

County of Santa Clara

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MEDIA RELEASE

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County Assessor Larry Stone Releases 1998 Roll Numbers

\$13 BILLION ROLL GROWTH SETS HISTORIC RECORD SILICON VALLEY LEADS THE STATE, AGAIN!

Today, County Assessor Larry Stone announced the official close of the 1998 *Assessment Roll* for all real and business properties in Santa Clara County—and the largest positive change in the assessed value of property in the County's history.

In just one year, Santa Clara County has experienced more than a \$13.7 billion dollar increase in assessed values for a combined total of \$144.5 billion.

Stone's annual Assessment Roll report, which covers the 1997 calendar year, echoed recent national media stories about Silicon Valley's booming economy. "This is one brush fire I don't want to see end too soon," said Stone.

The demand for real estate is driving up the value of real property of all types, including homes, apartments, office buildings, industrial complexes and retail shopping centers. "High-tech companies are expanding their physical facilities with huge investments in land and buildings," said Stone.

This is the third straight year of record assessment roll growth following a five year sustained decline in market values which devastated the State and the Silicon Valley's economy in the early 1990's. "It's a residential sellers market. It is common for homeowners to receive multiple offers when selling their homes, all of them above the asking price," said Stone.

"The major beneficiary is the State of California. They receive nearly two-thirds of the revenue generated by property taxes in Santa Clara County to fund public education statewide," said Stone.

About 58,000 residential property owners will see an increase in their assessed value, from 3% to 16%. While growth in the assessed value of real property is welcome news for most, many homeowners do not understand how their property values can increase beyond the maximum 2% allowed by Proposition 13.

“Here’s how it works,” explained Diana Lackey, Assistant Assessor, “During the period when the market value of properties declined below the purchase price, the Assessor proactively reduced the assessed value on nearly one quarter of all County properties to reflect the declining market value. However, as the real estate market rebounds, the Assessor is required by law to restore the assessed value for properties previously reduced during the recession.”

This year 58,000 residential properties, which were previously reduced, will see an increase over 3% to as much as 16%. Another 2,200 commercial and industrial properties, multi-family, apartments and hotels will receive a full restoration with many of these properties receiving an increase substantially above the 16% for residential properties in Los Gatos. There are 436,020 assessable parcels of real property in Santa Clara County. Any increase or restoration of the assessed value is limited and cannot exceed the factored base year value plus the annual CPI inflation factor.

Stone stressed that increases above the 2% “cap” established by Proposition 13, apply only to properties for which the assessed value was temporarily reduced during the downturn in the early 1990’s.

While some of the 58,000 homeowners may grumble about the increase, Stone reminded them “that during the economic downturn their assessment and property taxes went down while three-quarters of their neighbors continued to receive a 2% (Proposition 13) increase.”

“I hate administering this part of the state law,” said Stone, “it is so confusing. Most people assume that Proposition 13 guarantees them no more than a 2% increase in any given year. However, that is not entirely true.” If you happen to own a home where the market value has jumped but the assessed value remains below the original or base year value, then the Assessor is required to restore those values as the market climbs back until the base year value is achieved. In addition, the Assessor may add the annual CPI every year to the previous year assessed value to determine current assessed value.

While this is not happy news for these property owners in the short run, there is a major silver lining. Property values are finally coming back. “When the value of your principal asset takes a dive, it is very stressful. However, when the market value improves, that’s positive,” said Stone.

Attached is additional, detailed information about the process and percentage increases by geography.

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PROPERTY ASSESSMENTS AND PROPOSITION 13

Proposition 13 passed by the voters in June 1978, is a California Constitutional amendment that places limits on property taxes. It restricts the tax rate to 1% plus any voter approved bonds, and limits the annual increase in the assessed value to the California Consumer Price Index (CPI), not to exceed 2% in any year.

Proposition 13 insures property tax predictability by establishing a property's base year value at the time of a change in ownership or completed new construction. The assessed value is then adjusted annually by a maximum of 2%. Less than one-quarter of the County retains their 1975 original base value. Only three times since the inception of Proposition 13, has the CPI been less than 2%; 1983 @ 1%, 1995 @ 1.19%, and 1996 @ 1.11%.

DECLINES IN VALUE UNDER PROPOSITION 8

Because Proposition 13 did not provide for the possibility of a decline in property values, Proposition 8 was passed by the voters in November 1978. Proposition 8 provided for the temporary reduction of assessed value in the event that the market value of a particular property declined below the previously established (CPI adjusted) base year value. This means that assessment could be temporarily reduced to reflect its market value as property values declined. However, if the market later improved, Proposition 8 requires that the assessed value must be restored fully or incrementally to reflect this market recovery until the assessed value reaches the upper limit set by Proposition 13.

WHAT HAPPENED?

Santa Clara County residential property values reached their peak in 1989-90 and then began a dramatic decline. In response to this change in market conditions, the Santa Clara County Assessor's Office reduced the assessed values of more than 29,000 properties in 1991; some by as much as 16%. These were properties that qualified for a reduced assessment value pursuant to the requirements of Proposition 8. A computerized mass appraisal technique was utilized to calculate the reduced values.

In 1992 and 1993, the assessed value of those affected properties and newly sold properties remained "flat" because the Assessor elected not to add the annual 2% inflation factor in response to market indicators. By 1994, the market continued to decline an additional 5%, and a further Countywide reduction in assessed value was applied to thousands of residential properties, some of which sold as far back as October 1988.

In 1995, there was some indication that the real estate market had "bottomed-out" and might be headed back up. However, the statistics were considered too inconclusive to support any increase in values. Therefore, assessed values were once again held flat by Assessor Larry Stone's decision not to add the 1.19% inflation factor for recently acquired properties.

By 1995 the number of properties, including multifamily and commercial-industrial properties, that received a Proposition 8 reduction in Assessed value had grown to almost 96,000 properties representing 22.7% of the County's 423,000 real property parcels. During the five-year period, from 1990 to 1995, these properties received assessed value reductions from 1.2% to more than 25% of their base year values, depending on the date of acquisition.

As newspaper reports have indicated, the residential market in Santa Clara County has experienced a significant turnaround. Because sales prices have increased in certain geographic areas, the assessment of some properties previously reduced will be partially or fully restored this year. State law requires the Assessor to annually review all values that previously received temporary reductions under Proposition 8, and to enroll the lower of the property's market value or its base year value factored forward by the CPI to the current assessment year.

ANALYSIS TECHNIQUES TO DETERMINE TRENDS

The Assessor's appraisal staff has applied several statistical techniques to analyze residential market trends. To obtain sufficient sales data for a valid analysis, aggregated sales prices by calendar quarter were calculated. The most reliable analytical techniques were found to be: (1) the median price per square foot of a residential dwelling, (2) a regression formula designed to estimate the current value from the characteristics of sold properties, and (3) the average percentage difference between recent sales prices and the assessed value of properties previously reduced in value.

The trend toward increased residential market values has been more pronounced in certain geographic areas of the County than in others. High school districts seem to be one of the most reliable and recognizable geographic indicators of a home's market value.

Trends since the mid-1990's reflect market value increases in excess of 20% for some areas of the County. However, taking into account potential corrections in the market, and the Assessor's policy to follow the market rather than lead it, restoration in assessed values for properties which previously benefited by temporary reductions under Proposition 8, will range from 2% to 16%, depending on the school district. For example, Gilroy High School District will receive 7%, while Los Gatos School District will see up to 16% restoration of assessed value, including this year's 2% CPI. Other districts receiving increases will be Palo Alto, Fremont Union, and Mountain View at 15%; Campbell at 14%; Santa Clara at 13%; San Jose, Milpitas, and Eastside at 12%; and Morgan Hill at 11%. Condominiums and townhouses were analyzed separately from single family, detached homes and saw similar increases.

TAXPAYER NOTIFICATION

Any increase or restoration of assessed value is limited, as it cannot exceed its factored base year value. The Santa Clara Assessor's Office is one of only two counties in California that mails a notice of assessment to all taxpayers in May of each year. This provides the property owner the opportunity to review the taxable value before it is formally enrolled on July 1, and if the taxpayer disagrees with the assessed value, there is sufficient time to contact the Assessor for further review before the July 1 deadline.

WHO WILL BE AFFECTED?

As a result of the increase in residential property values, 30,000 parcels will have their factored base year values restored fully this year to the protected Proposition 13. Commercial, industrial and apartment properties were not included in the Assessor's analysis, as values of these properties will be individually determined.

SANTA CLARA COUNTY LEADS THE WAY

In 1991, Santa Clara County led the way by being the first in the State to recognize the declining market's affect with mass reductions in assessed value. In 1998, Santa Clara County is responding to the improved economy and will increase assessed values accordingly as required by State law.