TAX WISE
NEWSLETTER

Assessor

Auditor-Controller

Treasurer Tax Collector

Coordinated by Todd Filgas

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HAPPY NEW YEAR!

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By Todd Filgas, Auditor-Controller's Office

It always amazes me that another year has gone by and it is time once again for a new issue of the Taxwise Newsletter. This newsletter began seven years ago as a result of feedback from our first focus group with you, the taxing agencies. The style and format may have changed through the years, but the intent has always been to provide you with information and keep you abreast of any changes.

You may notice that this issue is a little thinner than past issues. I would have to say that the State is largely responsible for this lack of content. There were only two pieces of legislation affecting property taxes from the last session, and as you will read later, although they may have created a lot of work for us, the impact to taxing agencies was minimal to none.

We hope you find this issue pertinent, informative and interesting. We strive to keep you informed on developments in property tax administration both locally and on the State level and to let you know what potential impact they will have on your agency. We are dedicated to meeting your needs and determined to give you the best customer service possible.

We encourage your feedback at:
TaxWise@co.stanislaus.ca.us
Please let us know how the newsletter is meeting your needs and we welcome suggestions for improvement.

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NEW TO THE NET

We received a number of calls after the last tax apportionments because our web site was missing and the special assessment details were not available. The County recently embarked on a major redesigned of its' web site. The intent was to provide a clean, fresh look with user friendly, intuitive, and service driven functionality. In

conjunction with this redesign, we also have a new address. It is:
http://www.stancounty.com/

The Property Tax Administration departments all have a presence on the internet.

The Assessor can be found at:
http://www.stancounty.com/assessor/index.shtm

The Property Tax Division of the Auditor-Controller can be found at:
http://www.stancounty.com/auditor/property-tax-division.shtm
Remember that the Taxing Agency link is a secured site. The User Name is: taxagency and the Password is: pay.$tan

The Treasurer Tax Collector can be found at:
http://www.stancounty.com/tr-tax/index.shtm

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LEGISLATIVE UPDATE

By John Bettencourt, Auditor-Controller's Office

Within the last 12 months, two pieces of legislation affecting property taxes have been signed into law. Assembly Bill 2670, Regulated Railway Company Unitary Property, and Senate Bill 1317, Qualified Property of Public Utilities.

AB 2670 reallocates assessed values of existing railroad track mileage from its specific tax rate area(TRA) to TRA 000-002. 000-002 is a new TRA for fiscal year 2007-2008. The revenues from this new TRA will be apportioned as follows:
2006-2007 Only the affected taxing agencies including ERAF, who have received property tax revenues allocated from the local TRA's in which the track mileage/property are allocated, are to be included in the base revenues for the purpose of computation of the unitary apportion factors for the 1% revenues derived from TRA 000-002. These revenues are considered as the base revenues for the computation of the 2007-2008 factors.
2007-2008 The affected redevelopment area is excluded from the allocation. Each affected taxing entity including ERAF will receive its share for the allocation as if the redevelopment project area does not exist.

SB 1317 related to construction of facilities such as an electrical generation station and transmission facilities that are owned by a public utility. The allocation of the assessed values goes to the county where the qualified property is located as opposed to County-wide. The apportionment of tax revenues is as follows: schools, county, and non-enterprise special districts keep the same share of taxes. The balance is allocated 90% to the city of location, or County, if it is in an unincorporated area, and 10% to the respective agency providing water service to the qualifying property.

We anticipate that the implementation of this legislation will have virtually no effect on taxing agencies.

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DECLINES IN MARKET VALUE

By Doug Harms, Assessor's Office

The residential real estate market in Stanislaus County, both in value and the number of sales, peaked in the summer of 2005. Since then the market has declined county-wide by about 30%. The degree in declines in values varies from city to city and from neighborhood to neighborhood. Perhaps a better indicator in showing the decline in the residential real estate market is the drop in the number of homes sold. During the summer of 2005 about 660 homes sold each month in the county. In more recent months that number has fallen off to 218 homes a month – a 67% drop in sales.
The decaying home market has impacted the Assessor's office in three major ways. First it has

lowered the number of transfers we have to review and appraise, secondly it has caused us to re-appraise over 8,000 properties for declines in value, and lastly it has increased the number of owners appealing their assessed value.

In 2004 the Assessor's office reviewed over 44,000 documents for changes in ownership. For 2007 we will review approximately 28,000 documents for changes in ownership. Historically about one-half of the documents we review result in an event that leads us to reappraise the property. That means appraisers in the office will reappraise about 14,000 properties in the county for 2007 compared to 22,000 in 2004.

While normally this drop in our workload would be a welcome relief it creates other issues that add to our responsibilities. Because property cannot be assessed at more than market value as of each January 1, we must review thousand of homes for declines in value. For the current assessment roll (July 2007 through June 2008) we reviewed thousands of properties to see what their market value was as of January 1, 2007. We found that we needed to lower 8,000 properties because their assessed value was higher than market value. Even after lowering these we are still getting requests from owners asking us to lower their values for the current assessment year. In many cases that is not possible because while the market value for their property today is lower than the assessed value, it was not lower on January 1, 2007.

For the upcoming assessment roll, 2008-2009, we are estimating that we will need to review over 35,000 residential properties for declines in value.

Another issue linked with declines in value that is impacting our office is appeals. Because we make adjustments for declines in value based on whatever the value was as of each January 1, any declines in value after January 1 are not reflected on the assessment roll being prepared. For example, let us say that an owner had bought a house in 2005 for $450,000. We enrolled that value, but on January 1, 2007 the market value of the house had declined to $380,000. We reviewed the property, recognized the decline in value and we enrolled the $380,000 for the 2007-2008 assessment year, which started in July 2007.

Sometime in late September or early October of 2007 the owner of the house got their tax bill. By then, nine to eleven months after we initially determined the assessed value at $380,000, the house's value had declined another $55,000 and was worth only $325,000. Even though we can explain the law and why there is a difference between the amount on their tax bill and the current market value of their home, not surprisingly the owner would rather pay property taxes based on $325,000 rather than $380,000. Since we cannot legally lower the value of their property until we review it for January 1, 2008 we cannot offer them any additional relief on the 2007-2008 assessment. Despite our explanation of the tax laws many taxpayers have filed an appeal based on the additional decline in value that occurred from January 1, 2007 to November 2007. This predicament has led to an increase in our appeals from 200 last year to 1,400 this year.

So how will these events and declining values impact the 2008-2009 assessment roll? The last few years of double digit increases to the assessment roll are over. The question is no longer how much will the assessment roll grow, but rather will it grow at all, or more drastically, will it decline.

On the surface it would appear that considering the significant decline in the residential market the assessment roll would have to decline. However, since the assessment roll is composed of a broad range of properties and the assessed values include many properties with older values, it is less susceptible to short-term market conditions. A drop in the current market value in residential properties does not change the assessed values of commercial property, or industrial property, or farm property. Moreover declines in value do not affect assessed values established for transfers that transpired years ago.

There are over 177,000 assessments documented on the assessment roll and we will be reviewing less than 20% of those for declines in value. Meanwhile, properties will increase by at least 2%, and those properties involved in recent transfers, or have undergone new construction in 2007, will increase by more than 2%.

It is too early to give an informed estimate of where the assessment roll is heading. In the mid-

1990's, during the last slump in the real estate market, the smallest increase to the assessment roll was 1.9%. Based on that experience I would guess that there will be a modest increase in the 2008-2009 assessment roll.

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TAX RECORDS NOW ON COMPUTER

By Gordon Ford, Treasurer Tax Collector's Office

In 2002, Stanislaus County entered into a Software License Agreement with Megabyte Systems, Inc. During the conversion to the Megabyte tax system, we experienced some problems that typically occur when switching to a new system. A number of delinquent secured tax records were not able to migrate over to the new system. For several years, it became necessary to refer to both the Megabyte system and prior systems or paper documents when dealing with delinquent records. I am happy to report that the County has completed the work of bringing the problem records over to Megabyte so that all tax records are on the Megabyte system.

The Tax Collector is also working with Megabyte staff to develop a program to move unsecured tax information to Revenue Recovery. When unsecured property taxes become delinquent, a lien is placed on the individual and the account is transferred to Revenue Recovery for collection. This benefits taxing agencies, because the Revenue Recovery area has the resources and training specific to the collection of unsecured debt. We undoubtedly will experience a better collection rate on these accounts as a result of the transfer.

In 2007 the Assessor, collaborating with Megabyte and County IT, provided improvements in access to property assessment information. The Tax Collector is working with County IT to see if it is possible to provide better access to tax billing and collection information.

The Tax Collection and the Revenue Recovery areas are doing their best, subject to the constraints of State law and local ordinances, to further streamline property tax billing and collection.

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A LOOK AT FORECLOSURES

By Ray Rasmussen, Auditor-Controller's Office

An article on 60 Minutes last night (Jan 27, 2008) featured Stockton, CA as the foreclosure capital of the United States. It featured homeowners, real estate agents, and bankers and focused upon the devastation caused by sub-prime loans to each. But what about taxing agencies? What impact does the soft real estate market have upon taxing agencies?

The answer is not an easy one. One would expect that, if homeowners are no longer making mortgage payments, they are no longer paying property taxes also. This would certainly be true when taxes and insurance are included in the monthly mortgage payment. And it would also be likely that even in the case were there was not an impound account, homeowners in default on their mortgage payments would also be in default on their property taxes.

At the time this article is being written (Jan 28, 2008) the tax roll statistics are telling us, that for the present year, there may not be a significant impact on property tax revenues. The net effect of roll changes to date shows a less than 1% increase (basically no change) since the beginning of the tax year on July 1, 2007. The Assessor has been sending through a large volume of residential roll changes that decreases the charge, but these changes have been offset by other roll changes of one sort or another that have neutralized the residential reductions. Tax collections are lagging by about 1.2% compared to last year at this time, but the general feeling is, the delinquency percentage will increase by year's end. The redeeming factor, in this case, is that the Secured Roll is apportioned on an accrual basis as opposed to a cash basis. That means that taxes will be apportioned to the districts regardless of how much of the Secured Tax Roll is actually collected.

So when and where will the current real estate malaise affect property tax revenues for taxing agencies? The answer might be no further away than next year. The areas that may be affected are:

1. A decrease in the assessed valuation growth compared to previous years.

A couple of years ago we were experiencing a growth rate in assessed value in excess of 10% per year. This year the assessed valuation increased at a rate of 9.81% and the Assessor is expecting next years increase to be in the range of 0% to 2%. Obviously, less value translates into less property tax revenues.

2. A decrease in Property Taxes In-Lieu of Vehicle License Fees

Since the Property Taxes In-Lieu of Vehicle License Fees is increased each year by the percentage increase in assessed values, the County and cities will not experience increase in these revenues of the magnitude realized in the past. Correspondingly, the negative ERAF amount caused by funding the In-Lieu will be less and school districts will receive an unquantifiable increase, relatively speaking, in property tax revenues as a result.

3. Supplemental Property Tax Revenues

As we mentioned earlier, supplemental activity has slowed down. Our supplemental extensions have not been as much in the past. In addition to that, one might expect activity in the foreseeable future to yield a larger proportion of supplemental tax refunds than in the past. These refunds directly impact the supplemental property tax revenues of every taxing agency in the county.

4. Direct Assessments

The area that increased delinquencies will be felt immediately is the direct assessments. As these charges are not teetered, each direct taxing agency will incur a higher delinquency rate corresponding to the delinquent parcels in their district. That being said, it is not all bad news. Due to the large number of foreclosures, these bank owned parcels will be turned over much faster than would otherwise be the case with a delinquent property. When the property is sold, delinquent taxes will be paid. The typical time frame for repayment of delinquent taxes can be up to seven years if it goes to a tax sale. Although the short term effect will be higher delinquency, the repayment of these foreclosed parcels should be relatively short.

5. ERAF IV?

The State of California is facing a budget deficit that some have projected as high as $14 billion. The governor has ordered all state departments to cut spending by 10% in the current year. This may help, but most likely will not eliminate the projected deficit for FY 2008/2009. Historically, the state legislature has often turned to local government coffers to balance the budget. The initial foray (ERAF I) came in FY 1992/93. The next year ERAF II balanced the budget with new round draconian increases in the amounts that local government agencies had to contribute to ERAF. ERAF I and II are permanent diversions of property tax revenues. In 2005/06 the state again went to local government for help with ERAF III. This particular measure diverted funds for two years.

Even with some protection from future incursions granted by Proposition 1A, local governments are still at risk. The State has proven to be very adept and creative when it comes to circumventing the requirements of law in order to balance the budget at local governments expense.

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DID I MISS THE FOCUS GROUP?

By Todd Filgas, Auditor-Controller's Office

In the past, our efforts have included focus group sessions with the taxing agencies to elicit feedback on how best to meet your needs. In attempting to broaden our response base and improve our service to all agencies, we have elected to try another methodology. This year, we have sent out an online survey. If you have not already completed our survey, we encourage you to do so at the following link:

Taxing Agency Survey

Also, feel free to pass this on to anyone within your agency who could provide feedback on the services of the Auditor-Controller's Property Tax Division.

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FAREWELL

By Angelina Munoz, Auditor-Controller's Office

There is a bittersweet atmosphere in the Property Tax Division this year. One of our valuable employees has been promoted to a new position outside of our division. Since January 1998, John Bettencourt has been working in property taxes. Over the past decade, he has performed a variety of accounting functions such as tax apportionments (secured, unsecured, delinquent and supplemental), direct assessment processing, AB 8 factor calculations and preparation of various state-mandated reports, just to name a few. During his time with the property tax division there was a major system change with the conversion from the mainframe-based CPATS information system to the client-server based MPTS2000 system, by Megabyte Systems, Inc. John handled this complex conversion with ease, becoming an expert in its functionality.

We're glad to say John is not leaving the Auditor's office, only the Property Tax Division. As of January 22, he began working in the Cost Accounting (CAP) Division, dealing with internal service department billings, the County's Cost Plan and assisting with budgeting for County departments that receive charges from other County overhead and internal service departments.

Since his physical location has changed very little, he will have the same e-mail address and will be assisting Ray and Todd during this transition. We congratulate him and wish him the best in his new position. We're sure he will be a valuable asset to his new division as well.

CONTACT INFORMATION

Do you have a question for the County about property taxes, but you're not quite sure whom to ask? Maybe we can help. Here are three people who are very knowledgeable about their respective departments and are anxious to be of assistance to you:

Don Oppman
Assessor's Office
(209) 525-7623
oppmand@co.stanislaus.ca.us

Jegan Raja
Tax Collector's Office
(209) 525-6400
rajaj@co.stanislaus.ca.us

Ray Rasmussen
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