating a different basis for property taxation for certain commercial and industrial (C&I) properties.

Currently (under Proposition 13), real property (land and buildings) is assessed based on its market value (in most cases, the purchase price), as adjusted for inflation, limited to 2 percent per year. The property is reassessed at market value only when subsequently transferred<sup>2</sup>, although additions to the property are assessed at the market value (i.e. construction).<sup>3</sup> As a result, many have an assessed value many years out of date.

## Proposal

The California Schools and Local Communities Funding Act of 2020 would require C&I properties, including vacant land, to be taxed based on their assessed “full cash value,” i.e., their market value. The measure exempts vacant land intended for residential or agricultural use and properties assessed at a market value of less than \$3,000,000. However the exemption would not apply to properties in any specific county if the owner’s total C&I properties statewide were valued at greater than \$3,000,000<sup>4</sup>. The measure also delays the taxation of the portion of a C&I property occupied by certain small businesses until 2025-26, and it provides an exemption for personal property (e.g. machinery,

### Phase-In Language

#### Section 2.5 of Article XIII A of the California Constitution (b):

(b) The Legislature shall establish a Task Force on Property Tax Administration immediately after this section is enacted...after conferring with the Task Force, shall provide by statute for the phase-in of the reassessment of commercial and industrial real property...Any such phase-in shall provide for reassessment of a percentage of all commercial and industrial real properties within each county commencing with the lien date for the 2022-23 fiscal year and extending over two or more lien dates each fiscal year thereafter, in order to ensure a reasonable workload and implementation period for county assessors, including provision for processing and timing of assessment appeals... After the initial reassessment...such commercial and industrial real property shall be periodically reassessed no less frequently than every three years as determined by the Legislature.

<sup>1</sup> The proponents have already qualified an earlier version of this proposal for the November 2020 ballot. The version currently qualified for the ballot was drafted in 2017 and it includes implementation deadlines that are no longer feasible. While we have had no direct communication with the proponents, it is generally understood that they will qualify the alternative version and withdraw the version currently qualified. Given this understanding, the committee has asked us to analyze the updated, but not yet qualified version of the proposal.

<sup>2</sup> For purposes of reassessment, a transfer may include a sale, but may also include a gift, inheritance or other conveyance of ownership, with or without compensation.

<sup>3</sup> The California Revenue and Tax Code contains a special look-through rule: If the ownership interest in a legal entity that owns California real estate is transferred, the transfer of the business interest is treated as a change in ownership of the property if (1) there is a change in control of the entity (more than 50 percent of the voting stock of a corporation or more than 50 percent of the ownership interest of a partnership or LLC); or (2) When more than 50 percent of the interests of the original business owners (measured cumulatively) are transferred.

<sup>4</sup> There is currently no statewide data base that assessors could use to determine the assessed value of properties in counties other than their own. As noted below, some assessors assume that a statewide data base consisting of data provided by each of the 58 county assessors will be developed as a resource for them to access in determining whether an owner is qualified for this exemption. However, the measure contains no requirement for the state to create such a data base.

computers, other equipment) for these small businesses. Other qualifying business entities would receive an exemption for first \$500,000 of qualifying personal property aggregated statewide.

The measure directs the Legislature to confer with county assessors, then provide for the phase-in of the reassessment of C&I property that starts with the lien date of January 1, 2022 for the fiscal year 2022-23 and extends over two more fiscal years, after which each property affected would be reassessed no less frequently than every three years (see the nearby text box for the specific phase-in language).

We note that the measure provides that some of the additional property tax revenues would be used to reimburse counties for their costs to implement it. Thus, some or all of the county costs identified below might be offset by revenues, although the exact amount of any offset will depend on cost-reimbursement regulations not yet drafted. It will therefore be important for the counties to work with the state on the development of such regulations.

### **CMC Estimate of Assessment and Appeals Costs for a Generic Split Roll Proposal**

Capitol Matrix Consulting was commissioned by the CAA to review the results of a survey of its members conducted in 2015 (when the concept of a split roll initiative was under active consideration by the proponents). The survey sought information on the budget costs of administering a property tax system requiring annual reassessment of commercial and industrial (C&I) properties at market value (a “split roll” system), with no phase-in. We estimated that county assessors’ would face one-time costs of \$24 million and ongoing annual cost increases of between \$356 million and \$446 million in the first 5 to 10 years following implementation of market-based annual reassessments of all C&I properties.

We were also asked to evaluate the fiscal impacts of the previous version of the current initiative - submitted in January 2018 - which permitted the Legislature to authorize a phase-in of a split roll system, and required reassessment of each property no less than every three years thereafter. We indicated that, relative to our estimates for a split roll requiring annual reassessment, the 2018 initiative could be somewhat less expensive to administer; however we did not believe its provisions allowing for a phase-in and multiple year assessment cycle would translate into a proportionate cost reduction for several reasons.

We noted, for example, that the Legislature would be under enormous pressure to maximize revenues by, for example, requiring initial appraisals to focus on long-held, high-value properties for which reassessment would yield the largest revenue increases. These businesses would require the most complex and time-consuming appraisals. Once receiving the reassessment, these same businesses would also have the largest incentive to appeal, and the appeals would likely be lengthy and complex. The result would be a buildup of a major appeals backlog that would require considerable time and staffing to resolve. In addition, businesses will seek annual re-appraisals during periods in which the economy is declining. Given these factors, assessors would likely be required to appraise far more than one-third of the C&I properties each year.

We concluded that, under the best of circumstances, we would expect county assessors’ annual administrative costs under the 2018 version of the current initiative to be in the low hundreds of millions of dollars per year for an extended period following implementation of the program. Taking into account growth in county wages, benefits, and pension costs since 2018, we believe ongoing assessment and appeals costs resulting from the 2018 measure would be over \$300 million per year in today’s dollars.

### **2020 Survey**

The 2020 Survey is designed to measure administrative costs in The California Schools and Local Communities Funding Act of 2020 that were not explicitly covered in the first survey. The 2020 survey specifically addresses costs in four areas:

- **C&I property identification.** This includes costs associated with updating systems to improve identification of commercial and industrial properties. Specific examples include updating existing systems to identify and track mixed-use properties and agricultural properties (which are exempt from reassessment). This category also includes costs for additional staff to manage appeals related to property classifications.
- **Exclusions, exemptions, and deferrals.** This includes costs associated with processing, verifying, and tracking property holdings, and handling appeals associated with the less-than \$3 million exemption claims, and the deferral of reassessment for properties with small business occupants.
- **Business personal property.** This includes costs associated with processing and auditing the business personal property exemption for small businesses, and exempting the first \$500,000 for others that qualify.
- **Other administration.** This includes costs for public service personnel to respond to taxpayer inquiries; human resources for activities related to hiring and retaining split roll appraisers and associated staff; additional office space; information technology upgrades and software programs; and county counsel/city attorney support of assessor's appeals caseloads and compliance with new legislation.

Twenty counties responded fully or partially to the second survey. The responding counties represent about three quarters of total C&I *parcels* and 83 percent of the C&I *assessed value* in California.<sup>5</sup> We received responses from four counties in the Bay Area; five counties in Southern California (including coastal counties and the inland empire); three counties in the Central Coast; eight counties in the Central Valley; and one northern California rural county. Aside from geographic variation, the sample included rural and urban counties and counties with a variety of types of C&I properties, in terms of size and complexity.

Most of the counties provided responses to all of the survey's categories. However, a few provided us with combined data for the full cost of implementing the split roll, without the breakout needed to distinguish between appraisal and appeal costs (covered in the first survey) and administrative costs (covered in the second survey). These responses were helpful in terms of identifying overall county costs (discussed below). However, we were not able to use them for the purpose of developing specific estimates of administrative costs that are separate from the assessment- and appeals-related costs identified in the first survey.

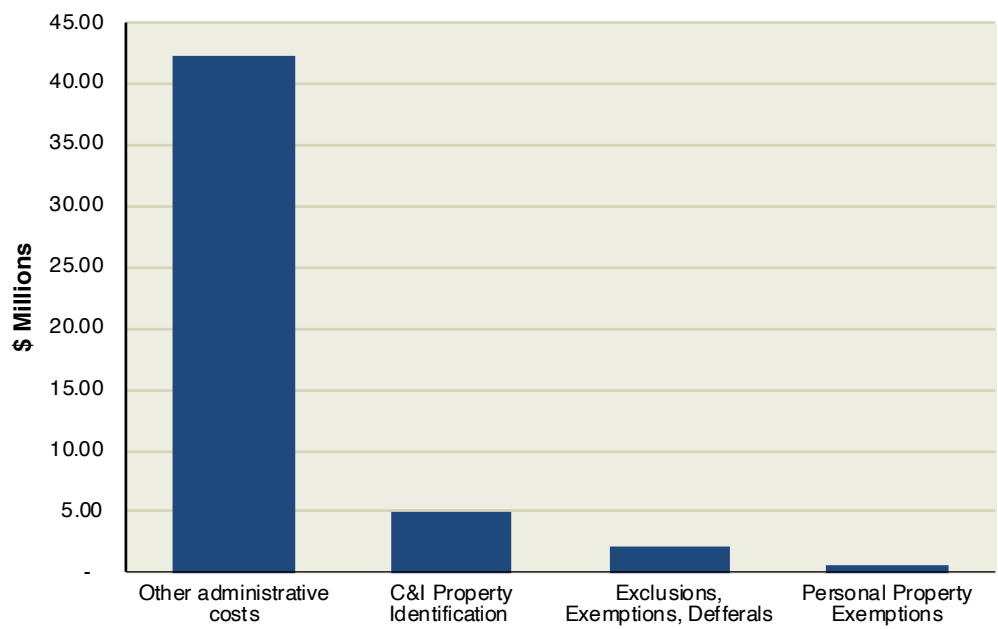
**Our Process.** For the remaining counties, we compiled the responses into summary tables which showed, for each county, total costs in each of the four categories noted above. To facilitate meaningful comparisons between varying sized counties, we converted the data to a per C&I-parcel basis. We then developed summary data, including the mean and median responses, along with estimates of variation around the central responses. We then conducted follow-up interviews with about two-thirds of the respondents, focusing on the assumptions and methodologies used to arrive at the estimates, and on areas where a particular county's response was significantly higher or lower than average (on a per-parcel basis).

During our review and interview process, we encountered several anomalies that required revisions to the initial survey responses. One of the main issues was a misunderstanding about what should be included in the C&I property identification category. Several counties included appraiser costs in this category that should have been attributed to the first survey. After adjusting for these and related issues, we arrived at estimates of administrative costs that were non-duplicative with those identified in the first survey. After summing up the revised responses from the surveyed counties, we expanded our results to cover the counties not included in the survey to arrive at a statewide total. The expansion factor was the average of

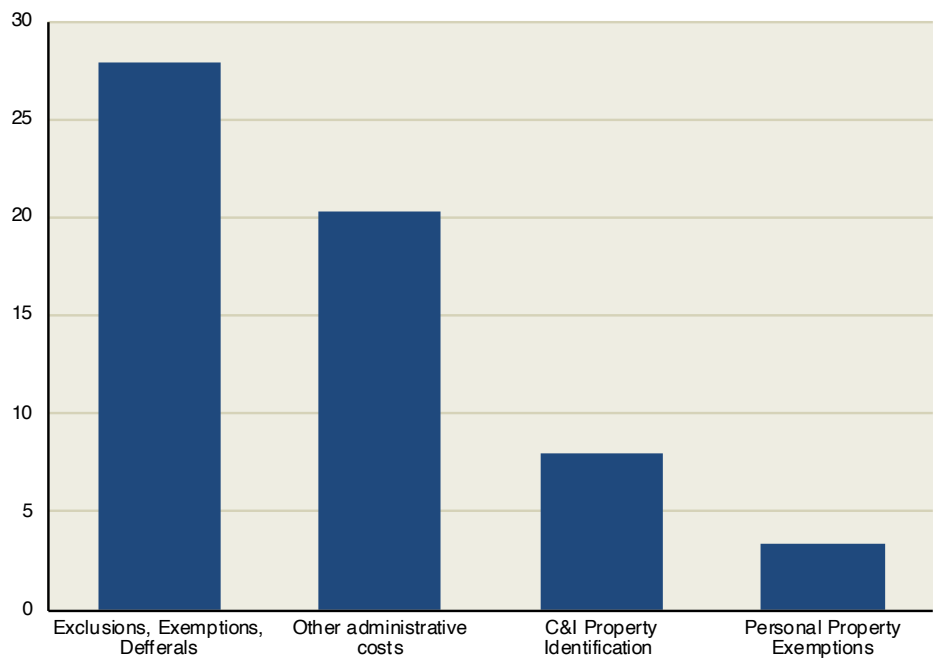
<sup>5</sup> Responding counties include Alameda, Los Angeles, Madera, Modoc, Monterey, Orange, Placer, Riverside, Sacramento, San Bernardino, San Diego, San Francisco, San Luis Obispo, Santa Clara, Stanislaus, Tehama, Ventura, Yolo, and Yuba.

the percentage of statewide C&I *parcels* and the the percentage of C&I *assessed valuation* in the excluded counties.

**Figure 1**  
**One-time Costs by Categories Covered in Second Survey**  
(\$ Millions)



**Figure 2**  
**Ongoing Costs by Categories Covered in Second Survey**  
(\$ Million)



**Results.** We estimate that the California Schools and Local Communities Funding Act of 2020 would result in \$50 million in one-time and \$60 million in ongoing costs statewide in the four cost areas identified in the second survey. Figure 1 shows that most of the one-time costs are related to “other administration,” mainly for IT systems enhancements. Figure 2 indicates that nearly one-half of the ongoing costs are related to addressing exclusions, exemptions, and deferrals included in the initiative, with smaller amounts for “other administration” (mostly IT costs), C&I property identification, and administering the business/personal property provisions.

## Combined Costs To County Assessors

As noted above, our estimate (based on the first survey) of ongoing assessment and appeals costs for implementing the current initiative would be at least \$300 million per year. We also noted one-time costs of \$24 million. When combined with the results of the second survey, the full costs to county assessor’s offices of implementing the California Schools and Local Communities Funding Act of 2020 would be one-time costs of \$74 million and ongoing costs of at least \$360 million annually. The ongoing amount implies annual budget increases between just-under 50 percent for county assessors’ offices. They do not include significant costs for other county agencies, including auditors, controllers, and county counsel.

**Figure 3**

### Combined County Assessor Costs For Administering “The California Schools and Local Communities Funding Act of 2020

Type of Cost	Annual Amount
One Time	\$74 Million
Ongoing	\$360 Million

Our combined survey-based results are similar to the results we received from the counties that provided combined costs in the second survey for assessment, appeals, and administration. They are also consistent with public data showing estimated impacts of the split roll on assessor budgets for a few of the larger California counties. They are, however, lower than the more detailed estimates we developed for San Bernardino County, discussed below.

## Comparative Estimate - San Bernardino Projections

Because the estimate we prepared for the CAA relies on surveys of several counties, we could not review the detailed estimates prepared internally by many counties. It is therefore helpful to compare it with a detailed estimate that we conducted for the San Bernardino Assessor Recorder Clerk’s Office (ARC). The ARC estimate was based on a workload and cost methodology developed in conjunction with ARC staff. It assumed an even, three-year phase-in and modeled a specific set of implementation details that ARC projected would be needed to fully implement the initiative in San Bernardino County. Specifically, the methodology consisted of the following:

- ARC staff divided the county’s C&I properties subject to reassessment into 3 categories, reflecting the complexity of assessment.
- For each of these categories, ARC management surveyed staff to develop workload standards in terms of the amount of appraiser, clerical and first-line supervisor time needed to complete each appraisal, in each category. The estimate also assumes a 25-percent increase in efficiency over the three-year phase-in provided in the initiative.



- The resulting hours per C&I property allowed us to compute the total numbers of additional first-line staff needed each year, and the costs of the salaries and benefits for the additional staff.
- The overhead costs for these additional staff was based on the ARC's annual overhead study, adjusted to account for fixed versus variable costs.
- Special items of expense not accounted for in the overhead study were then added based on input from ARC budget staff.
- Finally, ARC advised that its appraiser pay scale is substantially below what surrounding counties pay. Given the need that the initiative would create for additional appraisers statewide and the expected competition for trained appraisers to work in the private sector, ARC estimated that it would have to provide a 20-percent pay raise to existing and new appraiser staff, which the estimate accounts for separately. While many assessors we interviewed agreed that some salary adjustment might well be necessary to recruit so many new appraisers in such a tight market, none actually included such costs in their responses to either survey.

Figure 4 displays our estimate of the cost to the ARC to implement the 2020 version of a split roll. It shows that, with the proposed salary increase, the ARC budget would more than double by 2022-23 and without it, the budget would still increase by 94 percent that same year.

	2020-21	2021-22	2022-23	2023-24
<b>San Bernardino costs in millions</b>	\$1	\$21	\$26	\$25
<b>Percent increase - with salary increase</b>	3%	89%	104%	96%
<b>Percent increase - without salary increase</b>	3%	80%	94%	87%
<b>Implied statewide costs - with salary increase</b>	\$21.9	\$649.7	\$759.2	\$700.8
<b>Implied statewide costs - without salary increase</b>	\$21.9	\$584.0	\$686.2	\$635.1

**Figure 4**

#### **San Bernardino County ARC Costs To Implement Split Roll**

We estimate that the combined annual budgets of all 58 California county assessors is approximately \$730 million per year. Applying the percentage budget increases for San Bernardino to this total yields a range of the estimated statewide assessors' costs to implement a split roll from \$686 million (without a salary increase) to \$760 million in 2022-23 (with salary increases).

#### **Caveats to the Estimates**

The estimate based on the CAA survey encompasses a wide range of counties, large and small, urban and rural, north and south, coastal and inland. However, it lacks a specific implementation plan and does not include the budgeting and administrative detail available to us in estimating the ARC costs in San Bernardino. On the other hand, the estimate based on our San Bernardino study, while detailed and comprehensive, relies on data and assumptions for a single county. Each estimate is thus subject to potential error. However, they are close enough in magnitude to suggest with some confidence that the costs statewide should fall somewhere in the range of \$430 million to \$760 million per year during the first three years of implementation, probably declining somewhat thereafter. However, we also note the following caveats to this estimate:

**Overhead.** The estimate based on the CAA survey did not systematically account for overhead costs. Some of the counties surveyed identified some specific costs such as IT and work space, while some did not and when queried, acknowledged that as an oversight. None of the counties surveyed explicitly addressed costs such as additional management and support (e.g., personnel, accounting, training, etc.). These oversights may be enough to explain much of the difference between the two estimates.

**No- and Low-Cost Outliers.** One of the counties surveyed identified costs near the average, but asserted that it could implement split roll at little or no additional costs by resorting to computer-assisted appraisals that would not be property specific. The assessors we surveyed all agreed, however, that the use of mass appraisals would result in under-valuing properties and would probably violate California's Constitution. The associated property tax revenue losses could easily be much larger than any assessment cost-savings. Moreover, some owners would still appeal such assessments and developing a defensible, specific appraisal for the appeals process could result in net higher costs in the long run.

One of the counties we surveyed was a medium-sized county with a unique history during the 2008 recession, in which it performed Proposition 8 reappraisals on virtually all of its C&I properties. From that time, the county has automated annual collection of detailed information from all of its C&I properties, sufficient in the assessor's view to perform a valid, detailed assessment for every C&I property in the county without the need to hire any additional appraisers. This one county was unique and can not be used as a model for the rest of the state.

**County Variability.** Each county is unique. We found substantial variations among the counties we surveyed with regard to the degree of automation and the mix of types of C&I properties. In addition, geography differences could drive implementation cost differences, such as longer distances between offices and the properties to be assessed<sup>6</sup>.

Another important difference could be the ability of county governments to fund the costs of reassessments in advance. While the initiative allows counties to recoup their costs of assessments from the additional property tax revenues they collect, this requires counties to provide funding up front. While many counties would see a positive return from up-front funding in the form of higher property tax revenues, some may not, or may not have the ability to finance the first few years even if they expect up-front funding to yield a net gain at some point in the future. We also note that the measure's methodology for funding property tax administrators, such as assessors, is predicated upon the initiative generating a net revenue increase in revenue. As noted below, several small and rural counties have reported that the initiatives' exemption for businesses' personal property will result in a net negative change in assessed value and therefore these counties may not see any benefit in advance funding their assessors.

## Outstanding Issues

**Non-property Specific Appraisals and Refunds.** Our interviews found a range of opinions regarding the degree to which assessors would, at least initially, rely on non-property specific appraisal techniques. While reliance on such appraisals would drive costs down initially, it could result in higher costs over time due to the need to bring individualized appraisals to appeals boards. Counties resorting to these could have unfunded liabilities against future property tax revenues, especially if appeals become backlogged over multiple years. The measure provides no mechanism for setting aside revenues to cover refunds. We recommend that the state develop a mechanism for handling refunds.

**Impact of Business Personal Property Exemption.** Some smaller counties reported that the revenue loss from \$500,000 exemption for personal property would be larger than the revenue gain from the reassessment of real property to market value for certain C&I parcels. The measure provides a mechanism to reimburse the state General Fund for reduced personal income tax revenues resulting from

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<sup>6</sup> We note, for example, that San Bernardino is geographically the largest county in the US.

businesses writing off the higher property tax costs that would, in most cases, result from reassessments. We recommend that CAA work with the state to develop a similar offset, using state General Fund revenues, to cover any net loss of property tax revenues in smaller counties due to the personal property exemptions.

**Cost Reimbursement.** As noted above, the measure allows counties to withhold some portion of any net additional revenues resulting from the measure to cover their costs of implementation. These costs would include the county assessor costs estimated in this analysis and also costs to other elements of county government, not included in our estimate (e.g., county counsel, appeals boards, auditor and treasurers, etc.). Clearly, other jurisdictions inside each county and the state will have a vested interest in minimizing the amount of additional property tax revenues that go to cover county implementation costs<sup>7</sup>. We therefore recommend that CAA work with the County Supervisors Association of California (CSAC) and the state to ensure that any guidelines for reimbursement of county implementation costs are comprehensive, accurate and fair.

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<sup>7</sup> Increasing property tax revenues reduces the state's share of the costs of K-14 schools. Cities and special districts also receive a share of property tax revenues collected in their counties.