



STATE BOARD OF EQUALIZATION

Paul Waldman _____ Item # ____



Item Name: Info Hearing – Split Roll Initiative

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PUBLIC COMMENT

Split Roll Effect on Practitioners in CA

Presented to:

California State Board of Equalization

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Split Roll

The California Schools and Local Community Funding Act of 2020

Topics

- Split Roll history and current status
- Summary of the split roll initiative (Impacts on RP, PP, and the appeal process)
- What's at stake
- Impacts on Complex Properties
- Taxpayer Rights Affected / Due Process
- Implementation Details Unknown / Problems
- CA County Assessment Appeals & Hearings Backlog Worsens
- CA County Assessment Appeals Process / Procedures in Jeopardy
- Unintended Consequences

Split Roll – History / Current Status

- Split roll = Commercial real property is not protected by Prop 13 limitations
- Sixteen unsuccessful split roll proposals over the years, seven were ballot initiatives with only one making it to the ballot in 1992
- Enough signatures gathered in 2018 to place on 2020 ballot but recently amended in August 2019
 - Amendment needed about 1M signatures, received about 1.7M signatures and has qualified for the November 2020 ballot
 - 2018 Version previously qualified has been withdrawn

Split Roll – Summary - Real Property Impact

- What are the elements of this split roll?
 - Effective January 1, 2022
 - Commercial real estate over \$3 mm in FMV is reassessed every three years or less
 - Residential real estate and commercial agriculture does not get reassessed (stays under Prop 13)
 - ✓ Multi-family housing is also considered residential
 - ✓ Mixed-use property will have protection for residential portion
 - Commercial portion *may* also be exempt from reassessment if 75% of property's square footage or value is residential
 - Property under \$3 mm stays under Prop 13 and will be adjusted annually for inflation every two years using average commercial/industrial market values.
 - ✓ Owner must file annual claim to get exemption from reassessment - failure to file claim waives for that year

Split Roll – Summary - Real Property Impact

- Property under \$3 mm will be reassessed if the ownership (indirectly or directly) has other real estate in the California that in aggregate exceeds \$3 mm in value
 - ✓ Adjusted annually for inflation every two years using average commercial/industrial market values
 - ✓ Does this property get periodically reappraised? A little unclear
 - ✓ Can be appealed to AAB? Says no, only judicial review for abuse of discretion?
- Commercial property reassessed beginning in 2022 and then phase in over 3 yrs
 - ✓ Defer reassessment until 2025-26 for properties where small businesses occupy 50% or more of property
 - ✓ Owner must file a claim – failure to file claim waives for that year
- To qualify as a “small business” they need to:
 - ✓ Have 50 or fewer full-time employees in California
 - ✓ Be independently owned and operated
 - ✓ Owns real property in California

Split Roll – Summary - Personal Property Impact

- Effective January 1, 2024 - Small businesses are exempt from personal property assessments (estimated as 90% of businesses)
- To qualify as a “small business” they need to:
 - ✓ Have 50 or fewer full-time employees in California
 - ✓ Be independently owned and operated
 - ✓ Owns real property in California
 - ✓ Must file a claim
 - ✓ Does this exemption include fixtures, aircraft and vessels?
- Exemption on \$500k of personal property (PP) assessment for all
 - ✓ Fixtures included as TPP for exemption but aircraft and vessels excluded

Split Roll – Summary - Appeal Impact

- In Consultation with County Assessors the Legislature Shall Develop a Process for hearing appeals that is Consistent with the Following:
 - ✓ Shall not include automatic acceptance of the applicant's opinion of values within a given time-frame (i.e. two years as it is now)
 - ✓ Taxpayer will carry burden of proof
 - ✓ Taxpayers will have to provide evidence relevant to their appeal in the initial filing.
 - ✓ Reinforces that judicial review is trial de novo only on issues of law and substantial evidence standard on issues of fact
 - ✓ Taxpayer representatives should be part of the consultation with County Assessors

Split Roll – What's at stake

- TransAmerica Building recently sold
 - The last time it traded was in 1972, before the Prop 13 era
 - Current Assessed value is \$257M, resulting in a tax liability of about \$3M
 - Doing the math, the 1975 assessment would have been about \$117M with a \$1.4M tax (using today's rates).
 - ✓ The increase in assessment over 45 years was 120%
 - ✓ However, the increase in value has been about 500%
 - When the property is reassessed for the new owner, they will be the recipients of a \$700M assessment resulting in about \$8.3M in taxes
 - If the property did not trade, the original owners would receive a 177% increase in their tax bill under the split roll initiative
 - ✓ This is a stark reminder of the tax dollars currently under the protection of Prop 13 and what can happen to long term owners of property

Split Roll –Impact on Complex Property

- Complex Property with high fixturization
 - Are they valuing shell, or fully integrated
 - ✓ How does this relate to the \$3M exemption cap
 - Potential duplication
 - See this as a big issue with industrial properties

Split Roll – Taxpayer rights /Due Process

- With massive volumes of appeals, what shortcuts and/or negative results will be created
- Property under \$3 mm stays under Prop 13 and will be adjusted annually for inflation every two years using average commercial/industrial market values.
 - **Owner must file annual claim to get exemption** from reassessment - failure to file claim waives the exemption for that year
- The 2 year limit to hear an appeal is waived
 - This can create a situation in which assessors could delay cases for a long period of time

Split Roll – Taxpayer rights /Due Process

- Taxpayer must present all evidence at the time of filing
 - This has a major impact to practitioners with a large volume of clients as it would be nearly impossible to put together complete packages on all filings prior to application
- With new manuals being written, what safeguards will there be for taxpayer rights in the weeds of the new procedures?
 - The initiative states the boards will work with the assessors to develop procedures. Will taxpayer representatives be part of this process?
 - The initiative suggest legislation “Notwithstanding current statute”. This suggests they can throw out current statute/protections

Split Roll – Implementation Details

Unknown / Problems

- Property owners with less than an aggregate \$3M of real estate value are exempt
 - How is this determined / what happens when there is a dispute
 - ✓ Can this be appealed and/or are there hearings to determine the value of the other properties?
 - ✓ How do assessors find and track these real estate holdings across counties and among individual LLCs?
 - ✓ Is there a threshold similar to the 5% the board uses in value hearings?
- How will selection of properties be determined in the transition
 - Who is selected for the 1st year, and who gets by with out reassessment for 2 additional years?
 - ✓ Who decides this, and is it uniform throughout the state?

Split Roll – CA County Assessment Appeals & Hearings Backlog Worsens

- This topic touches on several of the other topics
 - With massive volumes of appeals, how will appeal procedures be affected (this relates back to taxpayers rights / due process)?
 - The assessment appeals process / system could be severely strained and put in jeopardy
 - How many years will taxpayers wait for relief from tax bills resulting from an over-assessment?

Split Roll – CA County Assessment Appeals Process / Procedures in Jeopardy

- What shortcuts will be implemented to handle the higher volumes and how will that affect the outcomes of hearings?
- As is the case with assessor's departments, ramping up the personnel on the practitioner side will be equally difficult, causing taxpayers to have difficulty finding competent representation
 - I teach advanced appraisal at the community college level – out of a class of 27, I had a small handful that could potentially be able to do this work. It takes at least a couple of years to get someone to a level that they can handle appeal work.
 - With a massive increase in opportunity, the profession will see a large influx of less qualified practitioners resulting in a decline in competence / professionalism

Split Roll – Unintended Consequences

- The \$3M exemption cap creates several issues
 - Every time this is reset, there is potential for litigation
 - This could have significant impact stunting value appreciation on properties that are near the \$3M value – a slight increase would cause the taxes to significantly increase which would then decrease the value of the property.
- Assessors could choose to be very conservative in their valuations to avoid many of these problems – this would significantly impact the potential tax benefit in doing this
- While there will be issues for both the assessors and the practitioners in ramping up personnel, there would also be difficulty in ramping up board personnel. This could result in potentially less qualified personnel on the board and increased litigation.