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## **Economy & Efficiency Commission Presentation**

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*Editorial Note: Although every effort has been made to insure the accuracy of the material in this presentation, the scope of the material covered and the discussions undertaken lends itself to the possibility of minor transcription misinterpretations.*

**PRESENTATION BY  
Mr. Rick Auerbach  
Assessor, Los Angeles County**

**Topic: The Impact of Property Values on Los Angeles County**

**November 4, 2004**

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Chairman Philibosian introduced Mr. Auerbach and welcomed them to the Commission.

### **Introduction**

Mr. Auerbach commented that his expertise is in the area of property values and assessing values of these properties which may be different from actual value, because of the limitations on value increases mandated by Proposition 13. Since property values in Los Angeles County have been going up they have been a major factor in the growth of the county's economy. The refinancing surge has led to increased consumer spending which has also helped the economy. Mr. Auerbach explained that the main job of the Assessor's Office is to produce the assessment roll. The assessment roll for last year which was \$781 billion represents the value of the property in the county under Proposition 13. The property that has been assessed within the county consists of 2.3 million parcels of real estate and 300,000 business properties. Business properties consist of things such as, desk, chairs, machinery, and even commercial aircraft. In the last 3½ years from January 2001 to June 2004 there have been major price increases on property, which have essentially doubled property values. Statistical information from the Assessor's Office from January 2001 to June 2004 showed the median price of condominiums has increased from \$166,000 to \$300,040, a 105% increase. For detached single family homes of homes that have sold, the median price has increased from \$227,000 to \$450,000, a 98% increase. There was a slight reduction in median price in both July and August 2004.

### **Change of Ownership & Construction on Property**

The Assessor's Office also reappraises property when there is a change of ownership or construction on the property. Change of ownership is the main item of increase in the assessment roll, showing an increase in 2004 of about 7.6%, in 2003 about 7.1 to 7.2% and in 2002 about 7%. There has been an incremental difference in what property has been assessed at and its new value upon sale. This increment has increased since property values have been going up at about 25% per year. During the year 2000 the average increase in single family homes was about \$67,000. In 2003, the increase was about \$155,000 and 2004 it is about \$210,000. This shows the difference between the old and new property tax value.

The Assessor's Office main workload lies in the change of ownership. Throughout this process deeds are being recorded with the County Recorder. In the mid 90's, there were 350,000 deeds recorded each year, in the year 2002 there were 480,000, in 2003 there were 550,000, and in 2004 is estimated to be about 525,000. In spite of the increased workload there has been no increase in the number of staff, and although there has been an increase in overtime. In 2000, a new system, which used images of deeds from the Recorder's Office instead of paper copies, was implemented to help insure accuracy. For example, the Staples deed for the property sold in 1999 during the time of the conversion was either not delivered to or lost by the Assessor's Office. The audit program developed in 1992, which runs a tape of recorded deeds from the Register Recorder against the Assessor's completed database, should have caught the mistake. The sale of the Staples property transferred ownership from an exempt to a tax paying entity. In most cases, property transfers from tax paying entity to a tax paying entity. Since the previous owner was the city Los Angeles and they never received a bill, the Assessor's Office was never contacted about the mistake. The audit program will be run for 2004 and will be re-run for 1999 to make sure nothing else was missed.

### **Updated computer system for better efficiency**

Mr. Auerbach explained that a new "secured" computer system which holds ownership data, helps reappraise the property, sends work flow to the appraisers and then transfers that data to the Auditor Controller and the Tax Collector would help the efficiency of the Assessor's Office. The current system was developed in 1975 and is in need of a redesign. The bids for updating the system have varied because the vendors said the requirements were not adequate. A vendor was hired to develop the requirements, but as a result of several problems it was necessary for the Assessor's Office to complete these requirements. It is anticipated that these requirements will be completed at the end of the year. The RFP should then be available sometime in spring. The price for the new software system is estimated to be between \$20-40 million based upon the size and needs of the county. Mr. Auerbach clarified that he will not recommend a contract be signed by the Board of Supervisors unless he is sure that the process will be something the Assessor's Office will be able to complete.

### **Community Advisory Committees**

The Assessor's Office has Community Advisory Committees who provide advice on the efficiency of the office. The Realtor Committee suggested a notification to new homeowners about home owner exemption claims and the supplemental property tax bill. In 1983, the supplemental assessment was created to close the state's budget gap. This tax only exists in the State of California. Also, impound accounts are a problem because they generally don't cover the supplemental. In the past, property was appraised every year on the lien date. With the supplemental property tax bill, homeowners pay on the new value from the time of purchase or after the appraisal of new construction. The tax bill is confusing and causes problems because people don't either understand it, and/or do not save enough money to pay a supplement tax. At times this results in a delinquent 2nd payment. The Assessor's Office offers pamphlets on the supplemental property tax bill to home owners, realtors and escrow companies, in the attempt to alleviate the confusion.

In addition, upon the purchase a property the escrow company will handle the first installment of the tax bill. The home owner is responsible for payment of the 2nd installment. If a property is purchased at certain times of the year, usually July through November, the second installment notice, by law, is mailed to the prior owner. The Assessor's Office felt they could alleviate complaints by producing a substitute tax bill from the Tax Collector's system and forwarding it to the new owner.

### **Split Assessment Roll**

A split assessment roll is commercial property being taxed at a different rate or being reappraised every year. Each year this is discussed, but the Assessor's Office has yet to see a proposal that will work. Income tax may be a better way of doing it instead of property tax, because the fluctuations in property values can affect the single family home owner. This was the reason for Proposition 13.

### **Commissioner Questions**

Commissioner Petak asked does the Assessor's budget include collaborating with the Tax Collector and the Recorder to create the software? Mr. Auerbach responded that the software system must be approved by the Board of Supervisors. The Board and the Chief Administrative Officer (CAO) are expecting collaboration between departments when developing a software system. The Assessor's Office is currently working with the Recorder on the deed imaging system and to concentrate on a consistent naming convention. In addition, collaboration with the Tax Collector and the Auditor Controller will continue to insure appropriate design of the interfaces.

Commissioner Selditz asked in what ways can unprepared people who are taken out of assessment appeals process be helped? Mr. Auerbach explained one way to help individuals is by sending a notification explaining how to contact the Assessor's Office if a mistake is discovered. Then Assessor may change the value so the individual does not have to appeal, since the Assessor can correct property values throughout the year, even after tax bills are sent.

Commissioner Selditz inquired about what happens if real estate goes down? Mr. Auerbach commented that each year the Assessor informs the Board of Supervisors and the CAO of any increase. When the property value downturn occurred in the early 90's, the Assessor's Office could not respond to all the appeals. The system that is currently in use will be able to respond to the appeals in the event of another downturn. Mr. Auerbach expects the increase to be a little less than the 7% of last year. Additionally, the County is unsure as to how the triple flip will work - the exchange of property tax money for back-fill of vehicle license fee. The CAO, Mr. Janssen, believes that 60% of the County's discretionary money is coming from property tax.

Commissioner Fuhrman was interested in knowing if the Assessor has considered using the county information systems resources or if there is another outside source to help with defining the specifications? Mr. Auerbach responded that they have not considered using them, but should. Commissioner Fuhrman wanted to know what escape assessments represented? Mr. Auerbach explained one item is the audit of personal property, fixtures and machine equipment. The taxpayer reports cost on a form to the Assessor's Office who then establishes the value. About 50% of returns audited create a deficiency assessment. Anything not assessed prior to July 1st becomes an escape assessment. Commissioner Fuhrman noticed that Proposition 8 changes have decreased and asked if the Assessor's Office has worked those out? Mr. Auerbach said yes and those will not change.

Commissioner Sullivan asked how the Assessor's Office tracks the transactions to record actual assessment based on the transfers? Mr. Auerbach explained if a transfer has a recorded instrument, there are two forms filed: the preliminary change of ownership report and a change of ownership statement. A problem exists with transfers between legal entities, or mergers. If greater than 50% of a legal entity transfers it is a change of ownership, although a new deed is not recorded. The flaw starts at the Franchise Tax Board through the State Board of Equalization and flows down to the counties. The Assessor's Office is now trying to figure out a way to handle these changes of ownership transfers.

Commissioner Sylva expressed concern over the ability of the Assessor's Office to deal with communication with cities or public agencies? Mr. Auerbach responded that a problem arises when property is government owned and then leased to a private entity it receives a possessory interest assessment. Even with an online process most cities don't report everything. As a result, talks with the problem cities would have to be implemented to inform them of the problem.

Commissioner Tortorice pointed out two observations on the systems implementation. First, the complexity of the system will have to be managed by building a prototype of the Assessor's system and by creating a model to implement the hardest parts. Second, is assuring a strong risk management system, i.e. an external quality assurance review which would be reported to managers to make sure the project doesn't become out of control. Mr. Auerbach stated the project will be implemented in smaller phases to avoid overload.

Chairman Philibosian thanked Mr. Auerbach for taking time out of his busy schedule to make and informative and valuable presentation to the Commission.

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