



Legislation Text

File #: 2021-1188, **Version:** 1

To: Sonoma County Board of Supervisors
Department or Agency Name(s): Clerk-Recorder-Assessor
Staff Name and Phone Number: Rhiannon Yeager, (707) 565-1866
Vote Requirement: 4/5th
Supervisorial District(s): Countywide

Title:

Implementation of Proposition 19

Recommended Action:

- A) Adopt a Resolution amending department allocation list to add 1.0 time-limited Appraiser III and 1.0 time-limited Clerk-Recorder-Assessor Specialist II for a three-year term in the Assessor division effective December 28, 2021.
- B) Authorize use of \$387,817 in FY 2021-22 General Fund Contingencies to fund 2.0 time limited positions to support Proposition 19 workload, procure Just Appraised deed processing software, and development of a database for state reporting requirements.

(4/5th Vote Required)

Executive Summary:

Proposition 19, the Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disasters Act, was approved by voters in the November 2020 election. This new legislation created a new exclusion from change in ownership for transfers of family homes between parents and children and grandparents and grandchildren (intergenerational transfer exclusions), making homeowners' exclusions a requirement for approval, as well as makes changes to transfers of property tax base for 55+ in age, severely disabled and disaster relief. The effect of the law will increase the workload in the Assessor's Office by mandating increased state reporting requirements, increasing the number of available transfers and the related appraisals, and requiring more complex value calculations. Although fewer intergenerational transfer exclusions will be allowable under Proposition 19, all now require appraisals and annual review. The flexibility of property tax base year transfers for home owners has increased, which requires more appraisals to be performed. Additionally, Proposition 19 requires quarterly and annual reporting to the California Board of Equalization (BOE) and annual reporting to the Auditor-Controller-Treasurer-Tax Collector, who must report to the California Department of Tax and Fee Administration (CDTFA).

The department is requesting addition of 1.0 time-limited Appraiser and 1.0 time-limited Clerk-Recorder-Assessor Specialist for a three-year term to address the increased workload resulting from Proposition 19 and \$387,817 in current year GF Contingencies to finance position costs, a deed processing software that will automate and streamline change in ownership determinations, and development of a database to meet state reporting requirements. The Board's Use of General Fund Contingencies Policy states that decisions on use of contingencies should only occur at the Board's annual budget hearings, and during mid-year budget updates, however staff is requesting an exception to Board policy given Propositions 19 provisions went into effect on

February 16 and April 1 of this year and the Board provided direction to staff during FY 21-22 budget hearings to return during the first quarter to consider resource needs.

Discussion:

Proposition 13, under Article XIII A of the California Constitution, was enacted by voters in 1978, limiting property taxes to 1% of the assessed value. A property is only reassessed at a change in ownership or new construction which would establish a new base year value. After a base year value is established, the property value can only increase by the Consumer Price Index (CPI) inflation factor determined by the State Board of Equalization and not to exceed 2% a year.

On November 3, 2020, California voters approved Proposition 19, the Home Protection for Seniors, Severely Disabled, Families and Victims of Wildfire or Natural Disasters Act. Proposition 19 is a constitutional amendment that limits intergenerational transfer exemptions to primary residences, and also allows homeowners who are over 55 years of age, disabled, or victims of a wildfire or natural disaster to transfer their assessed value of their primary home to a newly purchased or newly constructed replacement primary residence up to three times anywhere in the state of California. This provides an additional exclusion to Proposition 50, and eliminates the previous transfers allowed by Propositions 60/90/110. The effective date of the intergenerational transfer exclusions under Proposition 19 was February 16, 2021. The effective date of the base year transfers was April 1, 2021.

Proposition 19 Changes

Intergenerational Transfers

An intergenerational transfer is one between parents and children, or between grandparents and grandchildren, where the intervening generation of parents is deceased. Under previous law intergenerational transfer exclusions, often called parent-to-child and grandparent-to-grandchild exclusions, parents, grandparents and children were allowed to pass on the existing assessed values of their primary residence and other properties up to \$1 million in assessed values without reassessment. It did not require a market value determination or calculation upon exclusion being approved.

Under Proposition 19, to qualify for the exclusion from reassessment, an intergenerational transfer must be the transferor's principal residence, and the transferee must make the property his/her principal residence and must apply for a homeowner's exemption or disabled veteran's exemption within 1 year of transfer to qualify. After these qualifications are met, the Assessor's office must determine the fair market value of the transferred property at the time of the transfer and apply a \$1 million-dollar allowance to the Prop 13 value of the property. This allowed value is compared to the fair market value. Any overage is added to the Prop 13 value and becomes the new Prop 13 value of the transferred property. If at any time, the homeowner's exemption is removed, the Assessor's office is mandated to enroll the market value determined at the transfer date with all necessary Consumer Price Index (CPI) inflation factors applied to the lien date following the removal of the homeowner's exemption.

Proposition 19 also allows for an exclusion for Family Farms, which has been defined as a legal parcel. The same value consideration is given to Family Farms and primary residences. A requirement for Family Farms is that the legal parcel must be used as defined by Section 51201 of the Government Code.

Base Year Value Transfers

Under the previous law, base year value transfers could only be done once per person, and only within the County of residence, or to a few specific counties who had passed ordinances to allow transfers from other counties. Only 10 counties allowed these transfers for individuals over 55 or disabled, and Sonoma County was not one of them. Sonoma County did allow inter-county base year value transfers specific to Governor declared disasters.

The base year value transfer component of Proposition 19 allows eligible homeowners to transfer their property tax base year of their primary home to a newly purchased or constructed home up to three times anywhere in California. In addition, the buyer can transfer their lower assessed property value to a replacement property of higher market value than the original property market value. The additional market value is added to the existing Proposition 13 value to create the new factored base year. Applicants must purchase or newly construct their home within two years of the original property sales date. One leg of this transaction must occur on or after the April 1, 2021 effective date of Proposition 19.

Proposition 19 Staffing and Resource Needs

Time-Limited Appraiser III

A time-limited Appraiser position will help address the expected Proposition 19 workload increase for the Real Property unit. The Assessor's Office has seen an average of 1,500 parent-to-child and grandparent-to-grandchild exclusions filed annually over the past several years. There is no clear data on how many of these transfers would be eligible for exclusion under Proposition 19, because primary residence data was not required or tracked previously. Making an estimate that 75% of the properties would be eligible for the exclusion under Proposition 19, this would add approximately 1,125 additional appraisals to the current workload which is equivalent to the average workload of a trained Appraiser. This appraisal and value calculation cannot be completed though any computer-aided mass appraisal (CAMA) system, which can identify comparable properties for assessment purposes, but cannot perform the value calculations needed for Proposition 19. It must be done on an individual basis by an appraiser. The proposed position will assist with the anticipated increase in transfers from property owners who inherit property that will now be required to be reassessed due to the principal residence requirement. Of note, an Appraiser is generally considered to be fully trained after 3 years of employment due to the certifications required and the complex nature of the work.

Additionally, the ability to transfer a property tax base year value anywhere in the state will increase the number of base year transfers both into and out of the county. These base year transfers will require appraisals for properties located in Sonoma County, one for the new property purchased and one for the previous property sold. To date, the Assessor's office has received 99 claims from properties owners transferring their base from other counties into Sonoma County.

Time-Limited CRA Specialist II

As transfers are recorded, the Ownership unit will need to analyze those transfers that may qualify under Proposition 19 as either an intergeneration transfer exclusion or base year transfer. The Ownership team will send the property owner the appropriate claim form and should there be a base year transfer with a different county involved, a value certification form will be mailed to that county upon the homeowner's submittal of a claim form. If another county receives a Proposition 19 claim which originated in Sonoma County, the other

County will mail a value certification form to the Ownership unit. An addition of one time-limited CRA Specialist will provide needed support for the increase in customer service needs particularly increase in phone calls and lobby visits due to the passage of Proposition 19, as well as mailing and collecting claim forms, and tracking to ensure the claims are complying with timing requirements, and tracked to meet mandates for state reporting. The Assessor's office has received 245 claim forms for Proposition 19, of which 193 are base year transfers and 52 are intergenerational transfers.

Just Appraised Deed Processing Software Solution.

Prior to the effective date of Proposition 19 for intergeneration transfers, the Records office saw a large increase in recorded documents of owners trying to record before the new legislation took effect. The Ownership unit is currently 5 months behind in analyzing deeds and processing changes of ownership due to this increase, as well as the increase in change in ownerships due to sales over the last few years. At the time annual tax bills were mailed, homeowners who purchased within the last 5 months did not receive their annual tax bill; instead it was sent to the prior owner because the change in ownership has not been analyzed or keyed into the system.

In addition to staffing resources, the department proposes to procure a software solution to handle the increase in overall transfers needing to be processed, address the current backlog, and achieve efficiencies that include having trained, certified staff concentrate on more technical work related to Proposition 19. Just Appraised is a software program that provides workflow management to process transfers using artificial intelligence (AI) technology eliminating the need for manual data entry.

Currently, certified staff in the Ownership unit review each transfer document that is recorded or received via the California Board of Equalization. Staff manually key the Assessor Parcel Number, grantee names, mailing address, and will make an ownership determination about the transfer and if it is a reappraisable event. They will review the legal description to ensure accuracy and pass documents along to the Mapping unit that need legal description clarification or need action by the Mapping division, such as lot line adjustments or subdivisions.

As transfers are processed manually in the Ownership unit, claim forms are mailed to eligible owners and a work event is created for the real property unit for the appraisal.

The Just Appraised software solution, recognizes text within the images of transfer documents, extracts necessary information including the ownership determination, performs the required data entry for grantees and mailing addresses, is reviewed and quality checked by staff and then is imported into Megabyte, the property tax software used by the Assessor's office. The results will be pushed into the Megabyte system in real time with an appraisal control record created for reappraisal, thus eliminating an estimated 85% - 95% of the manual processing and data entry. This system has currently been in use in San Joaquin County Assessor's Office for over one year purchased to meet the burden of the high deed volume and not having the ability to upstaff to keep pace with deeds. This system is also being implemented in several other CA counties to assist with the increase in workload resulting from Proposition 19 including Monterey, Solano and Placer Counties. A trained Assessment Specialist can manually process up to 60 deeds in one day. Just Appraised is expected to process 180 deeds per day with review from the Assessment Specialists. The use of the technology will increase the capacity of existing trained, certified staff, and allow them to absorb the increase in workload resulting from Proposition 19 as well as provide a workflow system for a CRA Specialist to mail necessary claim

forms within a reasonable time to meet timing requirements from Proposition 19. The current backlog of transfer processing in the Assessor's office of 5 months. With Just Appraised, transfers are expected to be processed within 2 weeks of a transfer document recording.

The cost for Just Appraised will be \$57,000 for FY 21/22 with an ongoing annual cost of \$102,000 per year. Also, Megabyte Systems has a one-time integration cost of \$25,000, and for FY 21/22 and beyond an ongoing cost of \$5,000 per year.

Database for State Reporting Requirements

Proposition 19 creates new reporting mandates for both the Assessor and Auditor's Offices. The Assessor is required to report annually to the Auditor's Office, who must then report to the California Department of Tax and Fee Administration (CDTFA). The information required to be reported includes all decreases to the assessment roll for base year transfers from other counties into Sonoma County, all increases to the assessment roll for transfers to other counties from Sonoma County, and all increases to the assessment roll related to intergenerational transfers, if the market value exceeds the allowance limit for the exclusion.

Additionally, on a quarterly basis, the Assessor must report to the California Board of Equalization (BOE) a report that lists each claim filed and approved for Proposition 19. This data includes information regarding the transferor, transferee, property, and date of transfer. For annual reporting to the BOE and internal tracking purposes, the Assessor needs to track all claims filed, if they are approved or denied, dates of transfer and claim, and type of claim and filing. The system should also be able to print letters and claim forms, provide assistance with value calculations and provide workflow between the department units.

The Assessor has worked with the Information Systems Department (ISD) to determine the proper method for the required tracking and reporting. The work to create the needed database would be done by ISD at an estimated cost of \$194,760.

Staffing, Workflow, and Technology Summary.

The anticipated workload created from Proposition 19 to the real property appraisal unit is expected to be an increase of more than one regular workload of a fully trained appraiser. Because intergenerational transfers now require an appraisal, in addition to the ability to transfer a base year multiple times to a property of higher market value anywhere in the county, we currently anticipate an additional 2,000 appraisals per year more than usual. The disaster relief component of Proposition 19 and the increase of wildfires in recent years could increase transfers into our county as property owners sell their damaged property in other counties. While the ability to transfer into Sonoma County due to a governor declared disaster existed under Proposition 171, Proposition 19 eliminates the requirement for equal or lesser value that Proposition 171 imposed.

To facilitate this new constitutional mandate, the Assessor's office will need to create new workflow and a database system to accurately track and report all events that occur due to Proposition 19. With the current backlog due to multiple wildfire disasters, and an increase in sales and new construction, taxpayers are seeing a backlog of approximately five months before the office processes a deed and nine months before they are accurately assessed. The increase in workload generated from this legislation is estimated to increase the backlog to more than 12 months. Our request for additional resources will only address the Proposition 19 workload and not the already existing backlog.

Proposition 19 requires immediate action from the Assessor’s Office. In order to meet the new constitutional mandates, the Assessor’s office will need the help of additional staff and technical tools. At this time, the Assessor’s office is requesting 1 Real Property Appraiser and 1 CRA Specialist to implement Proposition 19. The Just Appraised software will create efficiencies within the ownership unit and allow the staff to focus on the new requirements of Proposition 19 as opposed to data entry. It will also serve taxpayers waiting on reasonable reassessment decisions from the office. The addition of a CRA Specialist to facilitate the increased customer service needs of Proposition 19 as well as the increase in claim forms and creation of new parcels from Family Farm transfers, will assist our more specialized positions, allowing them to focus on the technical aspects of Proposition 19. Additionally, the real property unit will need a fully trained appraiser to manage the increase of reassessable events created by Proposition 19. There is currently no system created that will facilitate all of the requirements and the mandated reporting. A database will need to be created to track gains and losses, claim forms and facilitate the increase in workload as required by the State. Staff time will be monitored and tracked using Time Saver Codes and reporting available from Just Appraised. Based on Proposition 19 work received and staff time reports, the Assessor’s Office will be able to report back to the Board when data is available to communicate future staffing needs.

The Assessor’s Office plans to come back to the Board of Supervisors in the future to request additional staff as necessary, when more data regarding Proposition 19 claims are available.

Strategic Plan:

N/A

Prior Board Actions:

N/A

FISCAL SUMMARY

Expenditures	FY 21-22 Adopted	FY 22-23 Projected	FY 23-24 Projected
Budgeted Expenses		386,324	386,324
Additional Appropriation Requested	387,817		
Total Expenditures	387,817	386,324	386,324
Funding Sources			
General Fund/WA GF	387,817	386,324	386,324
State/Federal			
Fees/Other			
Use of Fund Balance			
Contingencies			
Total Sources	387,817	386,324	386,324

Narrative Explanation of Fiscal Impacts:

Additional appropriations requested for FY 21-22 includes \$47,339 for a CRA Specialist II and \$57,718 for an Appraiser III from 12/28/21 to 6/30/22 and \$6,000 for IT and network costs, one-time cost of \$194,760 for

Information Systems to develop a database for Prop 19 reporting requirements, and \$82,000 for the implementation and training of Just Appraised software, for a total of \$387,817. If approved, a budget adjustment will be requested as part of Q2 Consolidated Budget Adjustments.

The annual cost for the CRA Specialist II is \$113,768, \$159,556 for an Appraiser III, and \$6,000 for the associated IT and network costs, \$102,000 for the Just Appraised software, and \$5,000 for Megabyte integration fees associated with Just Appraised, for ongoing annual costs of \$386,324. Appropriations will be requested as part of the 22/23 and 23/24 budget process.

The total cost for three years is \$1,353,627.

FY 21/22 \$387,817

FY 22/23 \$386,324

FY 23/24 \$386,324

FY 24/25 \$193,162 (through December 28, 2024)

Staffing Impacts:			
Position Title (Payroll Classification)	Monthly Salary Range (A-I Step)	Additions (Number)	Deletions (Number)
CRA Specialist	21.84-26.54	1.0	
Real Property Appraiser	33.89-41.19	1.0	

Narrative Explanation of Staffing Impacts (If Required):

Add two time-limited FTE positions to process the increase in workload due to the passing of Proposition 19.

Attachments:

Resolution adding Proposition 19 term limited allocations

Related Items "On File" with the Clerk of the Board:

N/A