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Economy & Efficiency Commission Presentation

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.

**PRESENTATIONS BY
Rick Auerbach
Assessor
Los Angeles County**

April 3, 2008

Chairman Ikejiri expressed his appreciation to Mr. Auerbach for making the time to speak to the Commission.

Mr. Auerbach began highlighting the most urgent issues facing the Assessors' office. 1.) Value Reassessment 2.) Foreclosures in Los Angeles County 3.) The affects on revenue.

Value Reassessment

Mr. Auerbach provided copies of a recent press release regarding the review of home values by the Los Angeles County Assessor. Mr. Auerbach said it was his responsibility to ensure that no property owner is over assessed and that because of market conditions, a review of recently sold properties is required.

The Assessor's staff is in the early stages of reviewing approximately 310,000 single family homes and condos for a potential decline in value reassessment. Mr. Auerbach's office began looking at homes and condos that were purchased in the two-year period from July 1, 2005 to June 30, 2007.

In normal markets, properties are generally assessed at the sale price. The Assessor's responsibility is to assess properties at the Prop 13 value, which is the sale price plus 2% increase a year or the actual value, whichever is less. In the current market some properties have fallen below the Prop 13 value or sales price. Therefore, it is the Assessor's responsibility to reassess values for property tax purposes. Although, it is not stated in the law that Assessors have to review every year unless it has been reduced the prior year. However, the right thing to do with the situation of the current market, if possible, is to look at properties that may deserve a reduction.

The Assessor's office utilizes the information in the office and on the sales of property to assess property tax values. It is most likely that properties that were purchased either by resale or new purchase in the last three years from July 2004 through June 30th 2007 deserve a reduction. There are 316,000 of such properties in Los Angeles County. The Assessor's office is looking at these properties using the information in their computer system.

Thus far, the Assessor's Office has reviewed over 105,000 properties and 57,000 of those reviewed will get a reduction. The average reduction is \$66,000 which is approximately \$700 difference in the property tax bill for those property owners. The Assessor's office is using a proactive approach in order to be more efficient in the use of staff resources.

The press release is to let people know what the Assessor's office is doing so they don't file an application. Taxpayers may also file even though they are not in the 3-year time frame. Taxpayers can get the application on-line and fill it out and send it into the office. It is a simple thing to do as a Prop 8 application. There is also a place for comparable sales. The Assessor's office will still work the application by looking at the property and assessing it to see if it deserves a reduction.

The Assessor's office has been accepting applications since January 2008, and thus far, only 2,187 have been filed. Sending out the press release and getting the message out to the media seems to have been working. Also there are private firms offering to file the application for a fee. The Assessor's office is trying to let people know that the office will do it for free and that his staff is very efficient in putting the right value on the property.

Foreclosures

Mr. Auerbach explained that his office has some different information than that of Data Quick and other sources. The number of foreclosures is not quite as bad in Los Angeles County as in other counties. In a turbulent year such as 1974 there were 34,000 foreclosures and in 2007 there are currently about half of that in L.A. County. The amount is holding steady, as the information is about a month behind. Data Quick is closer to real time whereas the Assessor's office waits to get the information from the Register Recorder of deeds filed.

Affects on Revenue

Two years ago the Assessment Roll went up by approximately 11%, 9% last year, and 6% in 2008. The figures for 2008 are pretty accurate because they have all the information which is in by January. There is a good estimate on the 310,000 properties as to which will be reduced. Although the media has been talking about property taxes being down, this is not the case with Los Angeles County. Since 1980 the average increase is 7.1% in property tax per year. The Governor's budget projected a 7.1% increase in property taxes state-wide. The lower the property tax, the more the state has to add to fund schools.

The Assessor's Office told the State that it would be less than 7% this year and may likely be less than a 4.5% increase which may be a bit liberal because some counties may have over estimated their amount. This may be a problem for the state and therefore may be a problem for the counties and cities.

One of the things the Assessor's office has been trying to do is public education. Information is accessible through the new Los Angeles County Property tax portal for all property tax needs. It contains information about property taxes from four property tax departments. The office of the Assessor, Auditor-Controller, Treasurer & Tax Collector, and Assessment Appeals Board have collaboratively designed the property tax information website to provide taxpayers with an overview as well as some specific detail about the property tax process in Los Angeles County.

Questions and Comments

Commissioner Petak asked if most of what Mr. Auerbach talked about is the average across everything in residential and commercial? Mr. Auerbach replied that when he talked about roll increases, that is for the whole county. When he talked about the properties for reduction, he is not looking at any commercial taxes at this point. Owners of commercial real estate are quite sophisticated and will contact the Assessor's Office. The average home owner does not understand the process and he guesses that about less than 1 in 10 understands how this all works. Therefore, it is very important for his office to do that because whether it is a commercial property or residential property, nobody should overpay or underpay their property taxes. The

other reason why they are not looking at commercial industrial is that they are not seeing any reductions in values. Although he is starting to now hear that commercial real estate property owners are getting concerned for 2009.

Commissioner Mindlin asked if it is mostly retail or office buildings? Mr. Auerbach responded that both are discussed in the media. Rents are still apparently going up for office buildings. The concern is that when the economy starts going down, a lot of the time it is the hotels that start to get hurt first as that is what occurred in the 90's. Anything related to transportation had great reductions at that time.

Commissioner Fuhrman asked if foreclosures trigger reassessments and whether or not one has to wait until the bank sells the property? Mr. Auerbach responded that foreclosures do trigger reassessments and it is not necessary to wait until the bank sells that property. Any change of ownership will cause reassessment, except for transfers to spouses, parents and children. Commissioner Fuhrman asked how values are set on foreclosed properties? Mr. Auerbach responded that it is based on comparable sales. He added that at some point in time it is possible that the foreclosure or sale out of foreclosure is generally a forced sale, as an auction for the bank and the bank wants to get rid of it really quickly, so that is not the market. Generally, at some point in time it could become the market, so he is always looking at comparable sales and that is what the reductions are based on, those properties that are selling. Even though the sales are clearly way down on both value and number, there are still comparable sales. The areas where there may be a problem are the areas that are not going down, which are the very high end areas such as in the beach areas and the west side.

Commissioner Mindlin asked what percentage are commercial verses residential? Mr. Auerbach responded that to his best recollection, out of approximately 2.3 million parcels of real estate in the county, about 1.7 million are residential and that does not include apartment buildings, it includes only single family residents, apartments are a separate category.

Commissioner Mindlin commented that what has happened for the last for couple of years is that we are seeing conglomerate sales, where someone is selling a whole track of houses or thirty buildings. However, when it is a stock share, how does the Assessor appraise such a sale? Mr. Auerbach replied that he has had that problem before and that almost all appraisals of commercial property and apartments use the income approach. His office uses the economic income and not the actual income and figures the amount based on the fact that the property was up for lease now, and then capitalize that amount to come up with a value. The big properties almost always go to the assessment appeal board because one can argue the methodology of figuring the income and cap rate. For example there are six very large refineries and a number of them have changed ownership in the past years and the appeals are very behind because it takes so long for the exchange of information. There is one going on now with British Petroleum Parco, and essentially they are asking for a billion dollar reduction on a \$2 billion assessment. They settled in a prior year but they are arguing that it has gone down in value over that period of time.

Commissioner Mindlin commented that he noticed one company had hired a big accounting firm to come in and work with the Assessor's staff to go over all the prices. Now if they bought the buildings a couple of years ago, that was ok, but if one of the buildings is 12-15 years old, it hurts all their tenants, because usually the tenants pay for all the increases. Mr. Auerbach responded that commercial properties are assessed differently than residential property. He stated that a big argument against that is, who is really paying, it's not this conglomerate who owns the office building but the tenants who are paying the leases and the increases in property tax.

Commissioner Mindlin commented that they are paying market rate and then the increase in property taxes. Mr. Auerbach responded that he has an excellent and well-trained staff with a number of years doing this, and especially the staff who he has assigned doing the very large properties. The goal is come to market value. It occurs that a property may sell for \$2 million and the staff's appraised value was \$2.5 million because it sold subject to the existing leases which is not the property tax value. The property tax value is to consider all the rights, so the lessee who has a good lease has an actual lease hold right so we have to consider their value into the total value.

Mr. Auerbach noted that he has a staff of almost 1,500 people on 2.4 million properties. His office also appraises business personal property and aircraft and boats. One of the interesting things going on now is that there are the fractional and timeshare aircrafts that have never been assessed. They have been very good at avoiding assessment. It was brought to his attention by staff and then his office became by default the state-wide leader of going after them because they should be assessed. The State's Board of Equalization states that they should be assessed, so his office came up with a methodology and it ended up in a budget bill. When his office first found out this was not being done, they asked for waivers in statutes of limitations, so now they have assessments that go back to 2003.

Commissioner Petak stated that the previously number of 18,000 foreclosures in L.A. County out of 1.7 million pieces of property is a pretty small number. He asked if this whole foreclosure issue is being blown out of proportion and second, is it likely to increase in Mr. Auerbach's opinion. Mr. Auerbach responded that everybody has their predictions and economists get paid to make those predictions. He stated that he doesn't know the answer. Mr. Auerbach said he thinks the foreclosures have not been blown out of proportion in regards to state-wide but L.A. has not been hit as hard. Commissioner Petak asks what is the normal foreclosure in L.A. County? Mr. Auerbach replied around 2-3,000 which is up significantly. The high year was 30,000 in 1994.

Commissioner Fuhrman asks if Mr. Auerbach has a tracking mechanism for properties 2-3 months behind or properties to which the foreclosure process has begun? Mr. Auerbach replied no, the only thing his office actually looks at are the deeds, when a property changes ownership. They do not look at any other kind of notices that may have been recorded prior.

Chair Ikejiri commented that he will make sure that the information gets out. He expressed his appreciation and stated that the entire presentation was very interesting and exciting, more importantly, is very important for the function of the county. He thanked Mr. Auerbach for coming. Mr. Auerbach added that the whole subject on reassessment is on the Assessors website.

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