State of California

Memorandum

Board of Equalization
Research and Statistics Section - MIC: 67
Telephone: (916) 445-0840

To: Mark Ibele, Staff Director
California Commission on the 21st Century Economy
(sent via e-mail)

Date : April 7, 2009

From: Robert Ingenito, Chief
Research and Statistics

Subject : Change in Ownership Property Tax Revenue Estimate

This responds to your request that we provide you with a revenue estimate assocated with modifying current law with respect to "change in ownership" for the purpose of calculating assessed value. Specifically, you requested that we update our revenue estimate that was done the last time such a proposal was introducd in the Legislature (SB 17, Escutia, in 2005).

Proposal

SB 17 would provide that when ownership interests in a legal entity, as defined, are transferred, the real property directly or indirectly owned by that legal entity has changed ownership in proportion to that portion of the ownership interests in the entity that were transferred. This bill would also provide that all of the real property owned by a legal entity in the state has undergone a change in ownership when over 50% of the ownership interests in that entity have been transferred, as specified. For a publicly traded company, the bill provides that all of the real property owned by the company in the state has undergone a change in ownership when over 50% of the ownership interests in that company have been transferred. This specific bill would have established a rebuttable presumption that, as of January 1, 2006, and on January 1 of each 3rd fiscal year thereafter, all of the real property owned by a publicly traded company in the state has undergone a change in ownership.

Background, Methodology, and Assumptions

Under current property tax law, with respect to ownership interests in legal entities that own real property, a change in ownership of the real property owned is triggered when there has been a "change in control" or a "change in ownership" of the legal entity. "Change in control" is defined to occur when a person or entity acquires more than 50 percent of the ownership interests in the legal entity. A "change in ownership" occurs when there is a transfer of more than 50% of the total ownership interest by any "original co owners" in the entity. ("Original co owners" are persons or entities who previously transferred the real property into the entity under the proportional interest exclusion in Section 62(a)(2)). The exception occurs when there are no "original co owners" and 50% or less of the ownership interests in the legal entity are transferred. Under this exception, an entity may undergo a complete turnover in a series of transfers, none of which exceed 50%, and the real property owned by the legal entity may not be reassessed.

This bill would require property owned by legal entities to be reassessed whenever any ownership interest in the legal entity have transferred. The reassessment shall be in proportion to that portion of the ownership interests that have been transferred. It would also require the entire property to be reassessed when more than 50 percent of the ownership interests in the legal entity are transferred either individually or cumulatively. Further it would require publicly traded companies to be reassessed every three years by making a rebuttable assumption that these companies have undergone a change in ownership every three years.

This bill would necessitate that real property owned by legal entities be reassessed more often than they are under current law. This would result in an increase in assessed value and an increase in property tax revenue.

It is not possible to estimate the increase in property tax revenues with any degree of certainty. We do not know how much property is owned in California by legal entities that would be affected by this proposal. We do not know the current assessed value of this property nor do we know the actual market value of this property. Other than publicly traded companies, we have no information on how often these properties would be reassessed based on the change in ownership provisions of this proposal.

We can however, attempt to make some assumptions with regard to the amount of property under consideration in order to give an indication of the order of magnitude of the revenue gain.

The following table shows the estimated distribution of assessed value on the 2003-04 roll by property type. Values include the homeowners' exemption but exclude all other exemptions.

Locally Assessed Real Property By Property Type	2006-07 Assessed Value (in billions)
Single Family Residential	$2,246.9
Vacant Residential Land	57.4
Multiple Family Residential	355.9
Rural and Timber	112.5
Commercial/Industrial	1,007.8
Other	21.8
Total	$3,802.2

The property type "Other" contains properties that do not clearly lend themselves to categorization. Examples of properties that might be included are water rights, publicly owned properties, timeshares, and vacant land the use of which is unidentified.

Information from one county allows us to make an estimate of the percentage of property that is owned by legal entities. (These percentages are from one county only and could vary significantly from county to county.) Los Angeles County attempted to match the list of publicly traded companies maintained by the Secretary of State with their roll of property owners of commercial/industrial property. They found that only about 2.0% of the commercial/industrial property was owned by publicly traded companies. The following table uses these two studies to estimate the portion of the assessed value that would be owned by legal entities and by publicly traded companies.

Locally Assessed Real Property By Property Type	2006-07 Assessed Value	Legal Entity Percent	Legal Entity AV	Publicly Traded Percent	Publicly Traded AV
	(amounts in billions of dollars)				
Single Family Residential	2,246.9	1.0%	22.5	2.0%	0.4
Vacant Residential Land	57.4	49.3%	28.3	2.0%	0.6
Multiple Family Residential	355.9	39.7%	141.3	2.0%	2.8
Rural and Timber *	66.3	46.0%	30.5	2.0%	0.6
Commercial/Industrial	1,007.8	46.0%	463.6	2.0%	9.3
Other	21.8	46.0%	10.0	2.0%	0.2
Total	3,756.1	18.5%	696.2		13.9

* The rural and timber amount has been adjusted to account for the fact that 59% of these properties are valued under open space land, farmland and timber preservation zone restrictions.

Publicly Traded Companies

Property owned by publicly traded companies will be reassessed as of January 1, 2006 for the 2006-07 fiscal year. The Board does a study each year to determine the effective assessment level for commercial/industrial property in order to determine the assessment level for rail transportation property. The latest study, completed in May of 2008 was based on information from the 2006-07 assessment roll. That study found that the effective assessment level for locally assessed real commercial/industrial property was 59.94%. If we apply this ratio to the assessed value estimated above, we can calculate the market value of this property. The following table shows the estimated market value and the estimated revenue gain at the basic 1% property tax rate associated with these properties.

	2006-07 Assessed Value	Ratio	Estimated 2006-07 FCV	Diff.	Revenue Gain @ 1%
	(amounts in millions of dollars)				
Single Family Residential	449.4	59.94%	749.7	300.3	3.0
Vacant Residential Land	565.9	59.94%	944.1	378.2	3.8
Multiple Family Residential	2,825.9	59.94%	4,714.6	1,888.7	18.9
Rural and Timber *	610.4	59.94%	1,018.3	408.0	4.1
Commercial/Industrial	9,272.0	59.94%	15,468.8	6,196.8	62.0
Other	200.2	59.94%	334.0	133.8	1.3
	13,923.8		23,229.6	9,305.8	93.1

Legal Entities (Other Than Publicly Traded Companies)

This bill would require property owned by legal entities to be reassessed whenever any ownership interest in the legal entity have transferred. The reassessment shall be in proportion to that portion of the ownership interests that have been transferred. It would also require the entire property to be reassessed when more than 50 percent of the ownership interests in the legal entity are transferred either individually or cumulatively.

It is not possible to predict which properties and what portion of those properties will need to be reassessed each year. However, if we assume that 10 percent of the assessed value will have changed ownership each year, the revenue impact would be as shown in the following table.

	2006-07 Assessed Value	Ratio	Estimated 2006-07 FCV	Diff.	Annual Increase @ 10%	Revenue Gain @ 1%
	(amounts in billions of dollars)					
Single Family Residential	22.0	59.94%	36.7	14.7	1.5	0.015
Vacant Residential Land	27.7	59.94%	46.3	18.5	1.9	0.019
Multiple Family Residential	138.5	59.94%	231.0	92.5	9.3	0.093
Rural and Timber *	29.9	59.94%	49.9	20.0	2.0	0.020
Commercial/Industrial	454.3	59.94%	758.0	303.6	30.4	0.304
Other	9.8	59.94%	16.4	6.6	0.7	0.007
	682.3		1,138.2	456.0	45.6	0.456

Revenue Summary

The revenue gain during the 2006-07 fiscal year could amount to $549 million, which would consist of $93 million for property owned by publicly traded companies and an additional $456 million for the proportional reassessment of property owned by legal entities other than publicly traded companies.

Qualifying Remarks

The above revenue estimate is based on limited data from only two counties. The estimate was prepared to give an indication of the order of magnitude of the revenue impact of this proposal. The revenue impact will vary from year to year as property owned by publicly traded companies will be reassessed every three years. Property owned by legal entities will be proportionally reassessed based on the portion of the ownerships interest transferred in any given year. Also, once the cumulative portion of the ownership interests that are transferred become more than 50%, the entire property will be reassessed.

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