System Failure: California's Loophole-Ridden Commercial Property Tax

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Report prepared by the California Tax Reform Association (CTRA), in collaboration with the Alliance of Californians for Community Empowerment (ACCE). It was co-written by Lenny Goldberg, Executive Director of CTRA, and David Kersten of Kersten Communications, with primary research done by David Kersten with the research assistance of Robert Marcelis and legal assistance of Chris Chafee.

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Executive Summary

As California faces a severe fiscal crisis at the state and local level, all aspects of our tax system, including the property tax, must be examined. This report provides an examination of the property tax system as it applies to commercial property, and provides significant new data which comes to two clear and related conclusions:

1. In virtually every county, commercial property is paying a far smaller share of the property tax since Proposition 13 passed in 1978.
2. Commercial property is able to exploit huge loopholes in the law to avoid reassessment upon a change in ownership as required by current state law.

The first part of the report, "Who Pays the Property Tax?" provides **county-by-county data** on the shifting property tax burden between residential and non-residential property since the passage of Prop. 13. This report is based in part on newly-discovered county survey data reported over many years to the Board of Equalization (BOE) which to our knowledge has never before been examined and utilized, and in part on data provided by county assessors, some of whom have substantial records going back in time.

The data is consistent throughout the state: in virtually every county in the state, the share of the property tax borne by residential property has increased since the passage of Proposition 13 in 1978, while the share of the property tax borne by non-residential property has decreased. Some examples: in Contra Costa County, the residential share of the property tax went from 48% to 73%. In Santa Clara County, the residential share went from 50% to 64%, despite massive industrial/commercial growth. In Los Angeles County, it went from 53% to 69%. In Orange County, it went from 59% to 72%.

And there is no counter-shift in any counties at any level of significance. We looked at the data from numerous angles but different approaches only led to marginal changes in the numbers and did not affect the trends. We also looked at whether employment growth—an indication of the commercial/industrial sector—outstripped residential population growth, as it did in many counties, but the burden still shifted away from non-residential property, as it did in San Francisco (56% to 67% despite limited population growth and substantial employment growth). With regard to the question**: how has the burden of the property tax changed in the last 30 years? The answer is: it has shifted markedly away from the commercial sector and towards the residential sector.**

The second part of the report, "More Loophole than Tax," examines the way "change of ownership" is applied to commercial property. While we have long contended that the law is inapplicable to the complexity of commercial property ownership as well as loophole-ridden, we have made that contention specific: **we have found major changes of ownership in major properties which have gone without reassessment.** The ones we examined are predominantly those of **private equity buyouts, corporate purchases of companies, and bank mergers which have avoided reassessment**. In particular, what we have found is a tax system which is inconsistently applied in many counties. We believe that there are many properties, particularly the banks and other commercial properties, which should have been reassessed but have not been, and found that some counties have assessed these properties while others have not. (Exhibit A)

Our legal analysis suggests why this inconsistency occurs: the law is a mess and impossible to enforce. We examined records and cases from the Board of Equalization which demonstrate **incredible complexity used to avoid taxes**, complexity which should have nothing to do with the assessors' job, which is to determine property valuation. (Exhibit B)

The results of Part 2 can be interpreted in two ways:

--One, counties should right now be reassessing many properties, in order to avoid basic cuts in services and programs. There appears to be many millions of dollars in tax revenue which is going uncollected.

--Second, the law should be changed at least to make sure that obvious changes of ownership, such as private equity buyouts and corporate takeovers, trigger a reassessment. AB 2492 (Ammiano) in the 2010 session would accomplish this modest change.

And, a great deal more research on assessment inequities among similar properties needs to be done. The inconsistencies we have found make clear that the system is failing.

Part 1: Who Pays the Property Tax?: A County-by-County Analysis

A. The State's Property Tax System Since 1978 and the Shift in Tax Burden

Since the passage of Proposition 13 in 1978, all property, whether residential or commercial, in California is taxed at a uniform statewide rate of 1% of value. With a 2/3 vote of the people, localities may add overrides for debt obligations to that rate, so statewide the average tax rate for all property was 1.098% in 2007-08. All property in a given locality pays a uniform rate, at the same percentage of assessed value. Assessed values grow at no more than 2% per year if no property transfer occurs.

Re-assessments are based upon "a change in ownership" which leads to re-assessment at the sales prices of the property, assuming an arms-length, market-based transaction. Thus the sale of a house to a new owner generates a reasssessment at the purchase price of the property. Theoretically, the sale of a commercial property, per article XIIIA of the Constitution, should also generate reassessment of market value. In practice, such reassessment may not always take place because, in the most general form, such transactions can be very complex. (See part 2, "More Loophole than Tax: The Failure to Assess Commercial and Industrial Property.")

There can be no doubt that Proposition 13 greatly lowered the property tax burden on average in California, despite far higher land values than the rest of the country. In 1977-78, California ranked 5th in the country in property tax as a percentage of personal income, at $63.47 in tax per $1000 of income, compared to a national average of $43.74. In 2006-07, California ranked 36th in percentage of personal income, paying on average $27.61 per $1,000 of personal income, compared to a national average of $34.92 (an average brought down in part by California's significant reduction).[1] With the property tax burden cut by more than half from the pre-Proposition 13 level, the question becomes how the lowered tax burden has been shared.

Since all properties in a locality pay the same rate, it would be fair to assume that, over time, different property classifications would pay a consistent share of the property tax. That

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[1] US Bureau of the Census

assumption is based on the notion that the residential and population growth which has occurred since the 1970's requires a concomitant growth in commercial services and retail opportunities, depending on locations and income, and a concomitant growth of employment-generating investments to sustain those increasing incomes and growing population housed in the state.

One would also expect that the direction of any changes over time would vary by county, as some counties exhibit more residential growth while others become centers of employment and retail growth. Alternately, California's very large counties—both with respect to population and land—might have both sorts of growth in relative proportion, and thus one would expect a relatively constant share of property tax paid by both sectors. Presumably, the patterns of growth and development in each county are unique, and thus the property tax burden would shift over time in varying ways in different counties.

The stated purpose of most property tax protections which occur in most states, particularly including Proposition 13 in California, is to protect homeowners and residential property. Thus if those policies are meeting their purpose, one might expect a shifting away from residential property and a greater burden on commercial/industrial property or, making certain assumptions about growth patterns, at least a constant share for residential property where the intent of the law is to protect residential property.

In fact**, a consistent shift of the property tax burden away from commercial/industrial/other property and towards residential property has occurred in virtually every county in the state**. Chart 1 (see page 13) demonstrates that most counties experienced shifts in the double-digits since the 1970's in terms of the percentage of burden held by residential property. Chart 2 (see page 14) lists those counties in the order of the size of the shift, and shows all but three counties with a shift toward residential property.

Previous efforts to assess this shift have either used statewide aggregated data, or have only examined homeowner property which is owner-occupied and qualifies for a homeowner exemption. We, on the other hand, used the shift between all residential versus non-residential property, including residential property both owned and rented. Residential rental property rolls include a substantial number of single-family homes and condominiums without homeowners' exemptions, as well as multi-family rental housing. [2]

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[2] Business groups consistently group all property without a homeowners' exemption as commercial, since those are classified as rentals. However, there are a large number of single-family homes and condominiums without homeowners' exemptions, as well as multi-family housing. The distinction we use is between residential property and all other.

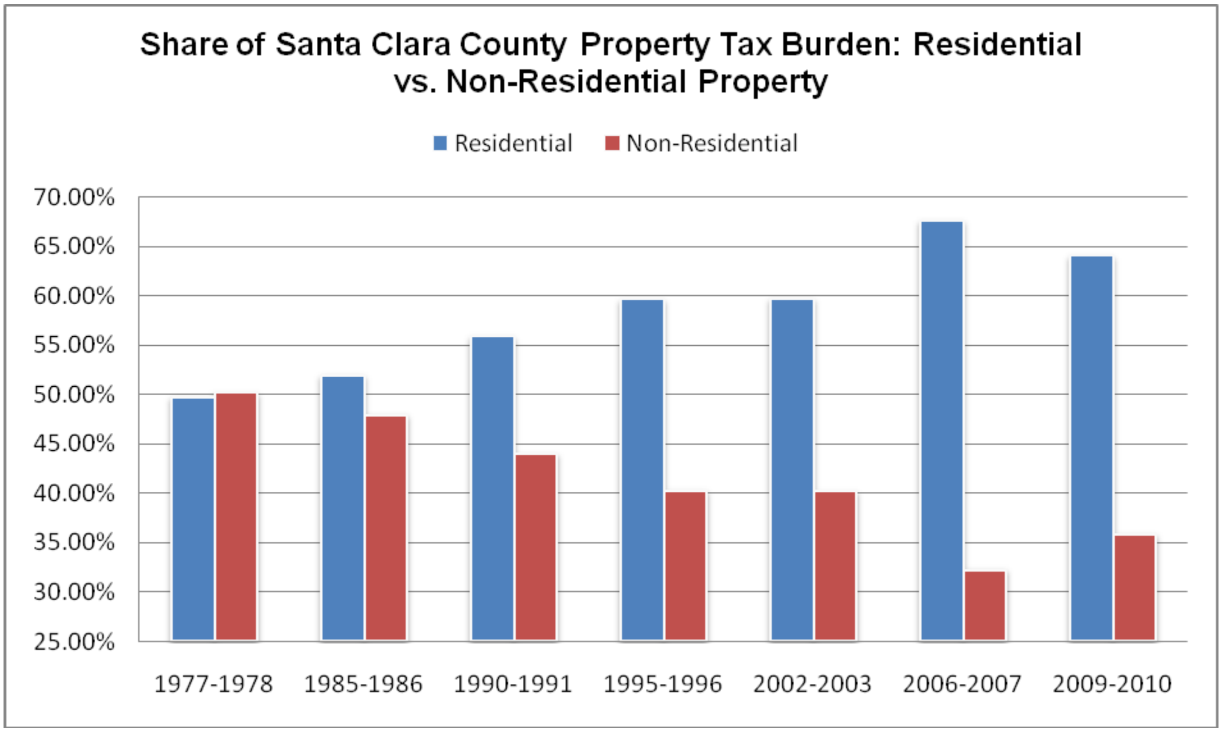
The data in this report provides detail on a **county-by-county** basis. Note that the trend does not prevail in every time frame for which we have data. In some instances, the data reverses itself temporarily. Those changes are probably subject to more detailed analysis based on the specific history of the county. For example, it is likely that the reversal in recent years in Mono County stems from the reassessment of the largest property in the county, Mammoth Mountain Resort, which was not reassessed through 2003 despite an earlier transfer. Orange County saw a jump in the early 1980's in the residential share, and then some reversals in the 1980's, although the overall trend is a substantial 13 point increase in the residential share through 2009-10.

The overall trend is unmistakeable. If this trend were not fully dominant, there would be a fair number of counties in which the trend was the opposite, not just in a few time periods in a few counties. In fact, we have not found that.

B. **County-by-County Results**: **Some Examples**

Let us examine a few of those counties, although the data speaks for itself on subsequent pages. We urge readers, critics of this study, and those who would cite it to examine it in detail. The following counties include three major ones, including one suburban county, in which the assessor kept full records going back on a time-series basis. As noted in the county-by-county data, we relied on property surveys in many counties given to the Board of Equalization, since many assessors did not have detailed time-series data.

<u>Santa Clara County</u>: the data from Santa Clara County has been carefully kept on a year-over-year basis by the County Assessor's office. The chart depicting the burden shift provided in the County Assessor's Annual Report stimulated our study and examination of other counties, to see if the pattern reported by the Assessor's office is consistent.



Source: Santa Clara County Assessor's Office

This significant shift in burden to residential property occurred during one of the greatest industrial booms of the all time: the rise of Silicon Valley as a world-class employment and income generator without parallel in the world, going back to the 1970's. In particular, the county contains many jobs which are attractions for the surrounding area, with nearly 1 million private non-farm jobs and a total population in 2009 of 1.78 million. Employment growth during this era was over 200%, while population growth was about 80%. And it contains the home of Fortune 500 companies with some of the highest capitalized value in the world.

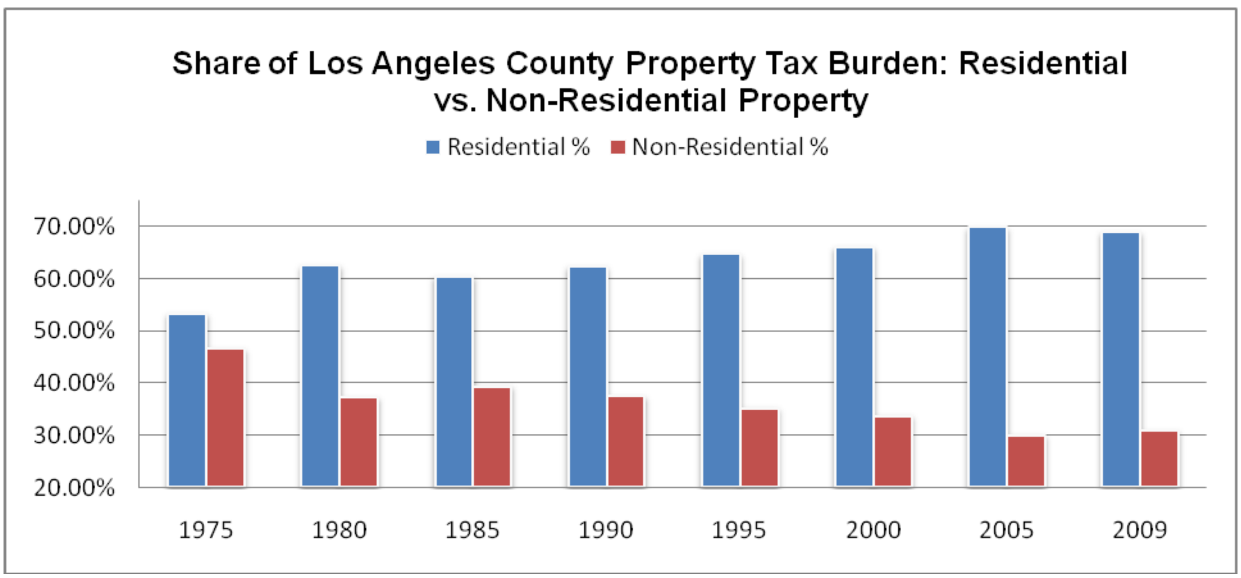
Although housing prices are high, one would expect that the substantial job generation which has occurred relative to population would mean that at minimum the share of commercial/industrial property tax would stay relatively constant at the 50/50 ratio seen in the beginning of this era. In fact, it has shifted considerably, to nearly 70% residential before the recent housing crash, 30 % commercial-industrial, a gap going from zero to a difference of 40 percentage points, and then moderating slightly.

<u>Los Angeles County</u>: Los Angeles is by far the largest county in the state, with 10 million people in 2007, up from 7 million in 1970. Because of its vastly diversified economy, which has undergone significant changes since the 1970's, and its huge population and land area, it can be

said to be a reflection of the state, and certainly its largest component. It contains nearly ¼ of the assessed value of all property in California.

Fortunately, the assessor in Los Angeles County has also maintained time-series data by which the shift can be analyzed. We examined this data in an earlier report, and have examined it again. Once again, the numbers are remarkably consistent: Residential property represented 53% of the burden in 1975, or 6.73 percentage points greater than commercial at 46%.

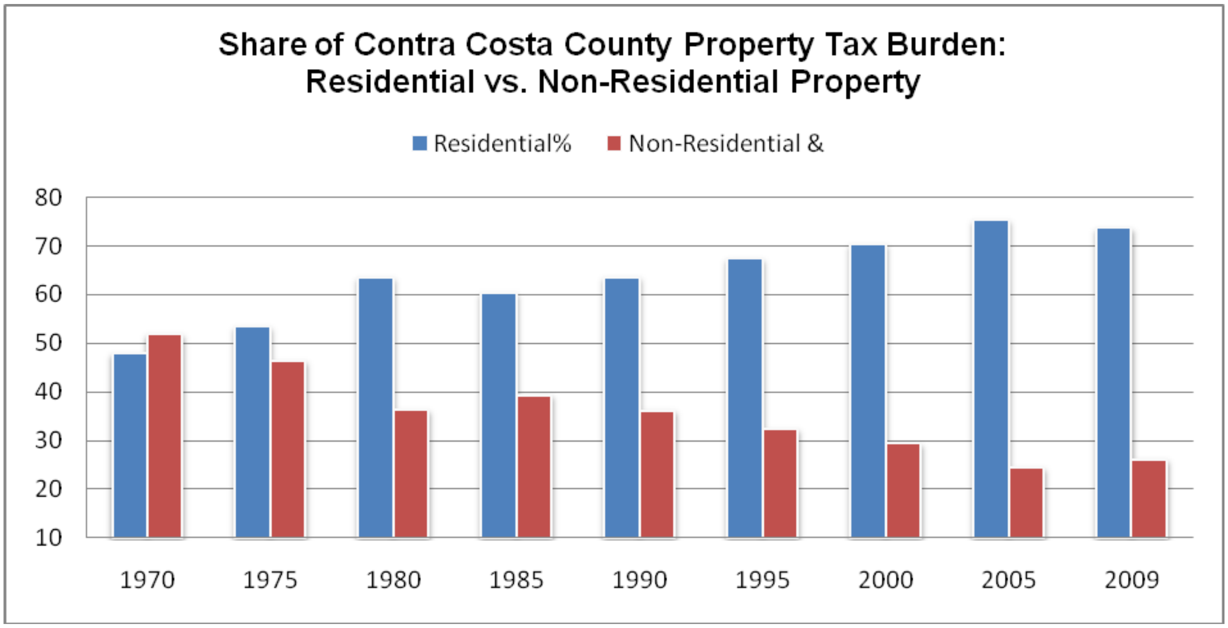
In 2009, the difference had grown to 39 percentage points, with residential property at 69% and commercial property at 30%. Again, to sustain employment growth, Los Angeles has been a huge job generator as well as accommodating substantial population and housing growth during this era. While Los Angeles experienced a significant decline in jobs and assessed values in the early 1990's, the following chart demonstrates a consistency of direction across all economic eras, with a slight reversal in the 1980's but generally a consistent direction.



Source: Los Angeles County Assessor's Office

Contra Costa County. As a suburban county, we would expect that Contra Costa has a high percentage of residential property, which it does. It also has a substantial industrial base, and has seen major office and commercial growth since the 1970's. Its distribution of the burden was about even during the 1970's, and like many counties, it shifted towards residential property through 1975, when residential outpaced commercial by 5 percentage points.

Residential property now bears a burden which is 47 points higher than commercial, with commercial/industrial declining to a mere 23% of the total tax burden. With job growth matching, actually outpacing, residential growth on a percentage basis, it is another case indicative of the overall trend: a huge burden shift, and a commercial sector bearing a very small part of the overall load.



Source: Contra Costa County Assessor's Office

With many counties, the results below are based on newly-discovered data from the Board of Equalization. In many of the counties, we relied on data provided to the Board of Equalization based on assessor's surveys over a period of years. The years for each survey were not the same, and a few, as noted, do not go back to before 1978. Others included the unsecured roll—i.e. business property—which increases the percentage of non-residential property but did not appear to change the results as long as it was consistent. While the magnitude of the shift varies by county, the results are fairly consistent. In many of the smaller counties, the percentages of commercial properties, including agriculture, are higher, but the directions are the same. For a more detailed methodology, please read appendix (a).

C. Possible Explanation of Results

What could account for these shifts toward residential property? We have mentioned that perhaps many of the answers are based on local patterns of development, but the consistency of the changes dispute that hypothesis. And, is it possible to explain those that do not fit the pattern, or have differing intensity of the shift?

We believe that one explanation often put forward—that housing turns over more rapidly than commercial property—does not quite explain the phenomenon. To say it more carefully, we believe that commercial property is not as frequently reassessed as homeowner property, but, in fact, commercial property frequently changes ownership. The problem is that an assessment is not often triggered, and that "a change in ownership" only occurs under limited circumstances.

In Part II of this report, "More loophole than tax", we have noted that thousands of deed changes are recorded for non-residential property each year, without any reassessment being generated. We also note that complex changes in the underlying shares of partners or investors, or even 100% changes in ownership as a result of buyouts and mergers, do not always trigger reassessment. And, of course, stock transactions, even where a substantial cumulative share of the company changes hands, do not trigger reassessment.

Thus, it is probably more accurate to say that commercial property changes ownership in some form very frequently but is reassessed far less often. From our research, however, the ability of the assessor to track beneficial underlying changes in ownership is limited, and, even where possible, often does not provide a reassessible event, even when a deed change is recorded. In short, it is our view that the underlying "change of ownership" law is inapplicable to the complexity of commercial property holding, and therefore does not record changes in value for commercial and industrial property as it does changes in residential property.

Other explanations could involve the relative values of commercial and residential property, particularly in terms of speculative values. Certainly the speculative bubble fueled by easy credit and subprime lending of the 2004-2007 era led to a rapid run-up in housing prices more than it did in commercial values, and we would expect that some of the trend will tail off as housing values drop faster than commercial values, and new home purchases are at far lower values. While commercial values are also falling or are stagnant due to a poor economy, the commercial investment market is more sophisticated, and not as prone to a bubble psychology or subprime credit, as the housing market.

However, even if there is more speculative value contained in single-family homes, and there have been more recorded reassessible events, it would be hard to pin this shift on the recent bubble because it occurred over a long and consistent period of time in most counties. The housing market has had some rapid run-ups followed by long periods of relatively flat values, so it would be difficult to sustain such a long-term trend just based on the notion that at certain times housing values have risen rapidly, because they have fallen back to earth and/or stabilized subsequently.

How would we explain the few anomalies? As mentioned, Mono County had a single major property reassessed in the mid-2000s, which reversed part of the shift. For San Diego, which had a limited shift, employment and population increased at similar paces, although it would appear that substantial federal (military) employment on untaxed property shifted to private sector employment as the private sector grew substantially. San Francisco's relatively modest 10% shift to residential property is remarkable, given San Francisco's growth as a major employment center, its relatively stagnant population growth, and the amount of commercial investment during this 30-year period. Napa and Sonoma County, with a relatively small burden shift, arguably saw the growth of high-value employment and commercial centers in the burgeoning California wine industry, which may have brought so much new commercial property to a small base as to maintain the share as population grew and housing values climbed. And Marin has had substantial population growth and skyrocketing housing values with relatively small amounts of employment and commercial growth.

<u>And, even while acknowledging counties with limited shifts, there is no counter-trend</u>. Some 40 point differences are common in one direction, non-existent in others. Differences of 10, 20 and 40 points all go in one direction, not the other. One can argue about the magnitude of the shift across all counties. But the direction—a shift to residential property away from all other kinds of property—is undeniably clear from the data.

Summary of Shift in Property Tax Burden By County
(Alphabetical Order)

County	Start Year-End Year	Start Year % Residential	End Year % Residential	End Year Minus Start Year	Start Year % Non-Residential	End Year % Non-Residential	End Year Minus Start Year
Alameda	1973-1974 to 2009-2010	54.98%	74.24%	19.26%	45.02%	25.76%	-19.26%
Alpine	1975-1976 to 2009-2010	53.61%	80.95%	27.34%	46.39%	19.05%	-27.34%
Amador	1983-1984 to 2009-2010	60.98%	68.53%	7.55%	39.02%	31.47%	-7.55%
Butte	1983-1984 to 2009-2010	62.26%	72.03%	9.77%	37.74%	27.97%	-9.77%
Calaveras	1974-1975 to 2009-2010	52.73%	81.06%	28.33%	47.27%	18.94%	-28.33%
Colusa	1973-1974 to 2009-2010	16.86%	34.78%	17.92%	83.14%	65.22%	-17.92%
Contra Costa	1970-2009	48.00%	73.80%	25.80%	52.00%	26.20%	-25.80%
Del Norte	1984-1985 to 2009-2010	57.51%	72.96%	15.45%	42.49%	27.04%	-15.45%
El Dorado	1971-1972 to 2009-2010	54.90%	86.00%	31.10%	45.10%	14.03%	-31.07%
Fresno	1981-1982 to 2009-2010	53.21%	72.34%	19.13%	46.79%	27.66%	-19.13%
Glenn	1971-1972 to 2009-2010	12.10%	59.30%	47.20%	87.90%	40.70%	-47.20%
Humboldt	1975-1976 to 2009-2010	31.68%	78.79%	47.11%	68.32%	21.21%	-47.11%
Imperial	1975-1976 to 2009-2010	26.31%	70.70%	44.39%	73.69%	29.34%	-44.35%
Inyo	1976-1977 to 2008-2009	25.51%	29.97%	4.46%	74.49%	70.03%	-4.46%
Kern	1973-1974 to 2009-2010	27.44%	46.41%	18.97%	72.56%	53.59%	-18.97%
Kings	1976-1977 to 2009-2010	22.49%	31.87%	9.38%	77.51%	68.13%	-9.38%
Lake	1972-1973 to 2009-2010	55.66%	75.77%	20.11%	44.34%	24.23%	-20.11%
Lassen	1973-1974 to 2009-2010	30.02%	63.62%	33.60%	69.98%	36.38%	-33.60%
Los Angeles	1975-2009	53.37%	69.09%	15.72%	46.63%	30.91%	-15.72%
Madera	1974-1975 to 2009-2010	25.79%	54.23%	28.44%	74.21%	45.77%	-28.44%
Marin	1971-1972 to 2009-2010	81.10%	79.60%	-1.50%	18.90%	20.40%	1.50%
Mariposa	1973-1974 to 2009-2010	34.14%	60.17%	26.03%	65.86%	39.83%	-26.03%
Mendocino	1970-1971 to 2009-2010	36.65%	54.67%	18.02%	63.35%	45.33%	-18.02%
Merced	1971-1972 to 2009-2010	26.56%	46.85%	20.29%	73.44%	53.15%	-20.29%
Modoc	1982-1983 to 2009-2010	37.00%	12.78%	-24.22%	63.00%	87.22%	24.22%
Mono	1975-1976 to 2009-2010	45.61%	54.50%	8.89%	54.39%	45.51%	-8.88%
Monterey	1972-1973 to 2009-2010	50.66%	72.72%	22.06%	49.34%	27.28%	-22.06%
Napa	1971-1972 to 2009-2010	52.94%	56.34%	3.40%	47.06%	43.66%	-3.40%
Nevada	1975-1976 to 2009-2010	64.45%	83.65%	19.20%	35.55%	16.35%	-19.20%
Orange	1977-1978 to 2009-2010	59.42%	72.10%	12.68%	40.58%	27.90%	-12.68%
Placer	1976-1977 to 2009-2010	51.84%	80.38%	28.54%	48.16%	19.62%	-28.54%
Plumas	1973-1974 to 2009-2010	36.23%	32.67%	-3.56%	63.77%	67.33%	3.56%
Riverside	1968-1969 to 2009-2010	54.97%	71.22%	16.25%	45.03%	28.78%	-16.25%
Sacramento	1971-1972 to 2008-2009	67.65%	74.55%	6.90%	32.35%	25.45%	-6.90%
San Benito	1972-1973 to 2008-2009	21.60%	71.47%	49.87%	78.40%	28.53%	-49.87%
San Bernardino	1975-1976 to 2008-2009	50.74%	72.48%	21.74%	49.26%	27.52%	-21.74%
San Diego	1974 to 2009	72.63%	74.86%	2.23%	27.37%	25.14%	-2.23%
San Francisco	1974-1975 to 2009-2010	56.21%	67.00%	10.79%	43.79%	33.00%	-10.79%
San Joaquin	1967-1968 to 2004-2005	34.79%	69.12%	34.33%	65.21%	30.88%	-34.33%
San Luis Obispo	1969-1970 to 2009-2010	52.21%	76.38%	24.17%	47.79%	23.62%	-24.17%
San Mateo	1972-1973 to 2009-2010	64.81%	80.75%	15.94%	35.19%	19.25%	-15.94%
Santa Barbara	1971-1972 to 2009-2010	53.08%	78.19%	25.11%	46.92%	21.81%	-25.11%
Santa Clara	1977-1978 to 2009-2010	49.78%	64.12%	14.34%	50.22%	35.88%	-14.34%
Santa Cruz	1971-1972 to 2009-2010	50.80%	81.72%	30.92%	49.20%	18.28%	-30.92%
Shasta	1974-1975 to 2009-2010	30.25%	59.93%	29.68%	69.75%	40.07%	-29.68%
Sierra	1972-1973 to 2009-2010	25.98%	66.62%	40.64%	74.02%	33.38%	-40.64%
Siskiyou	1971-1972 to 2009-2010	26.74%	63.14%	36.40%	73.26%	36.86%	-36.40%
Solano	1975-1976 to 2009-2010	48.22%	67.91%	19.69%	51.78%	32.09%	-19.69%
Sonoma	1984-1985 to 2009-2010	66.30%	72.77%	6.47%	33.70%	27.23%	-6.47%
Stanislaus	1968-1969 to 2009-2010	33.93%	61.25%	27.32%	66.07%	38.75%	-27.32%
Sutter	1982-1983 to 2009-2010	33.25%	50.49%	17.24%	66.75%	49.51%	-17.24%
Tehama	1973-1974 to 2009-2010	26.62%	56.63%	30.01%	73.38%	43.37%	-30.01%
Trinity	1985-1986 to 2009-2010	39.52%	85.12%	45.60%	60.48%	14.88%	-45.60%

Summary of Shift in Property Tax Burden By County (Descending Order By Shift Margin, Largest to Smallest Tax Burden Shift)							
County	Start Year-End Year	Start Year % Residential	End Year % Residential	End Year Minus Start Year	Start Year % Non-Residential	End Year % Non-Residential	End Year Minus Start Year
San Benito	1972-1973 to 2008-2009	21.60%	71.47%	49.87%	78.40%	28.53%	-49.87%
Glenn	1971-1972 to 2009-2010	12.10%	59.30%	47.20%	87.90%	40.70%	-47.20%
Humboldt	1975-1976 to 2009-2010	31.68%	78.79%	47.11%	68.32%	21.21%	-47.11%
Trinity	1985-1986 to 2009-2010	39.52%	85.12%	45.60%	60.48%	14.88%	-45.60%
Imperial	1975-1976 to 2009-2010	26.31%	70.70%	44.39%	73.69%	29.34%	-44.35%
Sierra	1972-1973 to 2009-2010	25.98%	66.62%	40.64%	74.02%	33.38%	-40.64%
Siskiyou	1971-1972 to 2009-2010	26.74%	63.14%	36.40%	73.26%	36.86%	-36.40%
San Joaquin	1967-1968 to 2004-2005	34.79%	69.12%	34.33%	65.21%	30.88%	-34.33%
Lassen	1973-1974 to 2009-2010	30.02%	63.62%	33.60%	69.98%	36.38%	-33.60%
Tulare	1969-1970 to 2009-2010	24.10%	57.59%	33.49%	75.90%	42.41%	-33.49%
El Dorado	1971-1972 to 2009-2010	54.90%	86.00%	31.10%	45.10%	14.03%	-31.07%
Santa Cruz	1971-1972 to 2009-2010	50.80%	81.72%	30.92%	49.20%	18.28%	-30.92%
Yuba	1969-1970 to 2009-2010	34.50%	65.30%	30.80%	65.50%	34.70%	-30.80%
Tehama	1973-1974 to 2009-2010	26.62%	56.63%	30.01%	73.38%	43.37%	-30.01%
Shasta	1974-1975 to 2009-2010	30.25%	59.93%	29.68%	69.75%	40.07%	-29.68%
Placer	1976-1977 to 2009-2010	51.84%	80.38%	28.54%	48.16%	19.62%	-28.54%
Madera	1974-1975 to 2009-2010	25.79%	54.23%	28.44%	74.21%	45.77%	-28.44%
Calaveras	1974-1975 to 2009-2010	52.73%	81.06%	28.33%	47.27%	18.94%	-28.33%
Alpine	1975-1976 to 2009-2010	53.61%	80.95%	27.34%	46.39%	19.05%	-27.34%
Stanislaus	1968-1969 to 2009-2010	33.93%	61.25%	27.32%	66.07%	38.75%	-27.32%
Mariposa	1973-1974 to 2009-2010	34.14%	60.17%	26.03%	65.86%	39.83%	-26.03%
Contra Costa	1970-2009	48.00%	73.80%	25.80%	52.00%	26.20%	-25.80%
Yolo	1970-1971 to 2009-2010	38.89%	64.06%	25.17%	61.11%	35.94%	-25.17%
Santa Barbara	1971-1972 to 2009-2010	53.08%	78.19%	25.11%	46.92%	21.81%	-25.11%
San Luis Obispo	1969-1970 to 2009-2010	52.21%	76.38%	24.17%	47.79%	23.62%	-24.17%
Monterey	1972-1973 to 2009-2010	50.66%	72.72%	22.06%	49.34%	27.28%	-22.06%
San Bernardino	1975-1976 to 2008-2009	50.74%	72.48%	21.74%	49.26%	27.52%	-21.74%
Merced	1971-1972 to 2009-2010	26.56%	46.85%	20.29%	73.44%	53.15%	-20.29%
Lake	1972-1973 to 2009-2010	55.66%	75.77%	20.11%	44.34%	24.23%	-20.11%
Solano	1975-1976 to 2009-2010	48.22%	67.91%	19.69%	51.78%	32.09%	-19.69%
Alameda	1973-1974 to 2009-2010	54.98%	74.24%	19.26%	45.02%	25.76%	-19.26%
Nevada	1975-1976 to 2009-2010	64.45%	83.65%	19.20%	35.55%	16.35%	-19.20%
Fresno	1981-1982 to 2009-2010	53.21%	72.34%	19.13%	46.79%	27.66%	-19.13%
Kern	1973-1974 to 2009-2010	27.44%	46.41%	18.97%	72.56%	53.59%	-18.97%
Mendocino	1970-1971 to 2009-2010	36.65%	54.67%	18.02%	63.35%	45.33%	-18.02%
Colusa	1973-1974 to 2009-2010	16.86%	34.78%	17.92%	83.14%	65.22%	-17.92%
Sutter	1982-1983 to 2009-2010	33.25%	50.49%	17.24%	66.75%	49.51%	-17.24%
Riverside	1968-1969 to 2009-2010	54.97%	71.22%	16.25%	45.03%	28.78%	-16.25%
San Mateo	1972-1973 to 2009-2010	64.81%	80.75%	15.94%	35.19%	19.25%	-15.94%
Los Angeles	1975-2009	53.37%	69.09%	15.72%	46.63%	30.91%	-15.72%
Del Norte	1984-1985 to 2009-2010	57.51%	72.96%	15.45%	42.49%	27.04%	-15.45%
Santa Clara	1977-1978 to 2009-2010	49.78%	64.12%	14.34%	50.22%	35.88%	-14.34%
Orange	1977-1978 to 2009-2010	59.42%	72.10%	12.68%	40.58%	27.90%	-12.68%
Tuolumne	1982-1983 to 2009-2010	70.90%	82.30%	11.40%	29.10%	17.70%	-11.40%

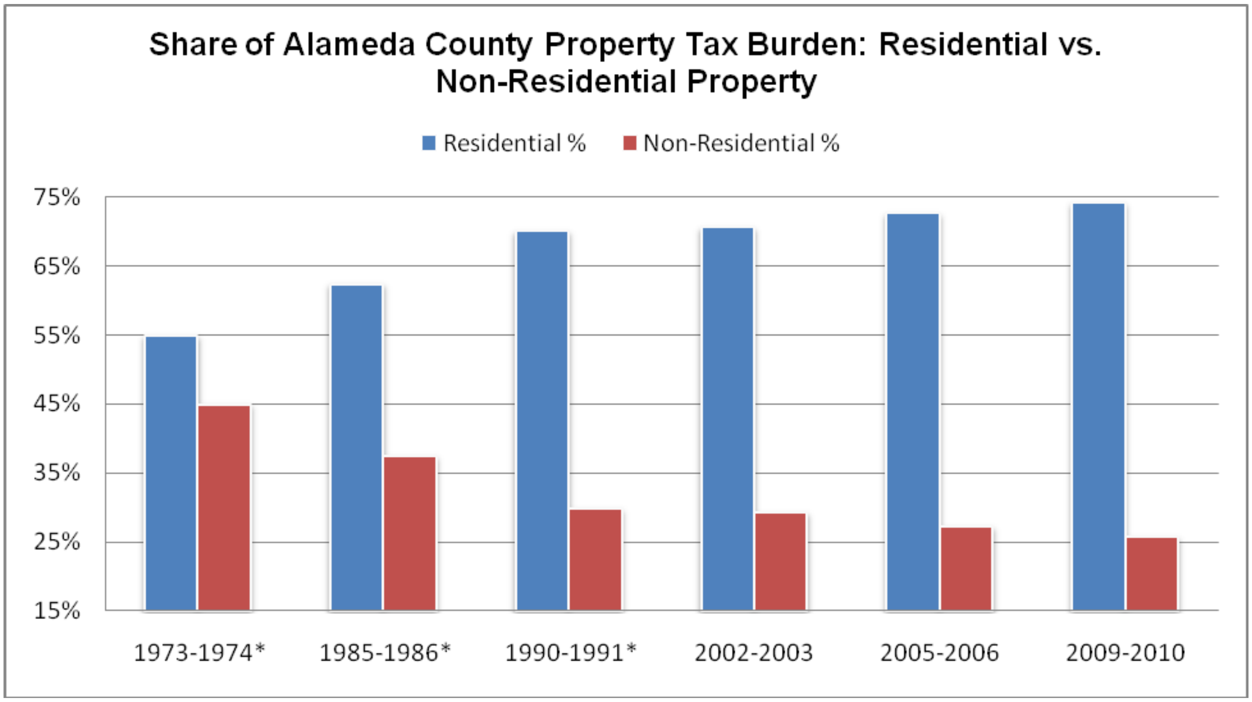
Ventura	1976-1977 to 2009-2010	64.45%	75.40%	10.95%	38.55%	24.60%	-13.95%
San Francisco	1974-1975 to 2009-2010	56.21%	67.00%	10.79%	43.79%	33.00%	-10.79%
Butte	1983-1984 to 2009-2010	62.26%	72.03%	9.77%	37.74%	27.97%	-9.77%
Kings	1976-1977 to 2009-2010	22.49%	31.87%	9.38%	77.51%	68.13%	-9.38%
Mono	1975-1976 to 2009-2010	45.61%	54.50%	8.89%	54.39%	45.51%	-8.88%
Amador	1983-1984 to 2009-2010	60.98%	68.53%	7.55%	39.02%	31.47%	-7.55%
Sacramento	1971-1972 to 2008-2009	67.65%	74.55%	6.90%	32.35%	25.45%	-6.90%
Sonoma	1984-1985 to 2009-2010	66.30%	72.77%	6.47%	33.70%	27.23%	-6.47%
Inyo	1976-1977 to 2008-2009	25.51%	29.97%	4.46%	74.49%	70.03%	-4.46%
Napa	1971-1972 to 2009-2010	52.94%	56.34%	3.40%	47.06%	43.66%	-3.40%
San Diego	1974 to 2009	72.63%	74.86%	2.23%	27.37%	25.14%	-2.23%
Marin	1971-1972 to 2009-2010	81.10%	79.60%	-1.50%	18.90%	20.40%	1.50%
Plumas	1973-1974 to 2009-2010	36.23%	32.67%	-3.56%	63.77%	67.33%	3.56%
Modoc	1982-1983 to 2009-2010	37.00%	12.78%	-24.22%	63.00%	87.22%	24.22%

Sources: Board of Equalization and County Assessor's Office

E. Data from Each County

Alameda County

The residential property tax burden has increased from 55% in 1973-74 to 74% in 2009-10—a 19 point increase or 35% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 45% to 26%--a 19 point decrease or 42% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

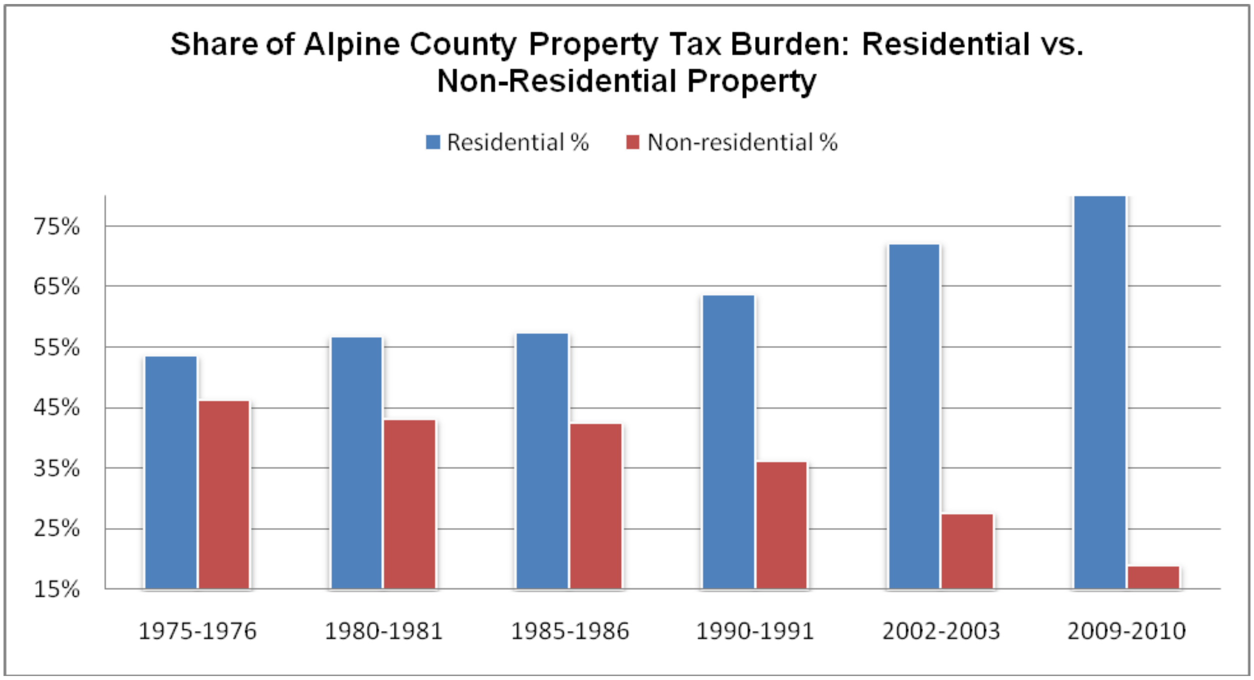


Share of Alameda County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1973-1974*	54.98%	45.02%	9.95%
1985-1986*	62.47%	37.53%	24.95%
1990-1991*	70.15%	29.85%	40.30%
2002-2003	70.68%	29.32%	41.35%
2005-2006	72.71%	27.29%	45.42%
2009-2010	74.24%	25.76%	48.47%

Sources and Notes: BOE Alameda County Survey Report Data (1973 through 1991), Alameda County Assessor's Office (2002 through 2008), BOE and Data Quick (2009-2010). 1973-1974 data point includes unsecured roll values. 1985-1986 and 1990-1991 data points BOE appraisal samplings.

Alpine County

The residential property tax burden has increased from 54% in 1975-76 to 81% in 2009-10—a 27 point increase or 50% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 46% to 19%--a 27 point decrease or 59% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

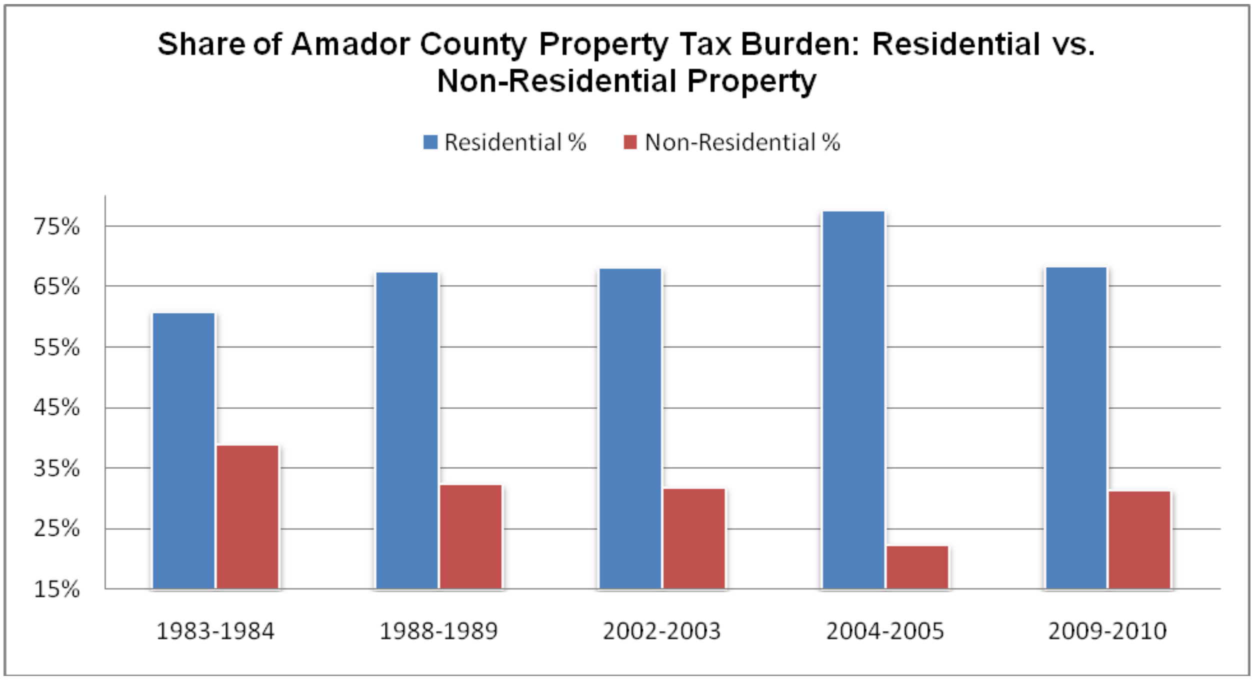


Share of Alpine County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-residential %	Differential %
1975-1976	53.61%	46.39%	7.22%
1980-1981	56.80%	43.20%	13.60%
1985-1986	57.43%	42.57%	14.86%
1990-1991	63.74%	36.26%	27.48%
2002-2003	72.22%	27.78%	44.45%
2009-2010	80.95%	19.05%	61.90%

Sources and Notes: BOE Alpine County Survey Reports (1980-1981, 1985-1986, 1990-1991 data points include unsecured roll values) and BOE and Data Quick (2009-2010). BOE appraisal samplings (1975 through 1991 data).

Amador County

The residential property tax burden has increased from 61% in 1983-84 to 69% in 2009-10—an 8 point increase or 13% increase in the property tax burden on residential property owners. Over the same period, the non-residential property tax burden dropped from 39% to 31%--a 8 point decrease or 21% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

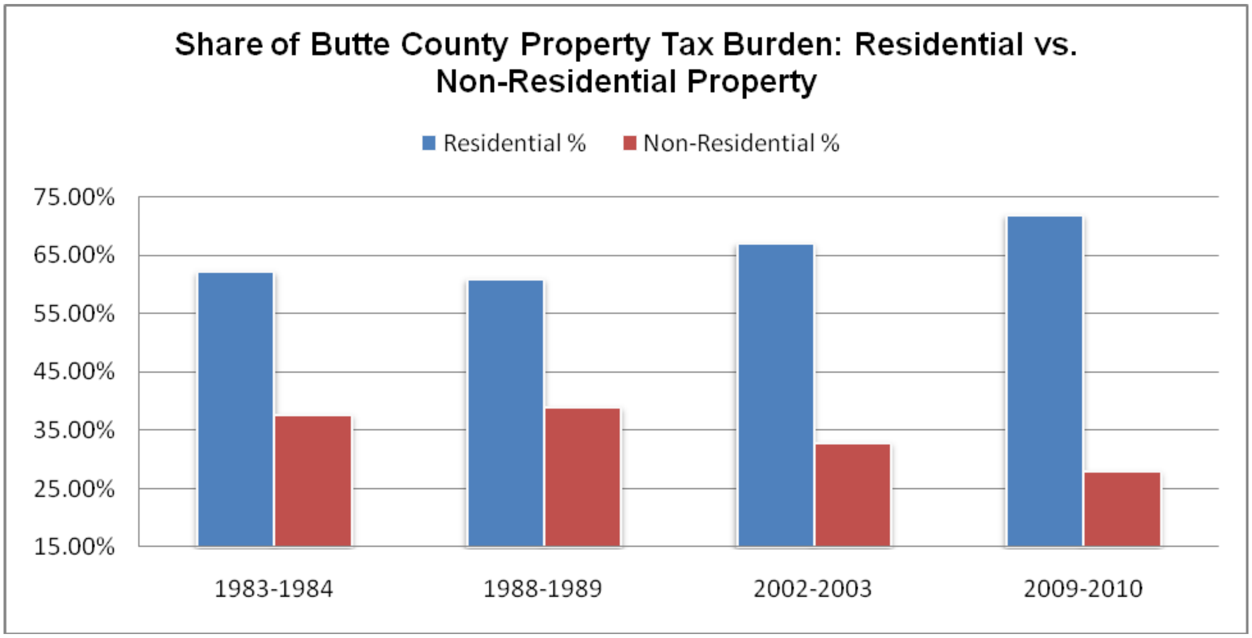


Share of Amador County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1983-1984	60.98%	39.02%	21.96%
1988-1989	67.59%	32.41%	35.18%
2002-2003	68.13%	31.87%	36.27%
2004-2005	77.59%	22.41%	55.18%
2009-2010	68.53%	31.47%	37.06%

Sources and Notes: BOE Amador County Survey Reports (1983-1984 Roll year misc. property is included which includes vessels). BOE appraisal samplings (1983-1984 and 1988-1989). BOE and Data Quick (2009-2010).

Butte County

The residential property tax burden has increased from 62% in 1983-84 to 72% in 2009-10—a 10 point increase or 16% increase in the property tax burden on residential property owners. Over the same period, the non-residential property tax burden dropped from 38% to 28%--a 10 point decrease or 26% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

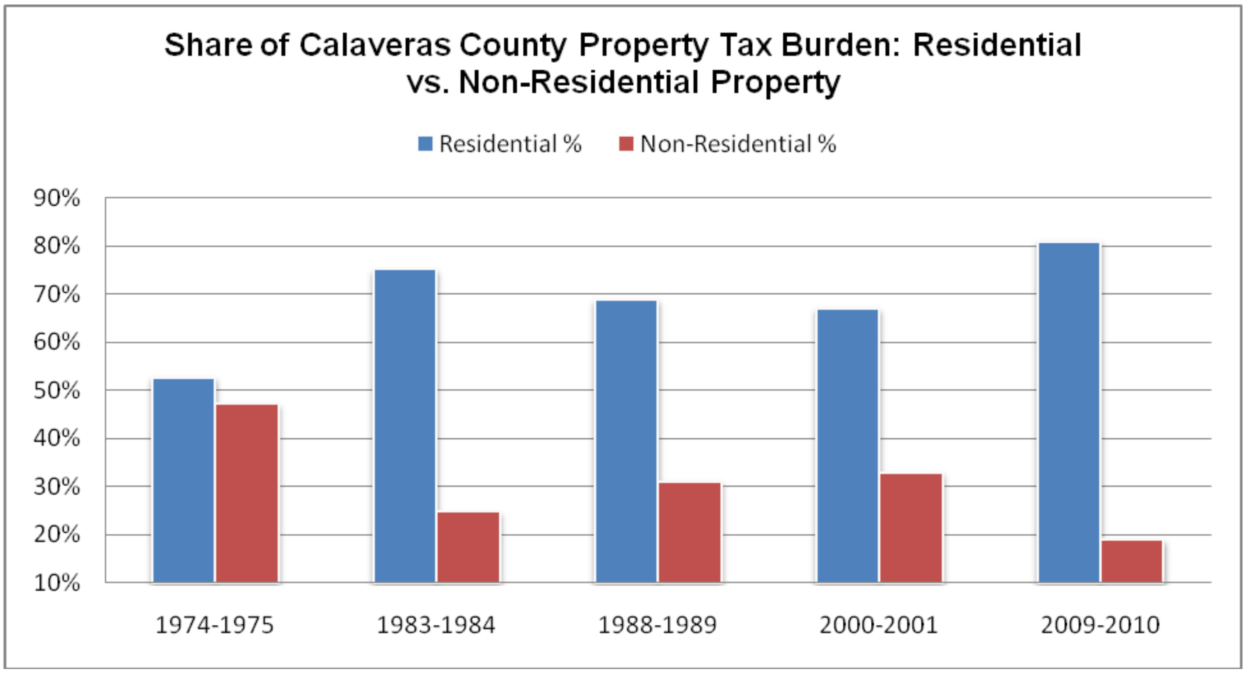


Share of Butte County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1983-1984	62.26%	37.74%	24.51%
1988-1989	61.01%	38.99%	22.02%
2002-2003	67.12%	32.88%	34.24%
2009-2010	72.03%	27.97%	44.06%

Sources and Notes: BOE Butte County Survey Reports (1983-1984 and 1988-1989 roll years BOE appraisal samplings. 1983-1984 and 1988-1989 data points include unsecured roll values). BOE and Data Quick (2009-2010).

Calaveras County

The residential property tax burden has increased from 53% in 1974-75 to 81% in 2009-10—a 28 point increase or 53% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 47% to 19%--a 28 point decrease or 60% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

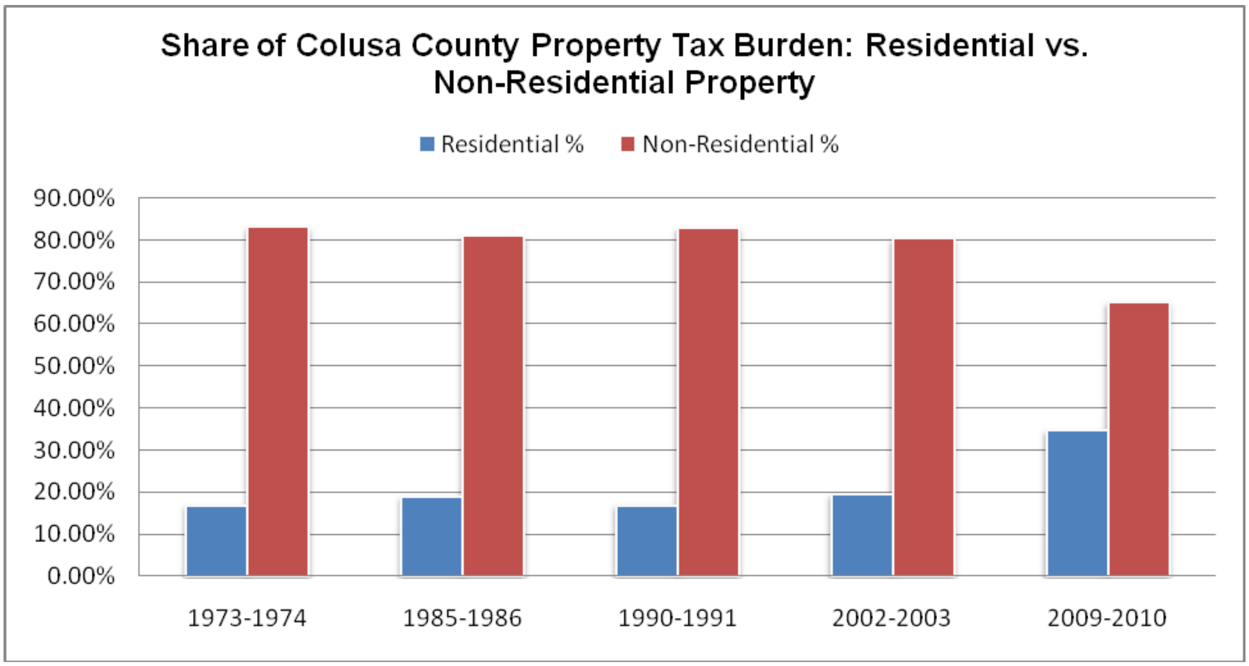


Share of Calaveras County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1974-1975	52.73%	47.27%	5.46%
1983-1984	75.20%	24.80%	50.41%
1988-1989	68.89%	31.11%	37.77%
2000-2001	67.05%	32.95%	34.10%
2009-2010	81.06%	18.94%	62.12%

Sources and Notes: BOE Calaveras County Survey Reports (1974-1975, 1983-1984, and 1988-1989 roll years appraisal samplings and 1983-1984 non-residential data includes unsecured roll values). BOE and Data Quick (2009-2010).

Colusa County

The residential property tax burden has increased from 17% in 1973-74 to 35% in 2009-10—a 18 point increase or 106% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 83% to 65%--a 18 point decrease or 22% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

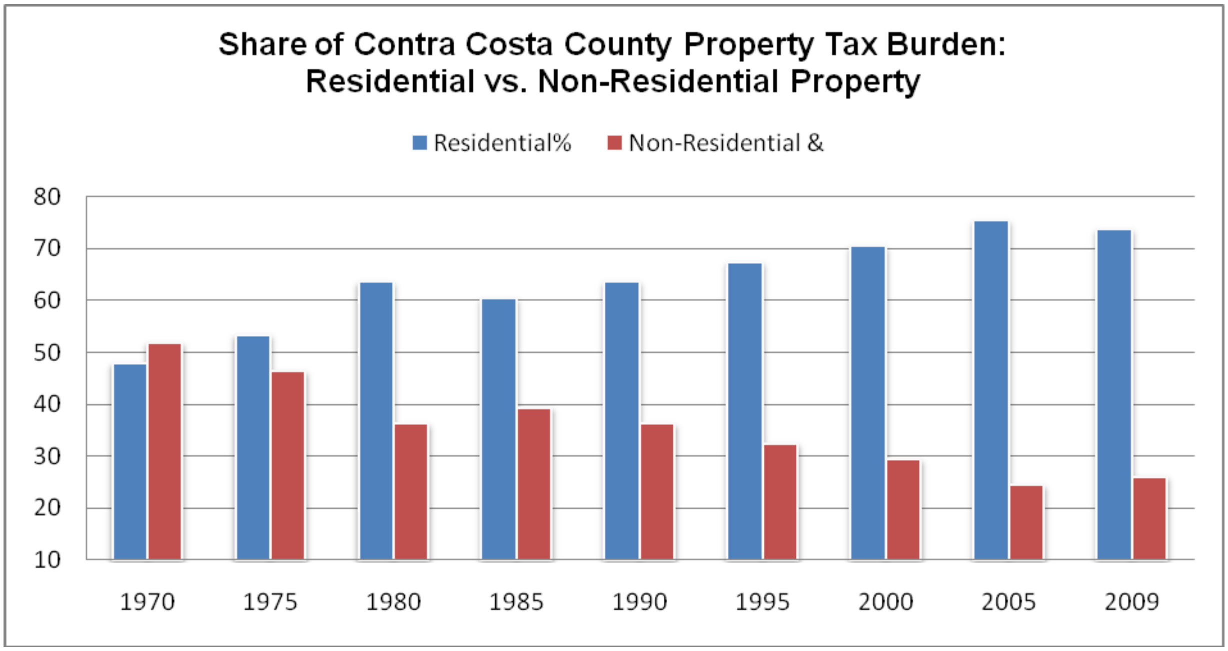


Share of Colusa County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1973-1974	16.86%	83.14%	-66.28%
1985-1986	18.99%	81.01%	-62.03%
1990-1991	16.95%	83.05%	-66.09%
2002-2003	19.52%	80.48%	-60.97%
2009-2010	34.78%	65.22%	-30.45%

Sources and Notes: BOE Colusa County Survey Reports (1973-1974, 1985-1986 and 1990-1991 appraisal samplings and 1985-1986 and 1990-1991 data includes unsecured roll values. BOE and Data Quick (2009-2010).

Contra Costa County

The residential property tax burden has increased from 48% in 1970 to 74% in 2009—a 26 point increase or 54% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 52% to 26%--a 26 point decrease or 35% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

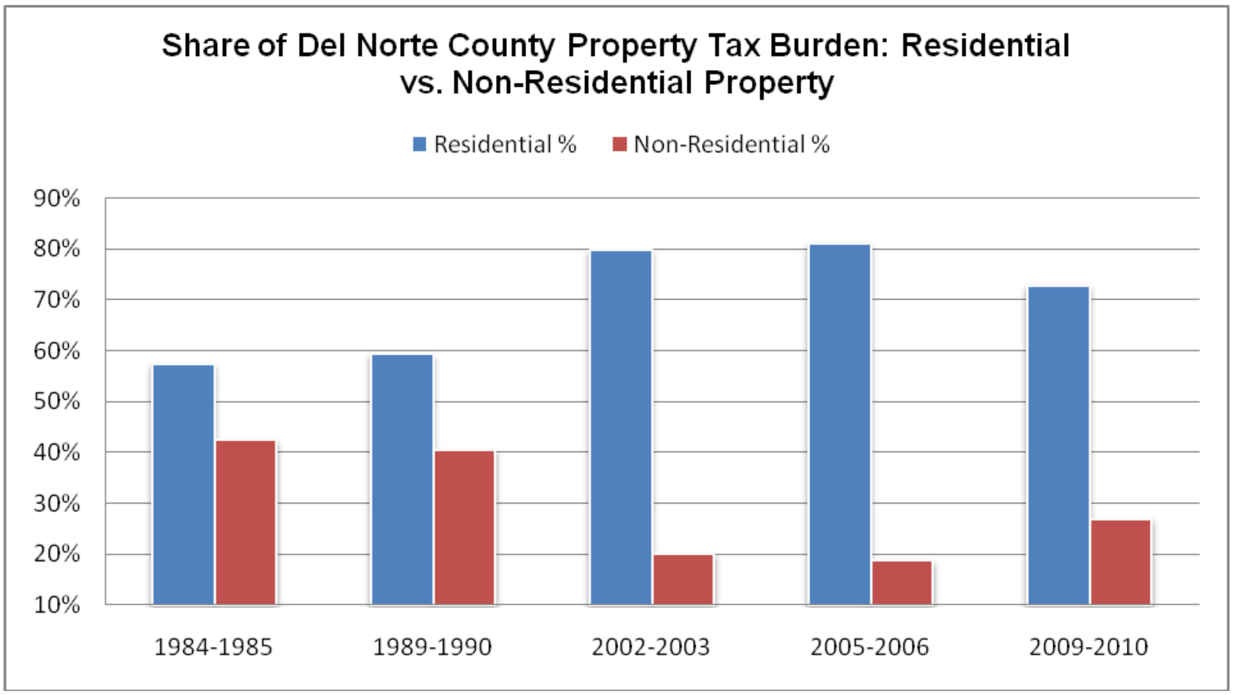


Share of Contra Costa County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential%	Non-Residential %	Differential %
1970	48.00	52.00	-4.00
1975	53.50	46.50	7.00
1980	63.63	36.37	27.26
1985	60.51	39.48	21.03
1990	63.70	36.30	27.40
1995	67.48	32.52	34.96
2000	70.54	29.46	41.08
2005	75.48	24.53	50.95
2009	73.80	26.20	47.60

Sources and Notes: Contra Costa County Assessor’s Office.

Del Norte County

The residential property tax burden has increased from 58% in 1984-85 to 73% in 2009-10—a 15 point increase or 26% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 42% to 27%--a 15 point decrease or 36% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

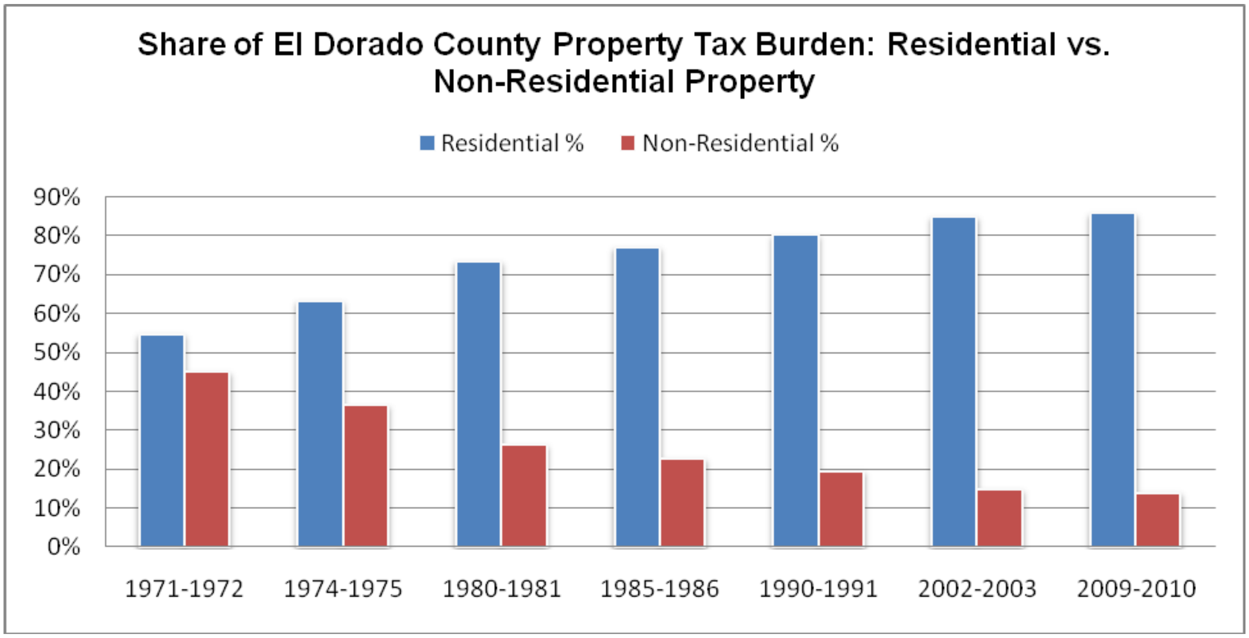


Share of Del Norte County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1984-1985	57.51%	42.49%	15.02%
1989-1990	59.41%	40.59%	18.82%
2002-2003	79.83%	20.17%	59.66%
2005-2006	81.23%	18.77%	62.45%
2009-2010	72.96%	27.04%	45.93%

Sources and Notes: BOE Del Norte County Survey Reports (1984-1985 and 1989-1990 data points appraisal samplings and include unsecured values). BOE and Data Quick (2009-2010).

El Dorado County

The residential property tax burden has increased from 55% in 1971-72 to 86% in 2009-10—a 31 point increase or 56% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 45% to 14%--a 31 point decrease or 69% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

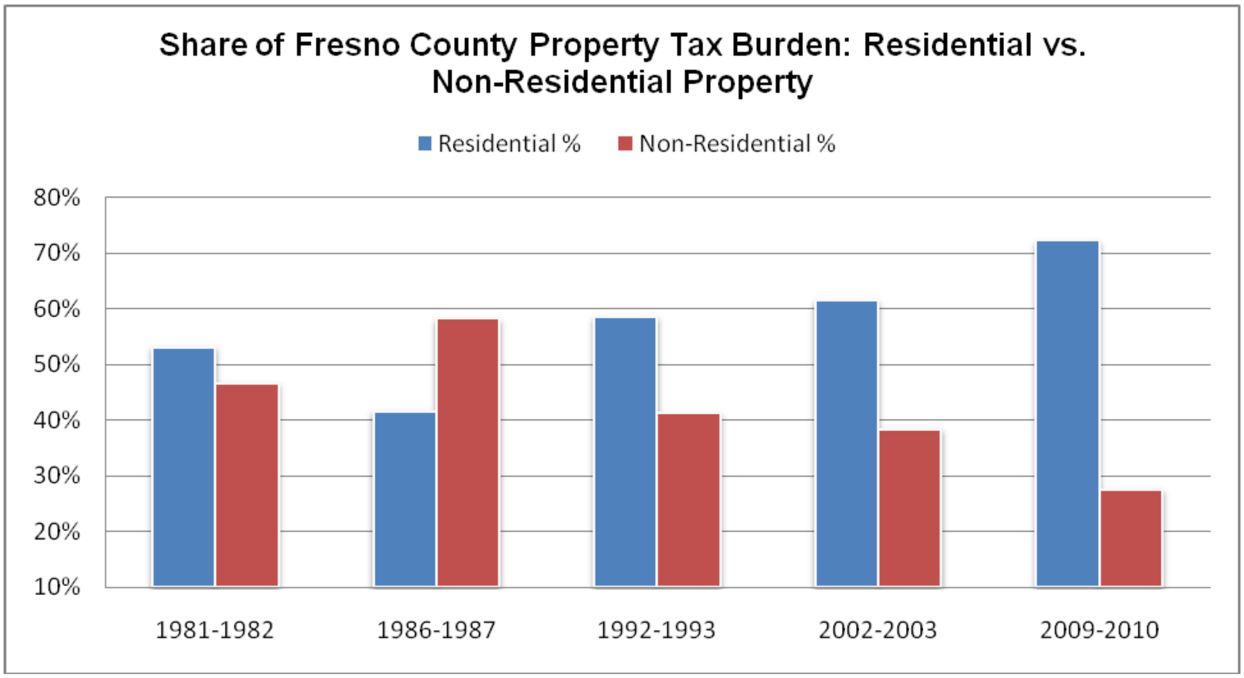


Share of El Dorado County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1971-1972	54.90%	45.10%	9.81%
1974-1975	63.43%	36.57%	26.87%
1980-1981	73.62%	26.38%	47.24%
1985-1986	77.20%	22.80%	54.41%
1990-1991	80.29%	19.71%	60.59%
2002-2003	85.12%	14.88%	70.25%
2009-2010	86.0%	14.03%	71.95%

Sources and Notes: BOE El Dorado County Survey Reports (1985-1986 and 1990-1991 data points include unsecured roll values. BOE appraisal samplings (1971 through 1990). BOE and Data Quick (2009-2010).

Fresno County

The residential property tax burden has increased from 53% in 1981-82 to 72% in 2009-10—a 19 point increase or 36% increase in the property tax burden on residential property owners. Over the same period, the non-residential property tax burden dropped from 47% to 28%--a 19 point decrease or 40% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

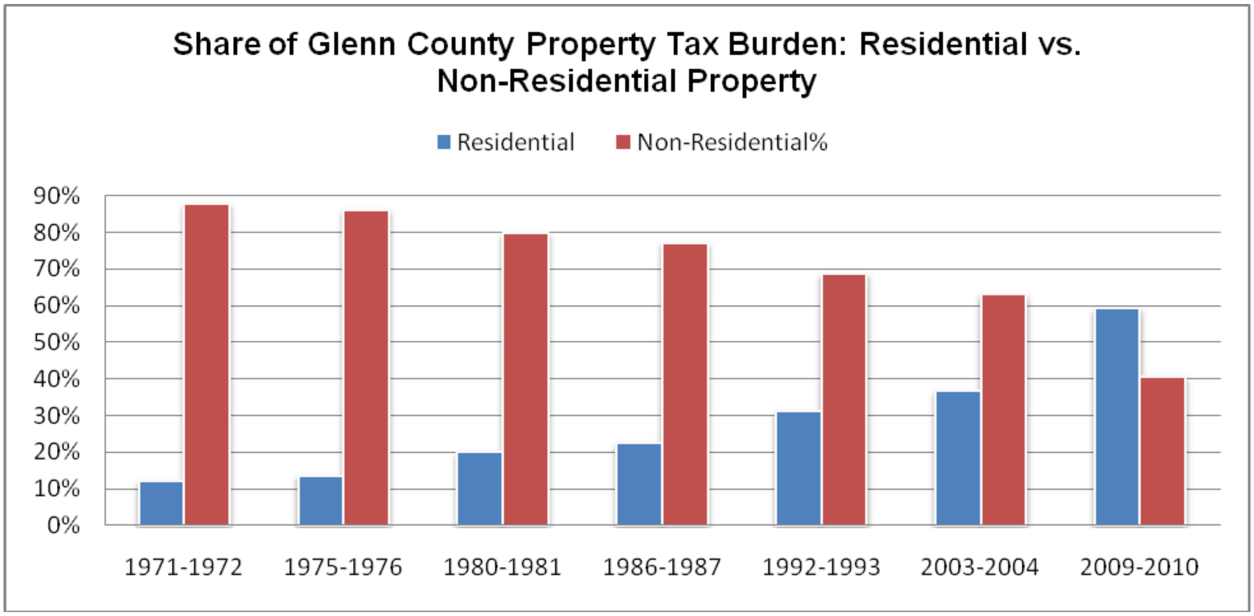


Share of Fresno County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1981-1982	53.21%	46.79%	6.42%
1986-1987	41.71%	58.29%	-16.58%
1992-1993	58.61%	41.39%	17.21%
2002-2003	61.54%	38.46%	23.07%
2009-2010	72.34%	27.66%	44.68%

Sources and Notes: BOE Fresno County Survey Reports (BOE appraisal samplings 1981 through 1992). These data points include unsecured roll values. BOE and Data Quick (2009-2010).

Glenn County

The residential property tax burden has increased from 12% in 1971-72 to 59% in 2009-10—a 47 point increase or 392% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 88% to 41%--a 47 point decrease or 53% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

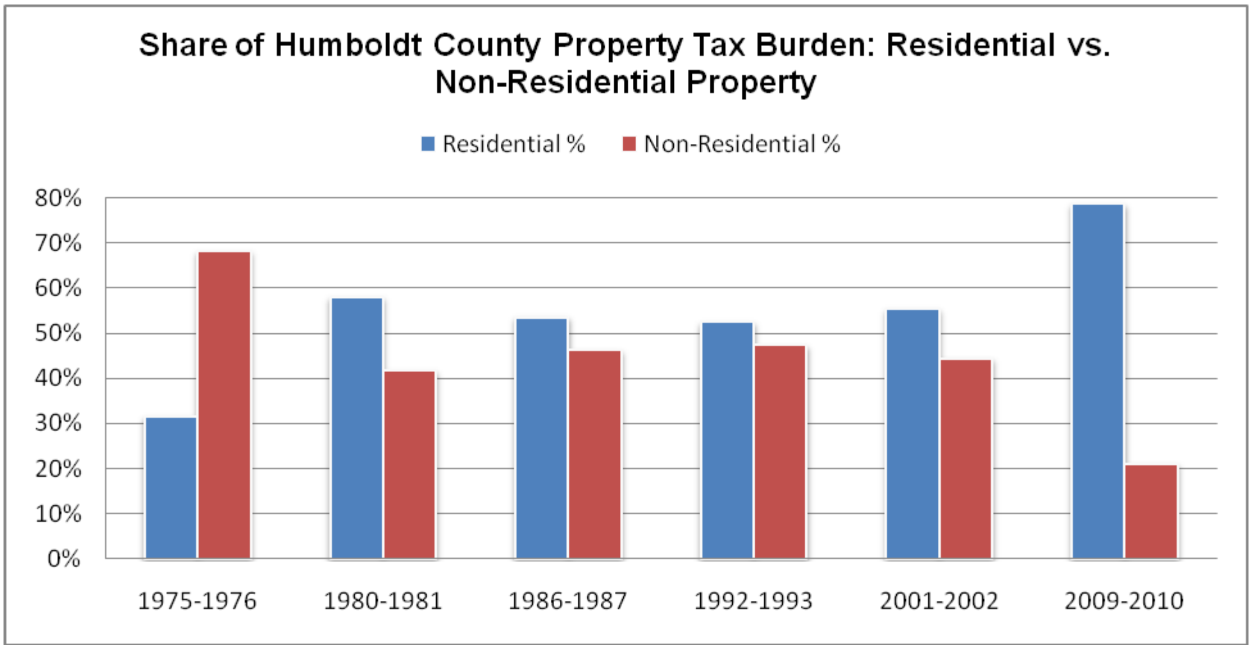


Share of Glenn County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential	Non-Residential%	Differential %
1971-1972	12.1%	87.9%	-75.8%
1975-1976	13.7%	86.3%	-72.7%
1980-1981	20.2%	79.8%	-59.5%
1986-1987	22.7%	77.3%	-54.6%
1992-1993	31.2%	68.8%	-37.6%
2003-2004	36.8%	63.2%	-26.5%
2009-2010	59.3%	40.7%	18.6%

Sources and Notes: BOE Glenn County Survey Reports (1981-1982 and 1986-1987 data include unsecured roll values). BOE and Data Quick (2009-2010).

Humboldt County

The residential property tax burden has increased from 32% in 1975-76 to 79% in 2009-10—a 47 point increase or 147% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 68% to 21%--a 47 point decrease or 69% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

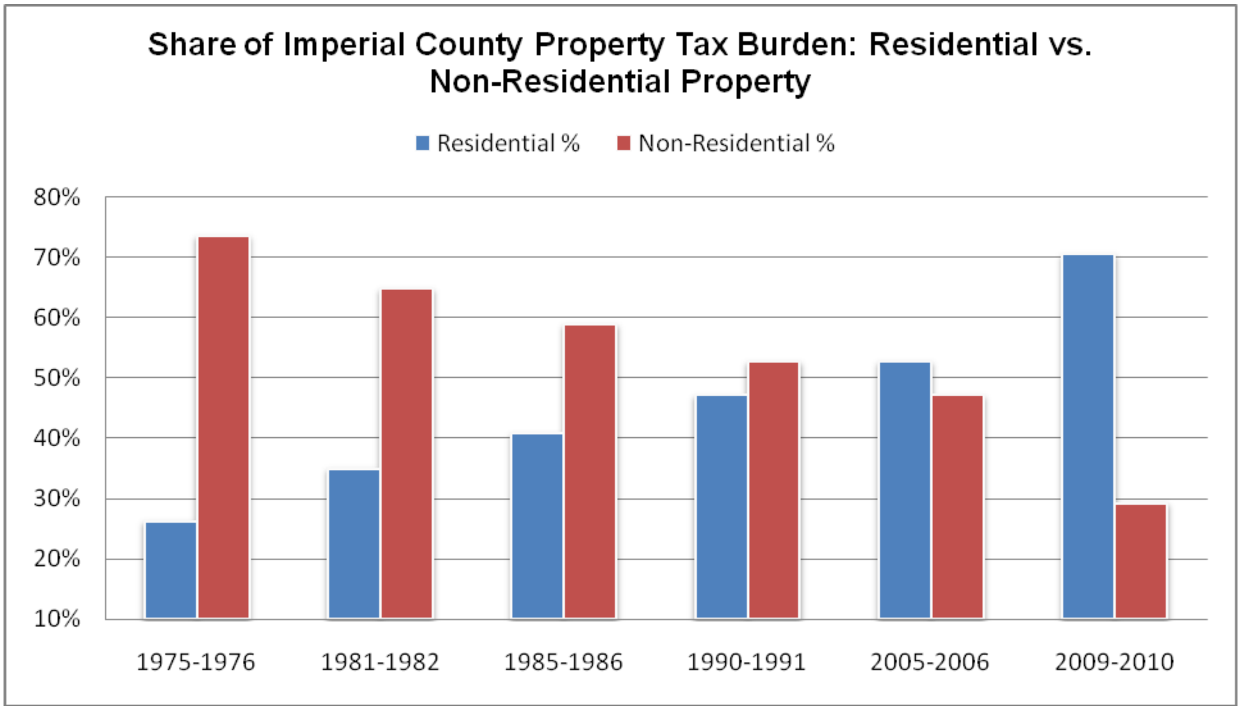


Share of Humboldt County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1975-1976	31.68%	68.32%	-36.64%
1980-1981	58.15%	41.85%	16.29%
1986-1987	53.68%	46.32%	7.36%
1992-1993	52.56%	47.44%	5.12%
2001-2002	55.46%	44.54%	10.92%
2009-2010	78.79%	21.21%	57.58%

Sources and Notes: BOE Humboldt County Survey Reports (1975 through 1986 appraisal samplings and 1980-1981 and 1986-1987 data points include unsecured values). BOE and Data Quick (2009-2010).

Imperial County

The residential property tax burden has increased from 26% in 1975-76 to 71% in 2009-10—a 45 point increase or 173% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 74% to 29%--a 45 point decrease or 61% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

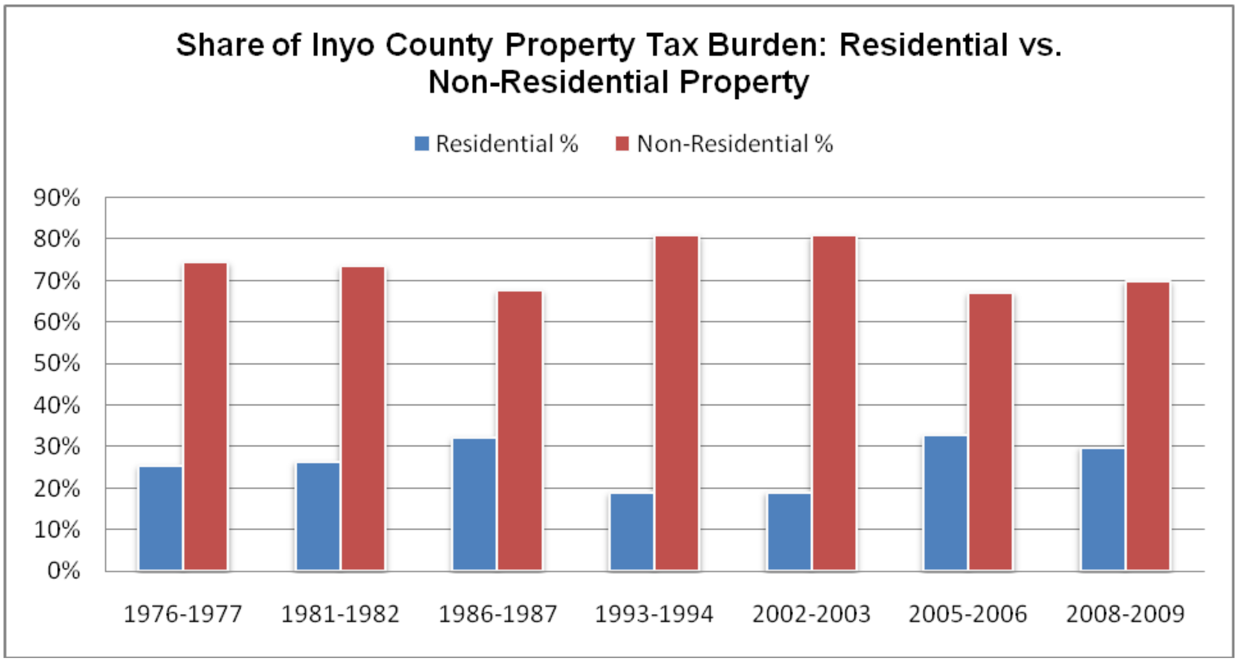


Share of Imperial County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1975-1976	26.31%	73.69%	-47.39%
1981-1982	35.05%	64.95%	-29.89%
1985-1986	40.96%	59.04%	-18.07%
1990-1991	47.22%	52.78%	-5.56%
2005-2006	52.8%	47.20%	5.60%
2009-2010	70.7%	29.34%	41.32%

Sources and Notes: BOE Imperial County Survey Reports. BOE appraisal samplings 1975 data through 1990. 1985 through 1990 data includes unsecured roll values.

Inyo County

The residential property tax burden has increased from 26% in 1976-77 to 30% in 2009-10—a 4 point increase or 15% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 74% to 70%–a 4 point decrease or 5% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

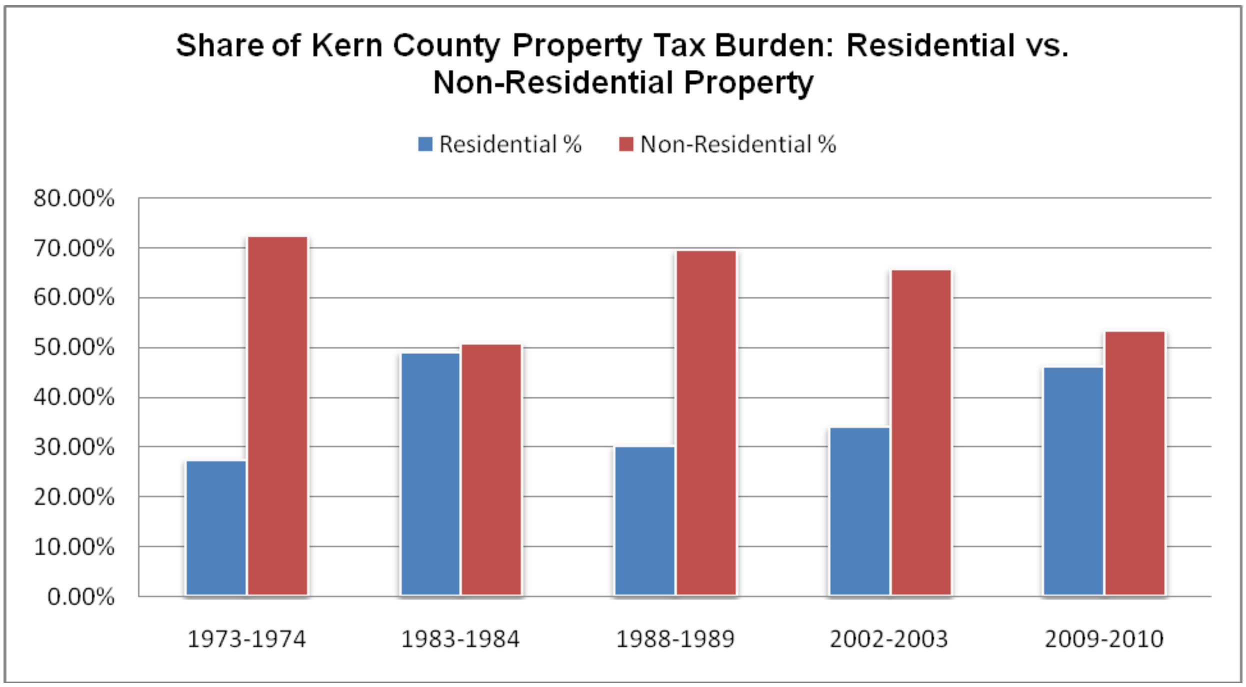


Share of Inyo County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1976-1977	25.51%	74.49%	-48.98%
1981-1982	26.44%	73.56%	-47.12%
1986-1987	32.32%	67.68%	-35.36%
1993-1994	18.95%	81.05%	-62.09%
2002-2003	19.04%	80.96%	-61.92%
2005-2006	32.80%	67.20%	-34.41%
2008-2009	29.97%	70.03%	-40.06%

Sources and Notes: BOE Inyo County Survey Reports (1976 through 1993 appraisal samplings and 1976 through 1993 appraisal samplings). Inyo County Assessor's Office (2004 through 2009). BOE and Data Quick (2009-2010)

Kern County

The residential property tax burden has increased from 27% in 1973-74 to 46% in 2009-10—a 19 point increase or 70% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 73% to 54%--a 19 point decrease or 26% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

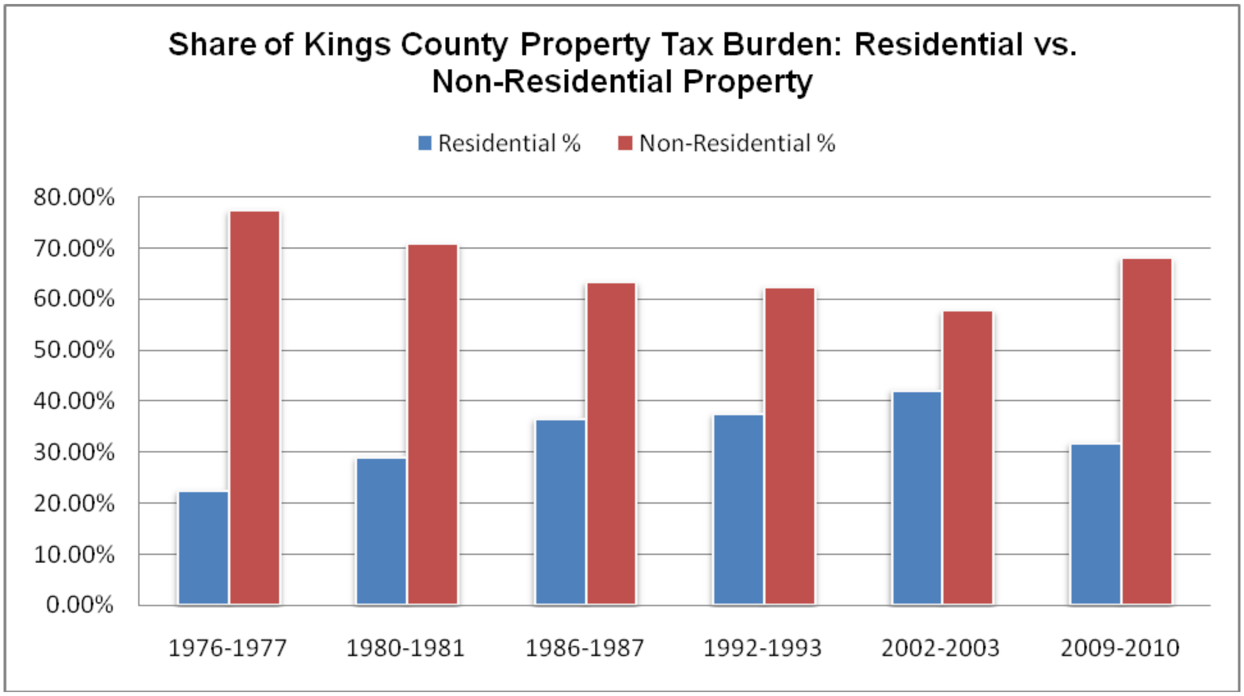


Share of Kern County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1973-1974	27.44%	72.56%	-45.11%
1983-1984	49.07%	50.93%	-1.87%
1988-1989	30.33%	69.67%	-39.33%
2002-2003	34.09%	65.91%	-31.82%
2009-2010	46.41%	53.59%	-7.18%

Sources and Notes: BOE Kern County Survey Reports (1973 through 1988 appraisal samplings and 1983-1984 and 1988-1989 include unsecured values). BOE and Data Quick (2009-2010).

Kings County

The residential property tax burden has increased from 22% in 1976-77 to 32% in 2009-10—a 10 point increase or 45% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 78% to 68%--a 10 point decrease or 13% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

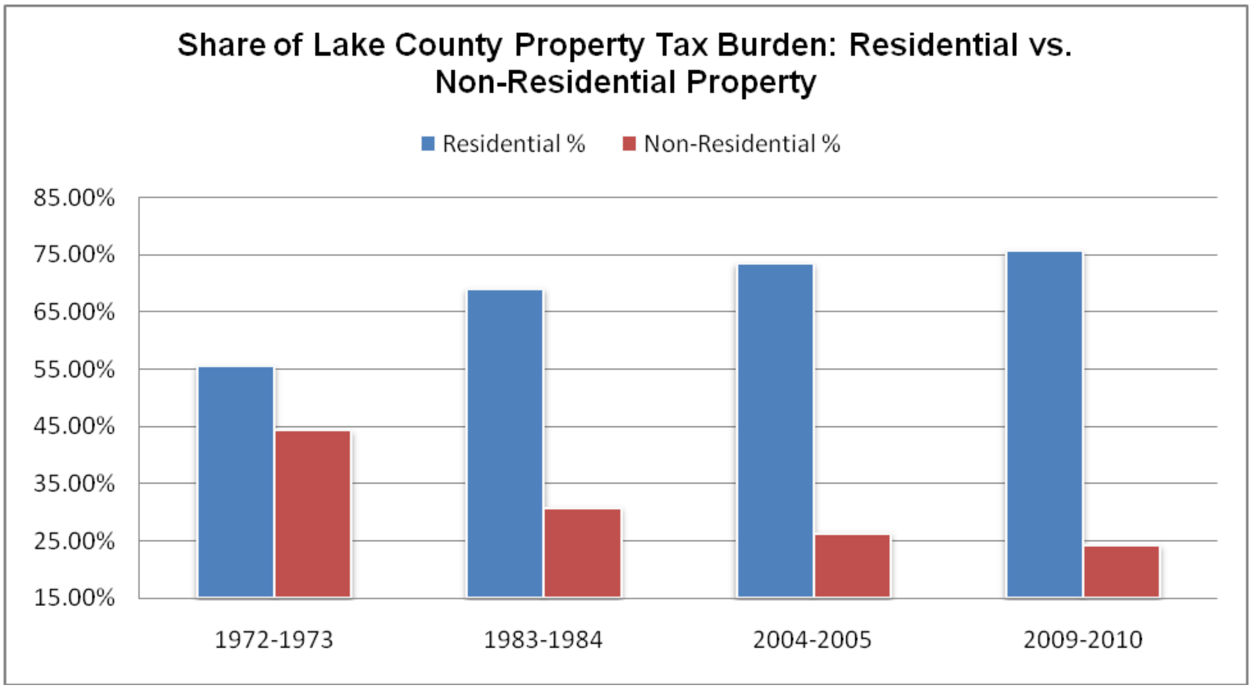


Share of Kings County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1976-1977	22.49%	77.51%	-55.02%
1980-1981	29.07%	70.93%	-41.86%
1986-1987	36.65%	63.35%	-26.70%
1992-1993	37.58%	62.42%	-24.84%
2002-2003	42.22%	57.78%	-15.57%
2009-2010	31.87%	68.13%	-36.26%

Sources and Notes: BOE Kings County Survey Reports (1976 through 1992 appraisal samplings and 1980-1981 and 1986-1987 data points include unsecured data values). BOE and Data Quick (2009-2010).

Lake County

The residential property tax burden has increased from 56% in 1972-73 to 76% in 2009-10—a 20 point increase or 36% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 44% to 24%--a 20 point decrease or 45% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

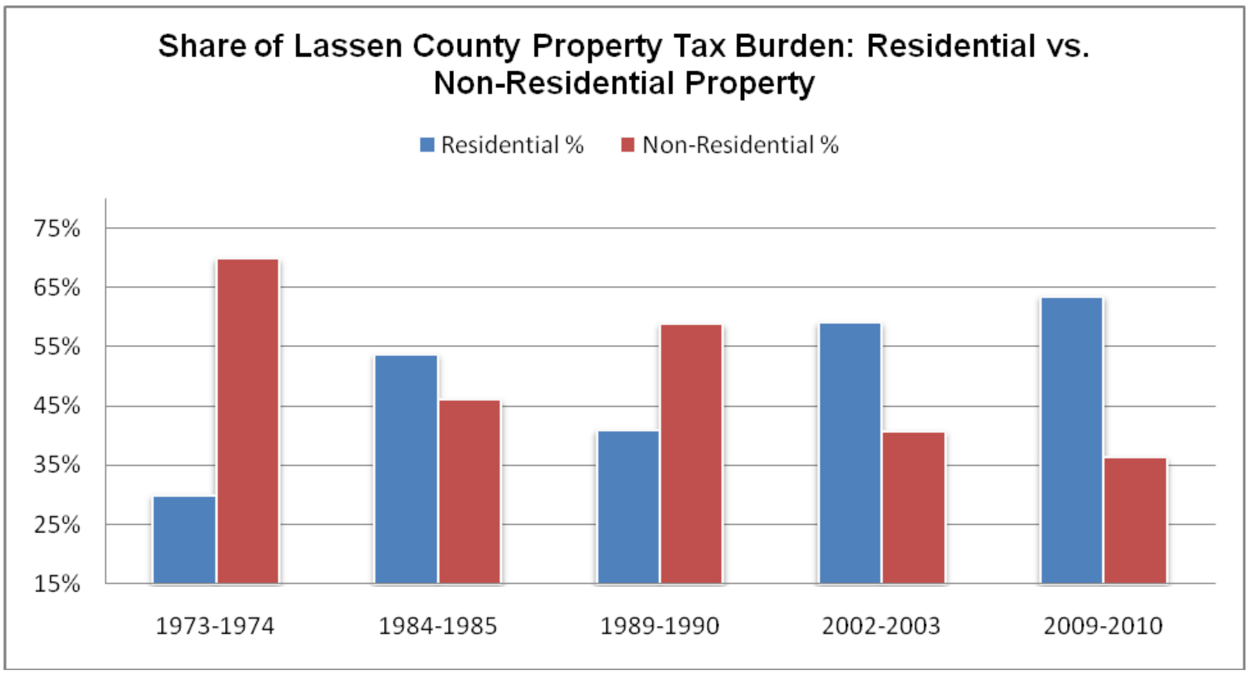


Share of Lake County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1972-1973	55.66%	44.34%	11.32%
1983-1984	69.13%	30.87%	38.27%
2004-2005	73.59%	26.41%	47.17%
2009-2010	75.77%	24.23%	51.55%

Sources and Notes: BOE Lake County Survey Reports (1972-1973 and 1983-1984 data points appraisal samplings and 1983-1984 includes unsecured values). BOE and Data Quick (2009-2010).

Lassen County

The residential property tax burden has increased from 30% in 1973-74 to 64% in 2009-10—a 34 point increase or 36% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 70% to 36%--a 34 point decrease or 49% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

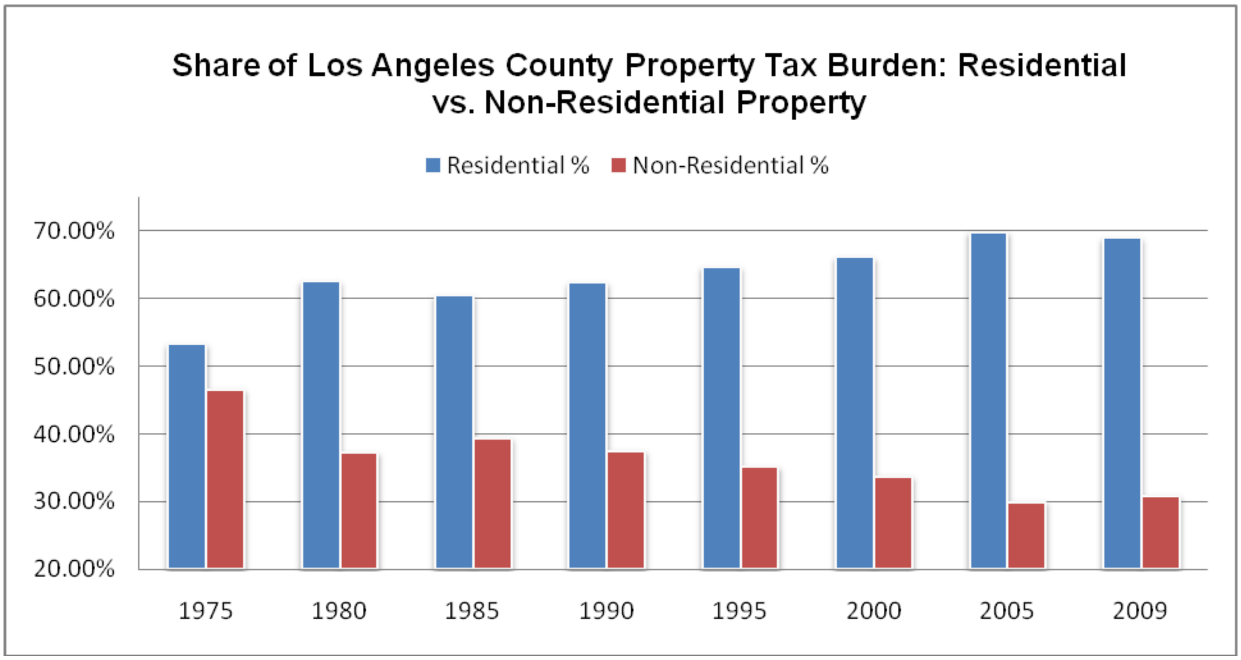


Share of Lassen County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1973-1974	30.02%	69.98%	-39.96%
1984-1985	53.82%	46.18%	7.64%
1989-1990	41.03%	58.97%	-17.94%
2002-2003	59.19%	40.81%	18.39%
2009-2010	63.62%	36.38%	27.24%

Sources and Notes: BOE Lassen County Survey Reports (1984-1984 and 1989-1990 include unsecured roll values and 973 through 1989 data appraisal samplings). BOE and Data Quick (2009-2010).

Los Angeles County

The residential property tax burden has increased from 53% in 1975 to 69% in 2009-10—a 16 point increase or 30% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 47% to 31%--a 16 point decrease or 34% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

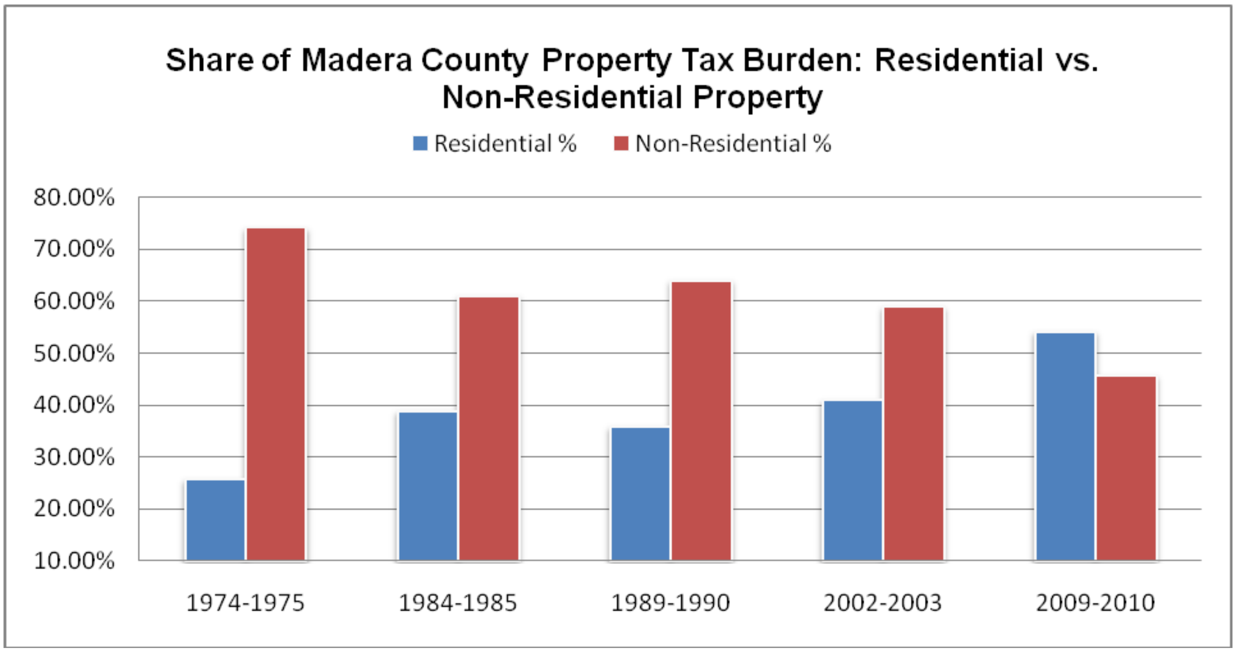


Share of Los Angeles County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1975	53.37%	46.63%	6.73%
1980	62.67%	37.33%	25.33%
1985	60.52%	39.48%	21.04%
1990	62.45%	37.55%	24.90%
1995	64.81%	35.19%	29.62%
2000	66.20%	33.80%	32.41%
2005	69.96%	30.04%	39.93%
2009	69.09%	30.91%	38.18%

Sources and Notes: Los Angeles County Assessor's Office.

Madera County

The residential property tax burden has increased from 26% in 1974-1975 to 54% in 2009-10—a 28 point increase or 107% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 74% to 46%--a 28 point decrease or 39% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

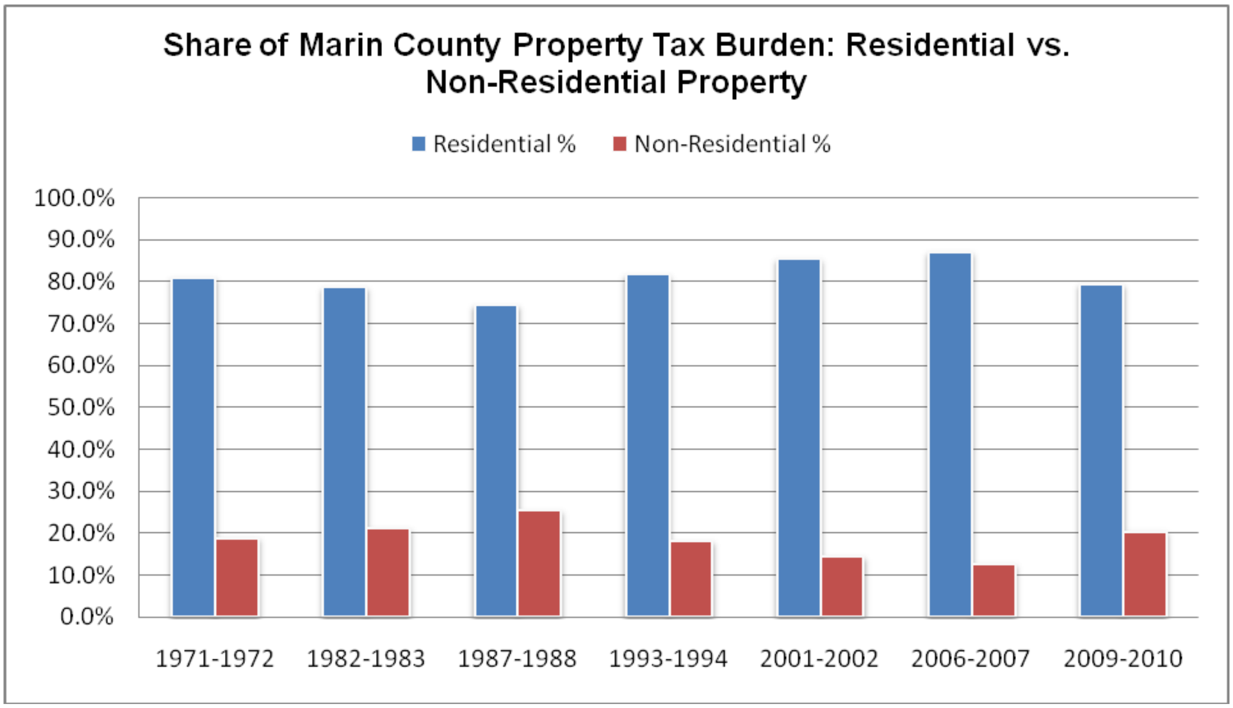


Share of Madera County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1974-1975	25.79%	74.21%	-48.43%
1984-1985	38.92%	61.08%	-22.16%
1989-1990	35.90%	64.10%	-28.20%
2002-2003	40.98%	59.02%	-18.04%
2009-2010	54.23%	45.77%	8.46%

Sources and Notes: BOE Madera County Survey Reports (1974 through 1989 data appraisal samplings and 1984-1985 and 1989-1990 includes unsecured values). BOE and Data Quick (2009-2010).

Marin County

The residential property tax burden has decreased from 81% in 1971-1972 to 80% in 2009-10—a 1 point decrease or 1% decrease in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden increase from 19% to 20%--a 1 point increase or 5% increase in the property tax burden on non-residential property (i.e. commercial/industrial).

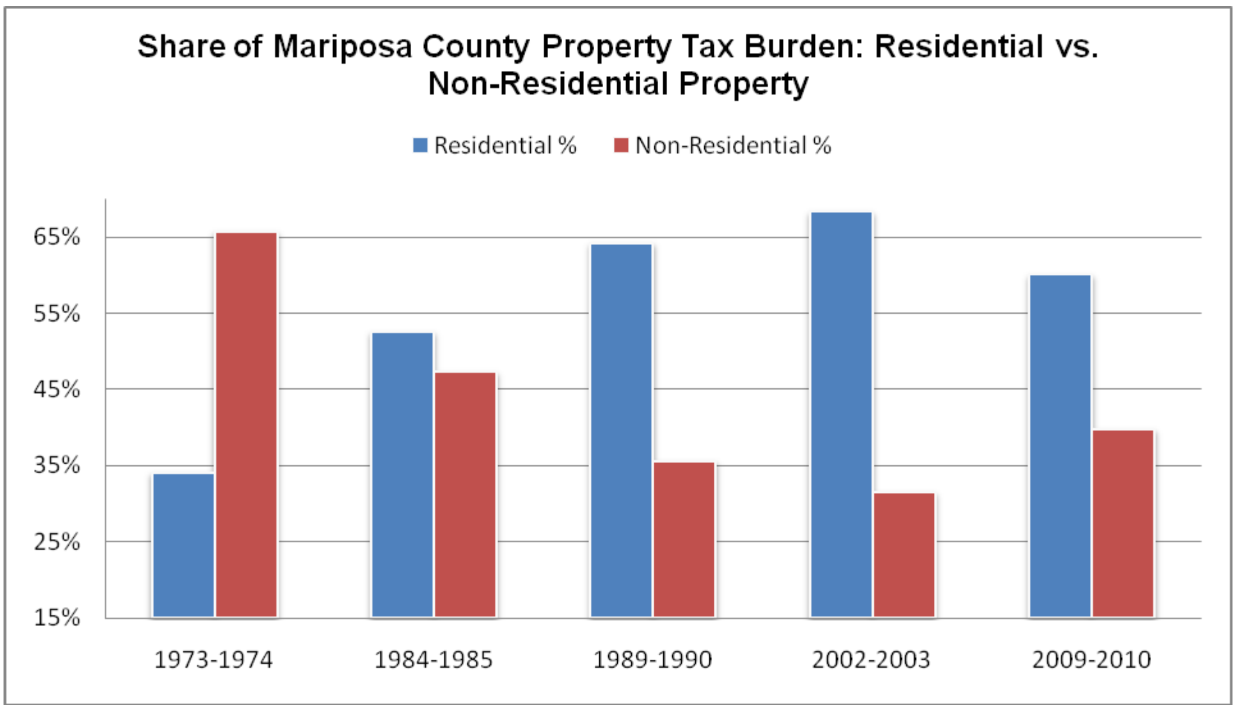


Share of Marin County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1971-1972	81.1%	18.9%	62.1%
1982-1983	78.8%	21.2%	57.7%
1987-1988	74.6%	25.4%	49.1%
1993-1994	81.8%	18.2%	63.6%
2001-2002	85.6%	14.4%	71.1%
2006-2007	87.3%	12.7%	74.5%
2009-2010	79.6%	20.4%	59.1%

Sources and Notes: BOE Marin County Survey Reports (1971 through 1993 appraisal samplings and 1982-1983 and 1987-1988 data points include unsecured roll values). BOE and Data Quick (2009-2010).

Mariposa County

The residential property tax burden has increased from 34% in 1973-1974 to 60% in 2009-10—a 26 point increase or 76% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 66% to 40%--a 26 point decrease or 39% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

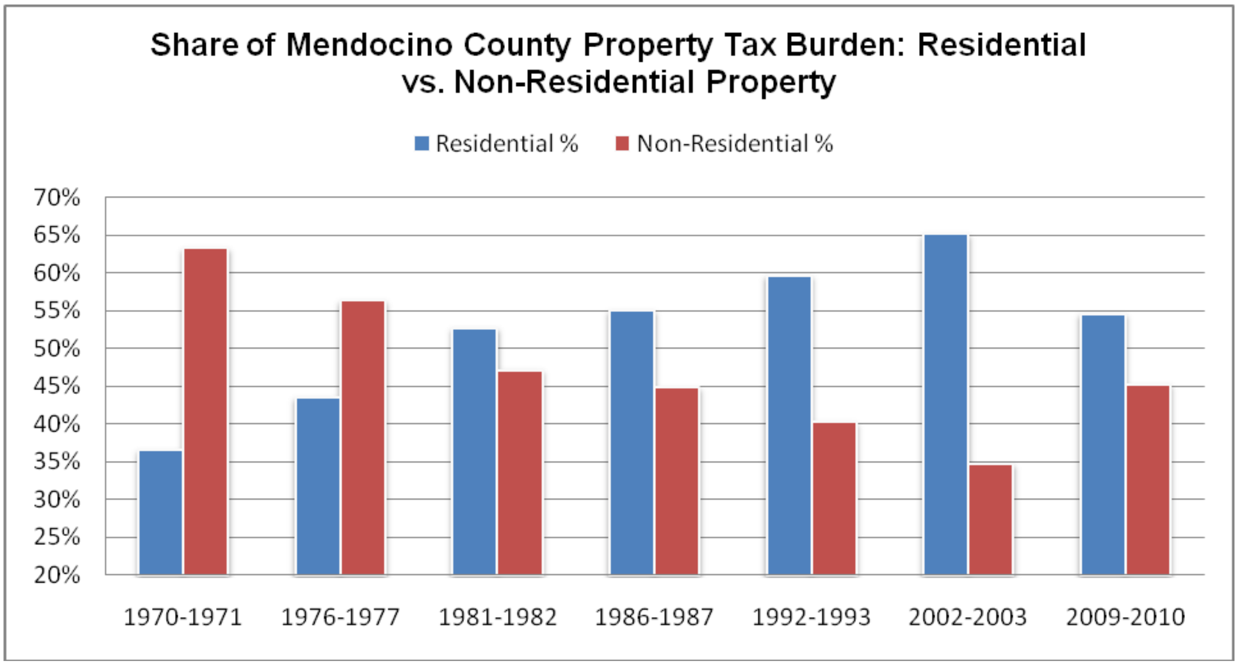


Share of Mariposa County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1973-1974	34.14%	65.86%	-31.71%
1984-1985	52.64%	47.36%	5.28%
1989-1990	64.33%	35.67%	28.67%
2002-2003	68.43%	31.57%	36.86%
2009-2010	60.17%	39.83%	20.34%

Sources and Notes: BOE Mariposa County Survey Reports (1973 through 1989 appraisal samplings and 1984-1985 and 1989-1990 include unsecured values). BOE and Data Quick (2009-2010).

Mendocino County

The residential property tax burden has increased from 37% in 1970-1971 to 55% in 2009-10—a 18 point increase or 49% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 63% to 45%--a 26 point decrease or 29% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

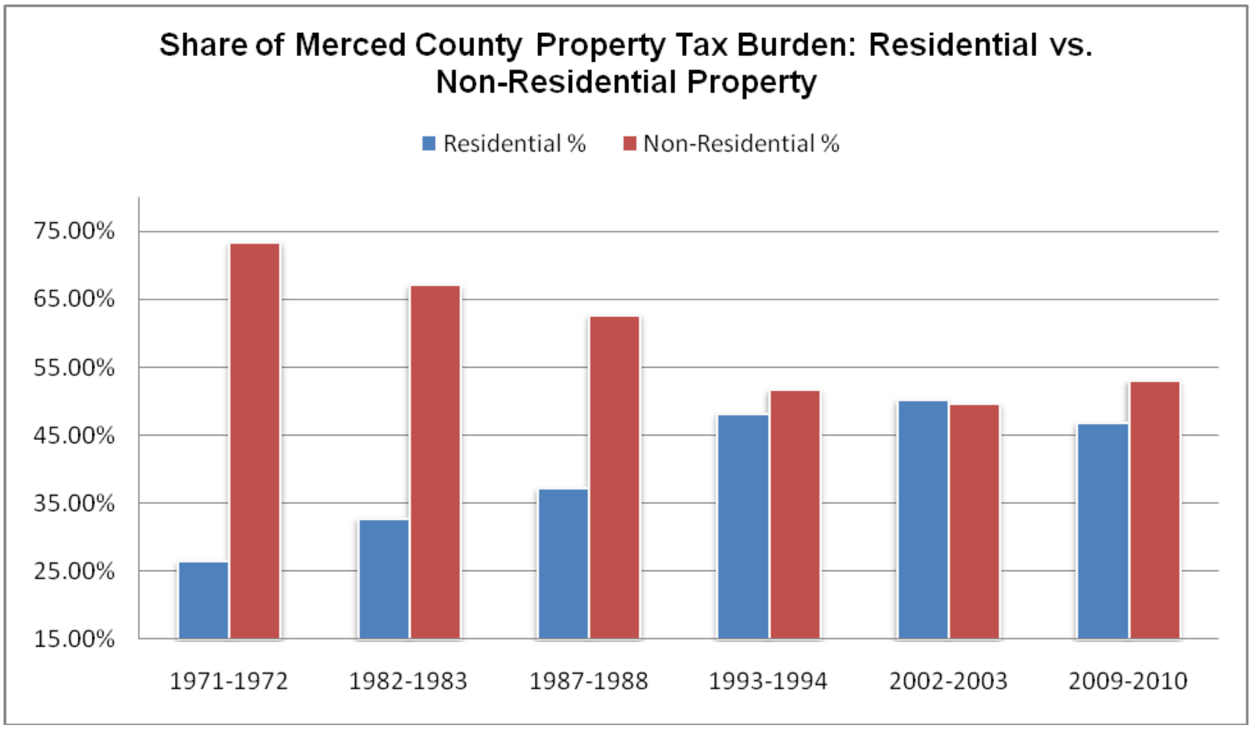


Share of Mendocino County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1970-1971	36.65%	63.35%	-26.69%
1976-1977	43.59%	56.41%	-12.81%
1981-1982	52.79%	47.21%	5.58%
1986-1987	55.10%	44.90%	10.20%
1992-1993	59.72%	40.28%	19.43%
2002-2003	65.20%	34.80%	30.41%
2009-2010	54.67%	45.33%	9.34%

Sources and Notes: BOE Mendocino County Survey Reports. BOE and Data Quick (2009-2010).

Merced County

The residential property tax burden has increased from 27% in 1971-1972 to 47% in 2009-10—a 20 point increase or 74% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 73% to 53%--a 20 point decrease or 27% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

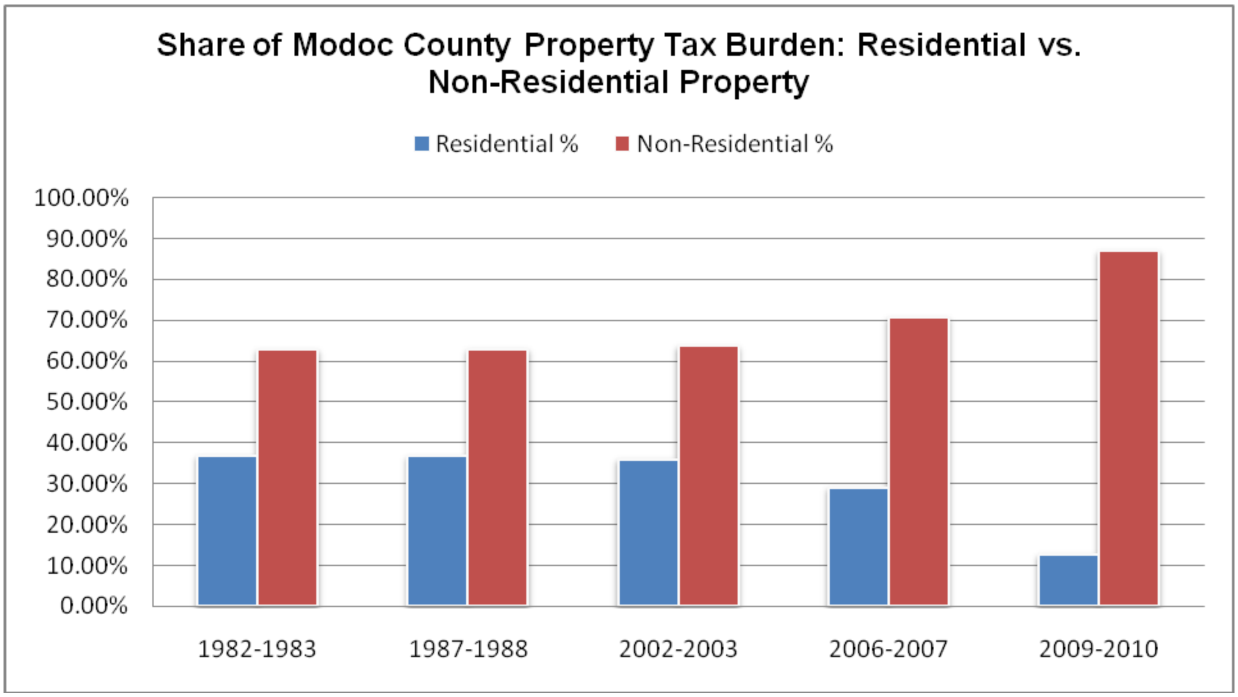


Share of Merced County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1971-1972	26.56%	73.44%	-46.88%
1982-1983	32.84%	67.16%	-34.32%
1987-1988	37.25%	62.75%	-25.50%
1993-1994	48.23%	51.77%	-3.54%
2002-2003	50.30%	49.70%	0.60%
2009-2010	46.85%	53.15%	-6.30%

Sources and Notes: BOE Merced County Survey Reports (1982-1983 and 1987-1988 appraisal samplings and these data points include unsecured values). BOE and Data Quick (2009-2010).

Modoc County

The residential property tax burden has increased from 37% in 1982-1983 to 13% in 2009-10—a 24 point decrease or 65% decrease in the property tax burden on residential property owners. Over the same period, the non-residential property tax burden increased from 63% to 87%--a 24 point increase or 38% increase in the property tax burden on non-residential property (i.e. commercial/industrial).

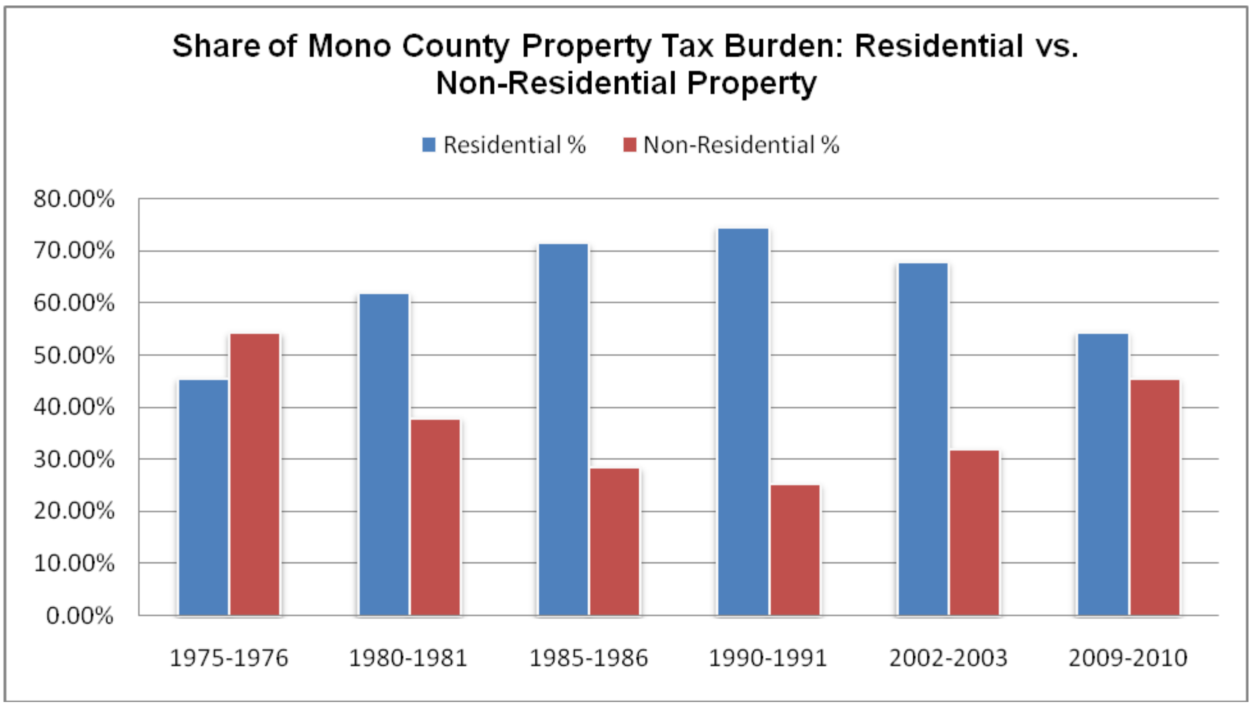


Share of Modoc County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1982-1983	37.00%	63.00%	-26.01%
1987-1988	36.92%	63.08%	-26.16%
2002-2003	36.12%	63.88%	-27.77%
2006-2007	29.14%	70.86%	-41.73%
2009-2010	12.78%	87.22%	-74.45%

Sources and Notes: BOE Modoc County Survey Reports (1982-1983 and 1987-1988 appraisal samplings. These data points include unsecured roll values. BOE and Data Quick 2009-10.

<u>Mono County</u>

The residential property tax burden has increased from 46% in 1975-1976 to 55% in 2009-10—a 9 point increase or 20% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 54% to 45%--a 9 point decrease or 17% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

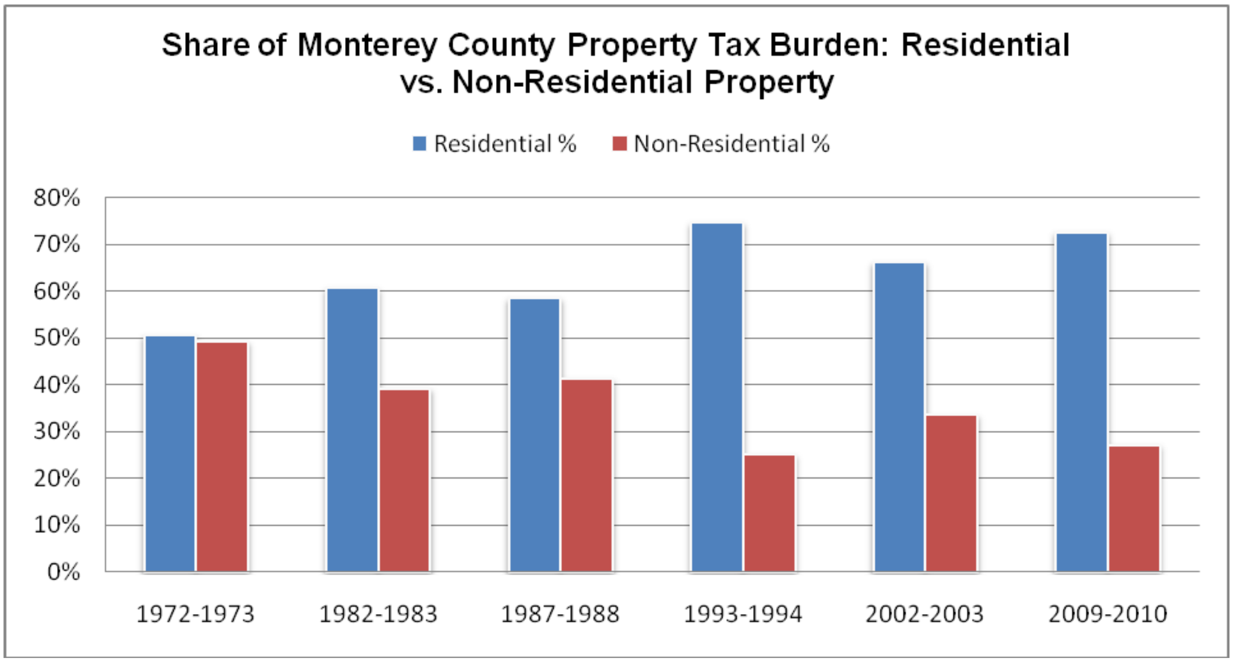


Share of Mono County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1975-1976	45.61%	54.39%	-8.79%
1980-1981	62.02%	37.98%	24.04%
1985-1986	71.51%	28.49%	43.03%
1990-1991	74.68%	25.32%	49.35%
2002-2003	67.95%	32.05%	35.90%
2009-2010	54.5%	45.51%	8.99%

Sources and Notes: BOE Mono County Survey Reports (1975 through 1985 data appraisal samplings and 1980-1981 and 1985-1986 data includes unsecured values). BOE and Data Quick 2009-10

Monterey County

The residential property tax burden has increased from 51% in 1972-1973 to 73% in 2009-10—a 22 point increase or 43% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 49% to 27%--a 22 point decrease or 45% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

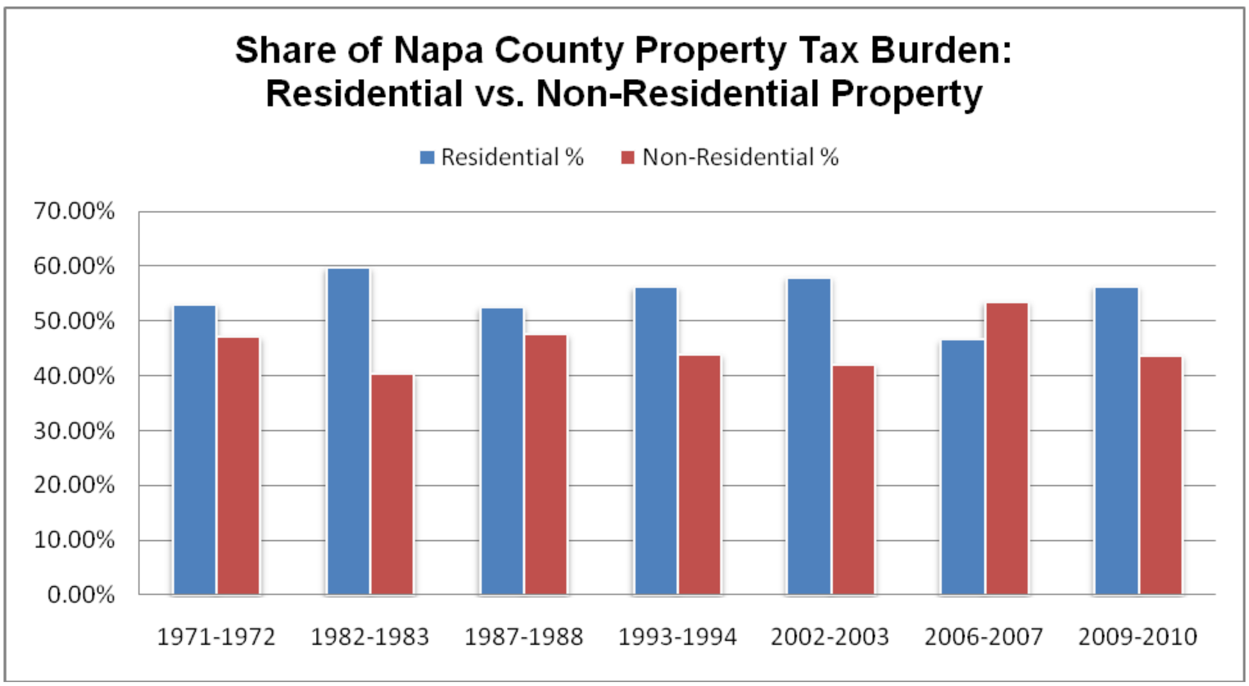


Share of Monterey County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1972-1973	50.66%	49.34%	1.31%
1982-1983	60.71%	39.29%	21.43%
1987-1988	58.65%	41.35%	17.29%
1993-1994	74.80%	25.20%	49.60%
2002-2003	66.28%	33.72%	32.55%
2009-2010	72.72%	27.28%	45.44%

Sources and Notes: BOE Monterey County Survey Reports (1972 through 1993 data appraisal samplings and 1982-1983 and 1987-1988 data values include unsecured values). BOE and Data Quick (2009-2010).

Napa County

The residential property tax burden has increased from 53% in 1971-1972 to 56% in 2009-10—a 3 point increase or 6% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 47% to 44%--a 3 point decrease or 6% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

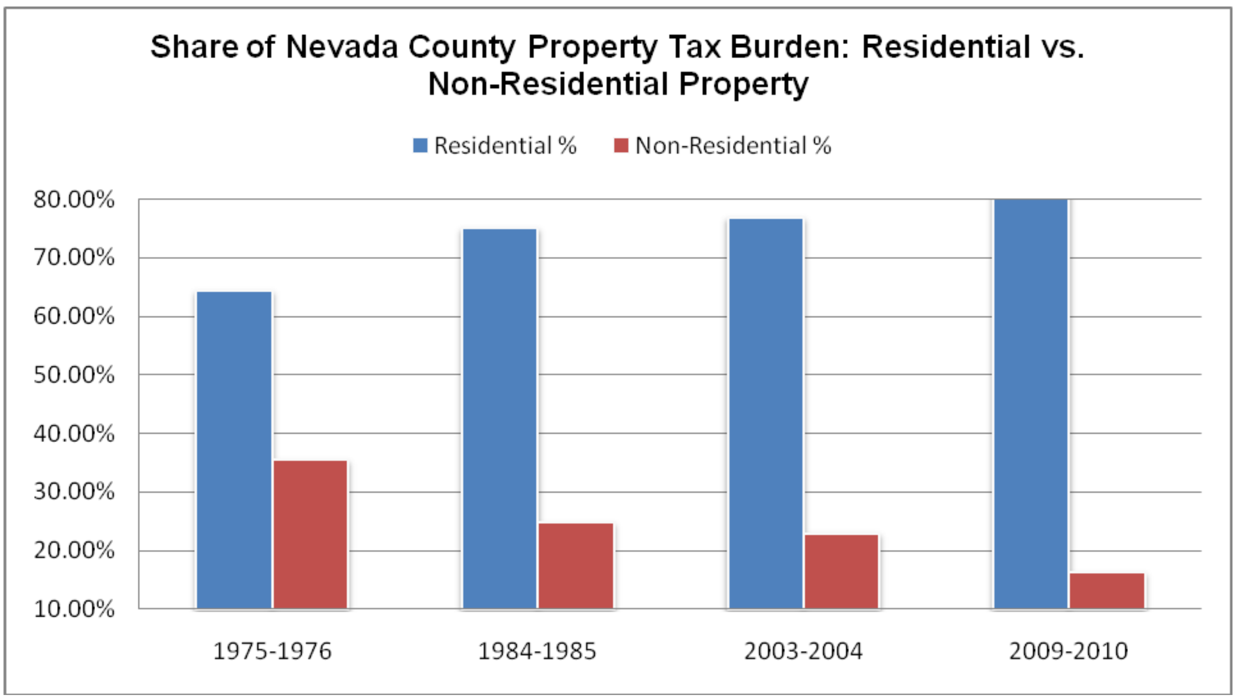


Share of Napa County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1971-1972	52.94%	47.06%	5.88%
1982-1983	59.74%	40.26%	19.47%
1987-1988	52.48%	47.52%	4.95%
1993-1994	56.13%	43.87%	12.26%
2002-2003	57.96%	42.04%	15.92%
2006-2007	46.53%	53.47%	-6.93%
2009-2010	56.34%	43.66%	12.68%

Sources and Notes: BOE Napa County Survey Reports. BOE and Data Quick (2009-2010).

Nevada County

The residential property tax burden has increased from 64% in 1975-1976 to 84% in 2009-10—a 20 point increase or 31% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 36% to 16%--a 20 point decrease or 56% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

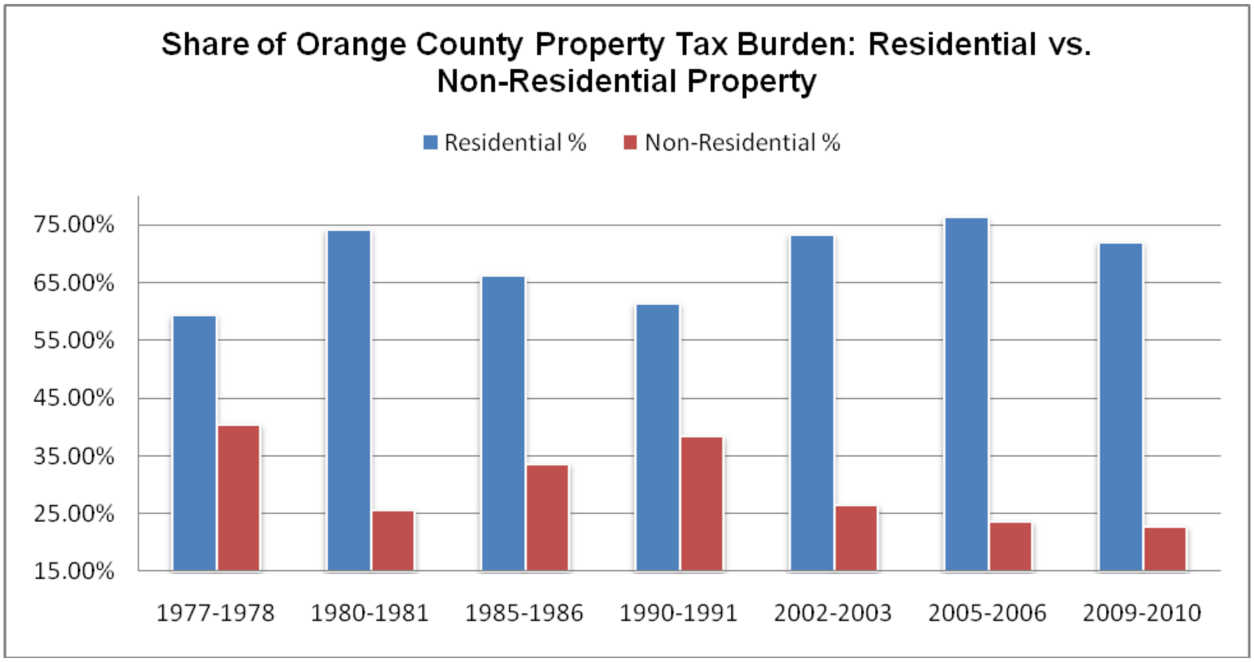


Share of Nevada County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1975-1976	64.45%	35.55%	28.91%
1984-1985	75.15%	24.85%	50.29%
2003-2004	76.97%	23.03%	53.93%
2009-2010	83.65%	16.35%	67.31%

Sources and Notes: BOE Nevada County Survey Reports (1975-1976 and 1984-1985 appraisal samplings and 1984-1985 includes unsecured roll values). BOE and Data Quick (2009-2010).

Orange County

The residential property tax burden has increased from 59% in 1977-1978 to 72% in 2009-10—a 13 point increase or 22% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 41% to 28%--a 13 point decrease or 32% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

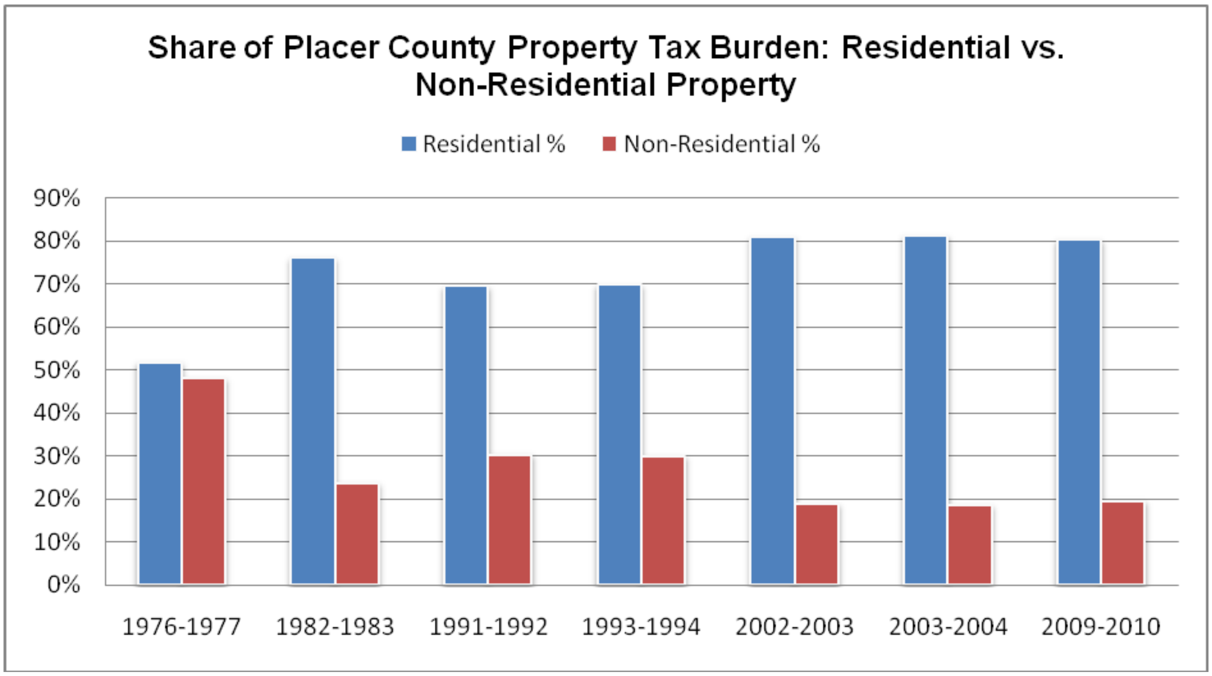


Share of Orange County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1977-1978	59.42%	40.58%	18.83%
1980-1981	74.34%	25.66%	48.69%
1985-1986	66.28%	33.72%	32.56%
1990-1991	61.52%	38.48%	23.04%
2002-2003	73.45%	26.55%	46.89%
2005-2006	76.37%	23.63%	52.74%
2009-2010	72.10%	27.90%	44.20%

Sources and Notes: BOE Orange County Survey Reports (1977 through 1990 appraisal samplings and 1980 through 1990 data includes unsecured roll values). Orange County Assessor Data (Comprehensive Financial Annual Report 2002-2007). BOE and Data Quick (2009-2010).

Placer County

The residential property tax burden has increased from 59% in 1976-1977 to 80% in 2009-10—a 21 point increase or 36% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 48% to 20%--a 21 point decrease or 44% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

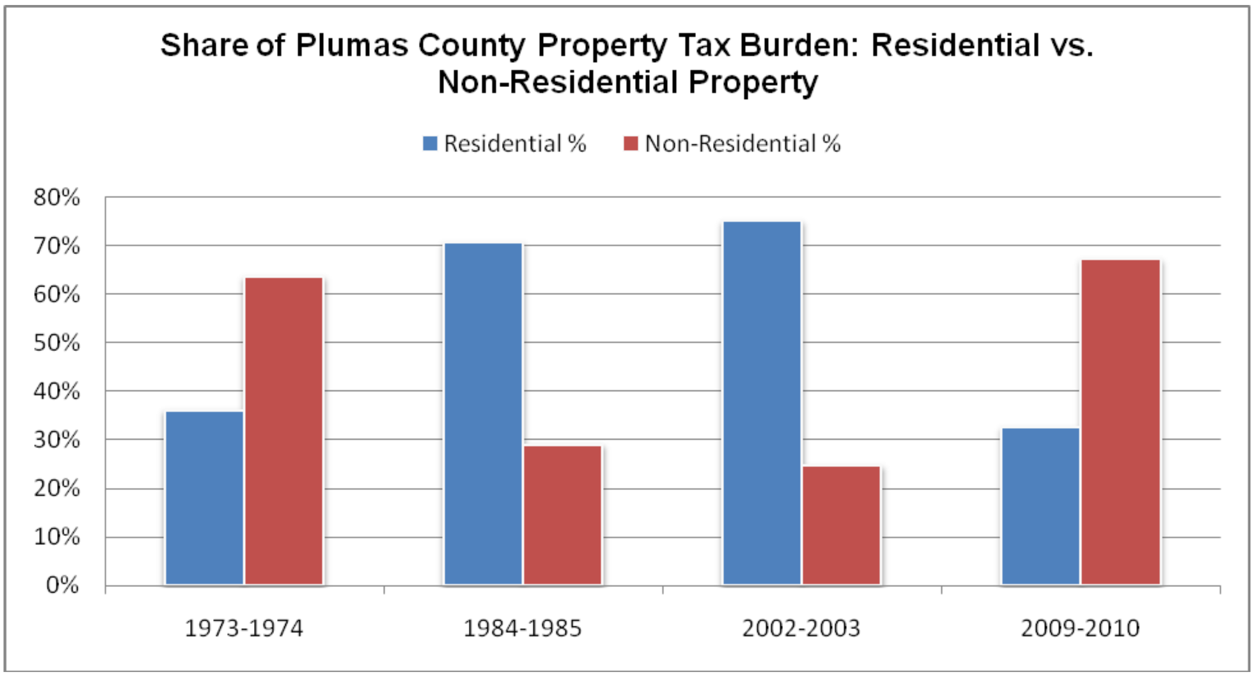


Share of Placer County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1976-1977	51.84%	48.16%	3.69%
1982-1983	76.24%	23.76%	52.47%
1991-1992	69.57%	30.43%	39.15%
1993-1994	69.90%	30.10%	39.81%
2002-2003	81.03%	18.97%	62.06%
2003-2004	81.32%	18.68%	62.65%
2009-2010	80.38%	19.62%	60.76%

Sources and Notes: BOE Placer County Survey Reports (1976 through 1993 appraisal samplings and 1982-1983 and 1991-1992 data includes unsecured roll values). Placer County Assessor's Office 2003 -2004 and 2009-2010.

Plumas County

The residential property tax burden has increased from 36% in 1973-1974 to 33% in 2009-10—a 3 point decrease or 8% decrease in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden increased from 64% to 67%--a 3 point increase or 5% increase in the property tax burden on non-residential property (i.e. commercial/industrial).

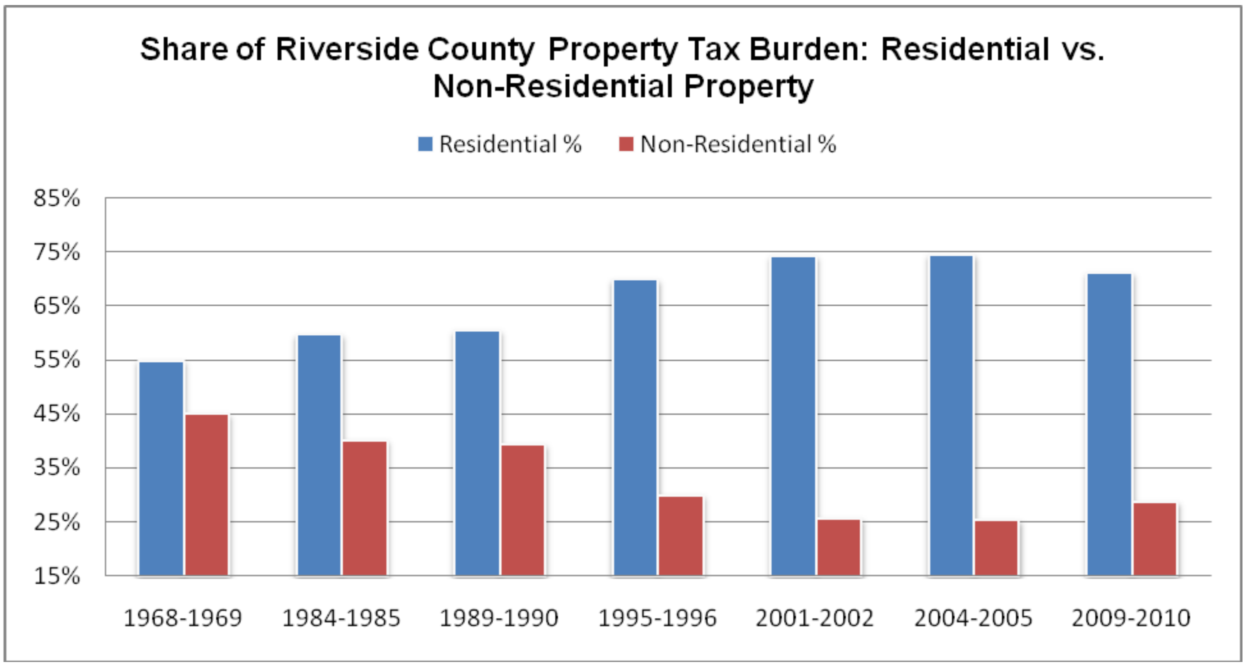


Share of Plumas County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1973-1974	36.23%	63.77%	-27.55%
1984-1985	70.82%	29.18%	41.65%
2002-2003	75.23%	24.77%	50.46%
2009-2010	32.67%	67.33%	-34.66%

Sources and Notes: BOE Plumas County Survey Reports (1984-1985 includes unsecured roll values and 1973-1974 and 1984-1985 appraisal samplings). BOE and Data Quick 2009-10

Riverside County

The residential property tax burden has increased from 55% in 1968-1969 to 71% in 2009-10—a 16 point increase or 29% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 45% to 29%--a 16 point decrease or 36% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

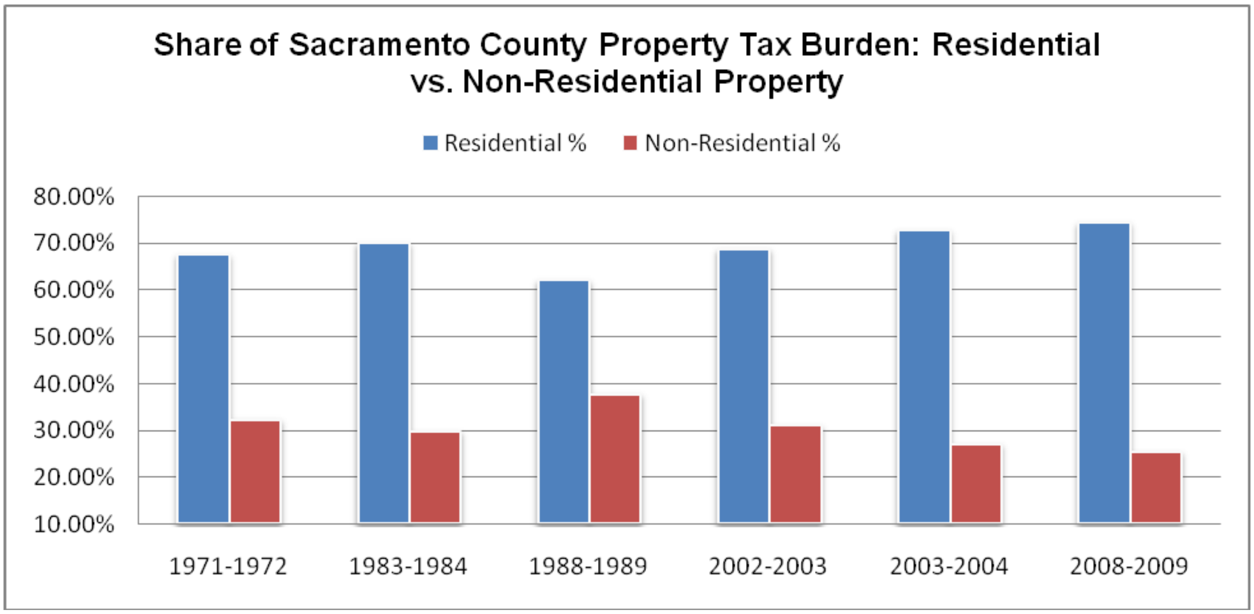


Share of Riverside County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1968-1969	54.97%	45.03%	9.94%
1984-1985	59.76%	40.24%	19.53%
1989-1990	60.54%	39.46%	21.08%
1995-1996	69.97%	30.03%	39.95%
2001-2002	74.35%	25.65%	48.71%
2004-2005	74.62%	25.38%	49.24%
2009-2010	71.22%	28.78%	42.44%

Sources and Notes: BOE Riverside County Survey Reports (1968 through 1995 appraisal sampling and 1984-1985 and 1989-1990 include unsecured roll values). Riverside County Assessor's Office (2004-2005 and 2009-2010).

Sacramento County

The residential property tax burden has increased from 68% in 1968-1969 to 75% in 2008-09—a 7 point increase or 10% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 32% to 25%–a 7 point decrease or 22% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

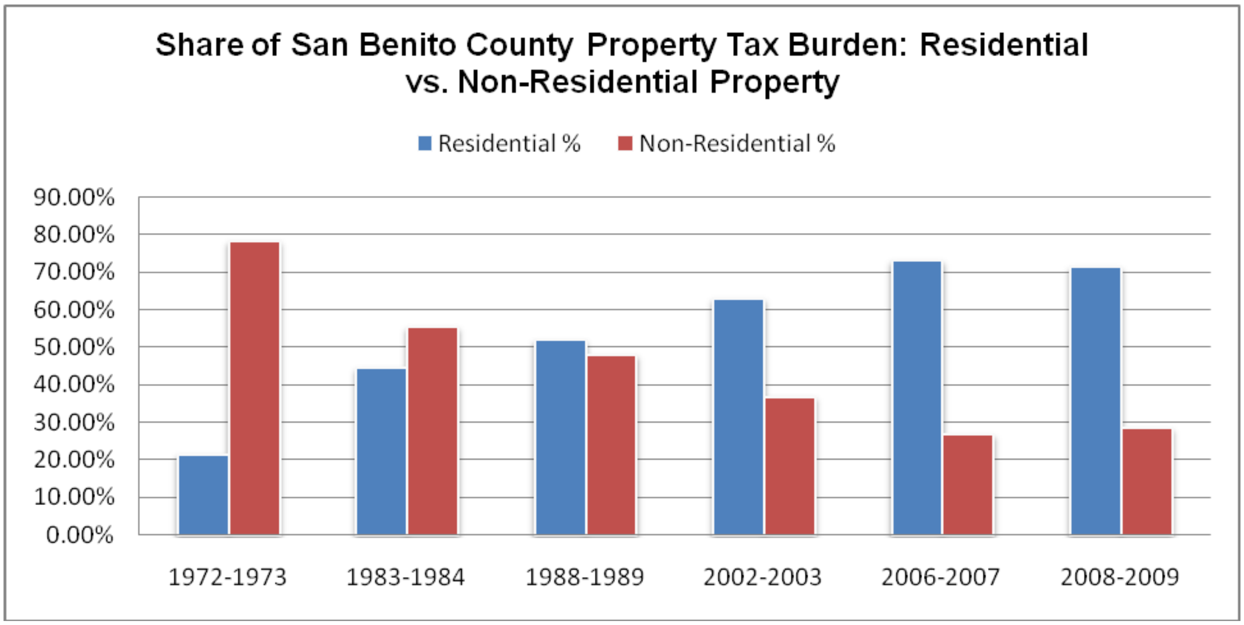


Share of Sacramento County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1971-1972	67.65%	32.35%	35.31%
1983-1984	70.22%	29.78%	40.43%
1988-1989	62.17%	37.83%	24.34%
2002-2003	68.87%	31.13%	37.75%
2003-2004	72.92%	27.08%	45.84%
2008-2009	74.55%	25.45%	49.10%

Sources and Notes: BOE Sacramento County Survey Reports (1983-1984 and 1988-1989 includes unsecured roll values and 1971 through 1988 data appraisal samplings). Sacramento County Assessor's Office (2008-2009).

San Benito County

The residential property tax burden has increased from 22% in 1972-1973 to 71% in 2008-09—a 49 point increase or 223% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 78% to 29%--a 49 point decrease or 63% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

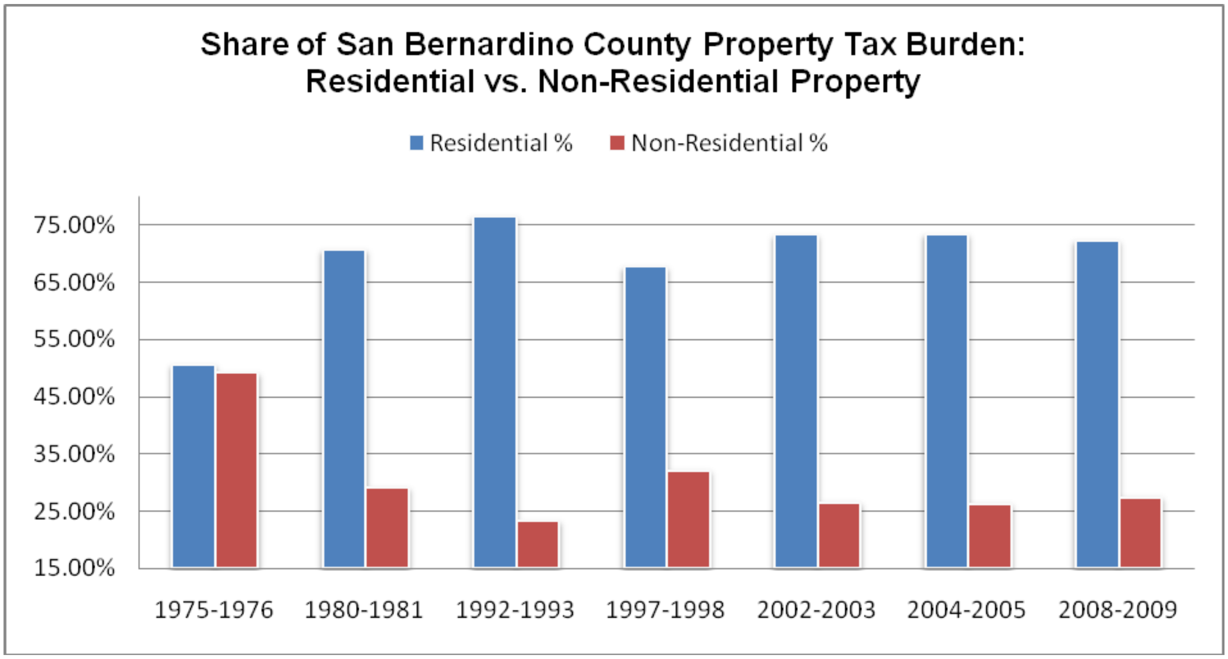


Share of San Benito County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1972-1973	21.60%	78.40%	-56.79%
1983-1984	44.53%	55.47%	-10.94%
1988-1989	52.00%	48.00%	3.99%
2002-2003	63.08%	36.92%	26.15%
2006-2007	73.21%	26.79%	46.42%
2008-2009	71.47%	28.53%	42.95%

Sources and Notes: BOE San Benito County Survey Reports (1972 through 1988 appraisal samplings and 1983-1984 and 1988-1989 data includes unsecured roll values). San Benito County Assessor's Office 2008-2009.

San Bernardino County

The residential property tax burden has increased from 51% in 1975-1976 to 72% in 2008-09—a 21 point increase or 41% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 49% to 28%--a 21 point decrease or 43% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

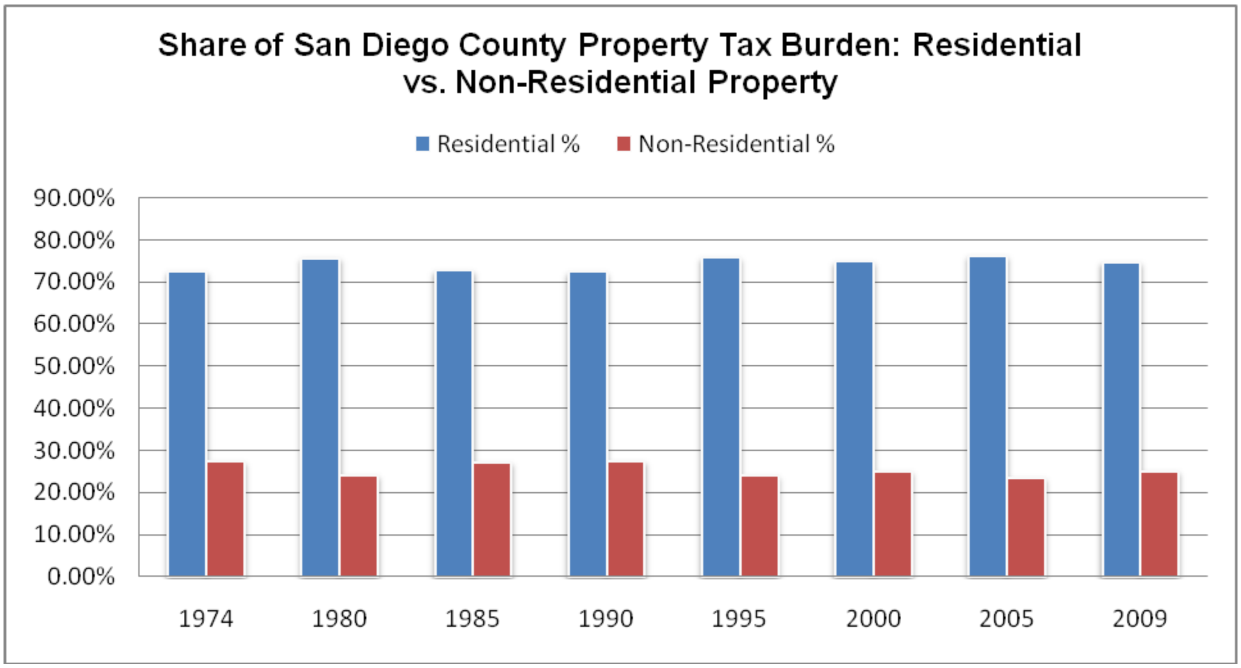


Share of San Bernardino County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1975-1976	50.74%	49.26%	1.48%
1980-1981	70.87%	29.13%	41.74%
1992-1993	76.69%	23.31%	53.37%
1997-1998	67.82%	32.18%	35.65%
2002-2003	73.44%	26.56%	46.87%
2004-2005	73.60%	26.40%	47.19%
2008-2009	72.48%	27.52%	44.97%

Sources and Notes: BOE San Bernardino County Survey Reports (1975 through 1997 data appraisal samplings and 1980-1981 includes unsecured roll values). San Bernardino County Assessor's Office (2004-2005 and 2008-2009).

San Diego County

The residential property tax burden has increased from 73% in 1974 to 75% in 2009—a 2 point increase or 3% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 27% to 25%–a 2 point decrease or 7% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

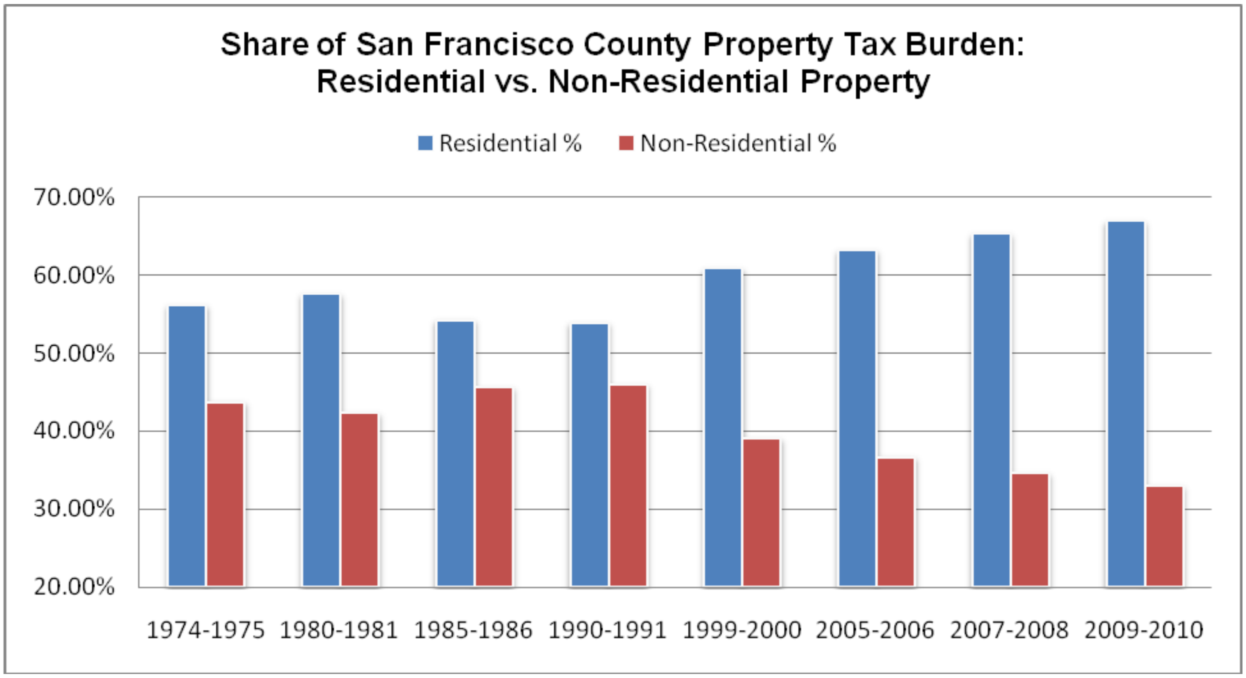


Share of San Diego County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1974	72.63%	27.37%	45.26%
1980	75.82%	24.18%	51.65%
1985	72.81%	27.19%	45.62%
1990	72.51%	27.49%	45.03%
1995	75.97%	24.03%	51.94%
2000	74.93%	25.07%	49.86%
2005	76.43%	23.57%	52.86%
2009	74.86%	25.14%	49.73%

Sources and Notes: BOE San Diego County Survey Reports (1983-1984 includes unsecured roll values and 1973 through 1998 appraisal samplings). BOE and Data Quick 2009-10.

San Francisco County

The residential property tax burden has increased from 56% in 1974-1975 to 67% in 2009-2010 —an 11 point increase or 20% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 44% to 33%--an 11 point decrease or 25% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

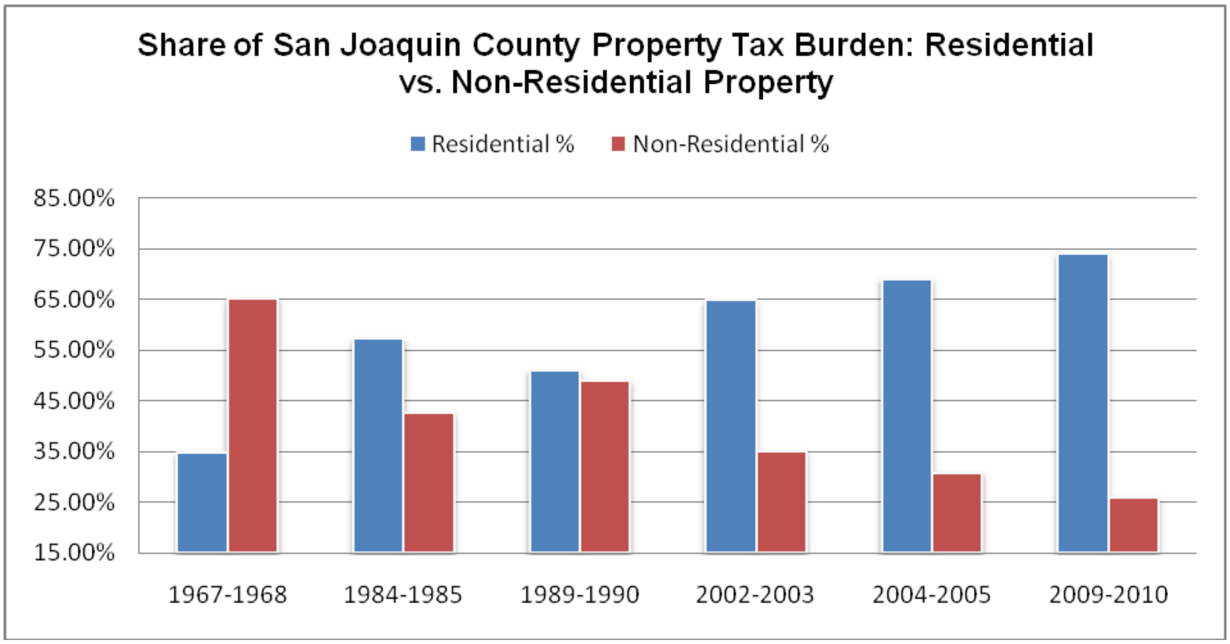


Share of San Francisco County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1974-1975	56.21%	43.79%	12.42%
1980-1981	57.63%	42.37%	15.26%
1985-1986	54.31%	45.69%	8.63%
1990-1991	53.93%	46.07%	7.86%
1999-2000	60.91%	39.09%	21.81%
2005-2006	63.28%	36.72%	26.56%
2007-2008	65.36%	34.64%	30.73%
2009-2010	67.00%	33.00%	34.00%

Sources and Notes: BOE San Francisco County Survey Reports (1974 through 1990 appraisal samplings and 1980-1981, 1985-1986, and 1990-1991 data includes unsecured roll values). San Francisco Assessor's Office (2007-2008). BOE and Data Quick 2009-10.

San Joaquin County

The residential property tax burden has increased from 35% in 1967-1968 to 69% in 2004-05—a 34 point increase or 97% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 65% to 31%--a 34 point decrease or 52% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

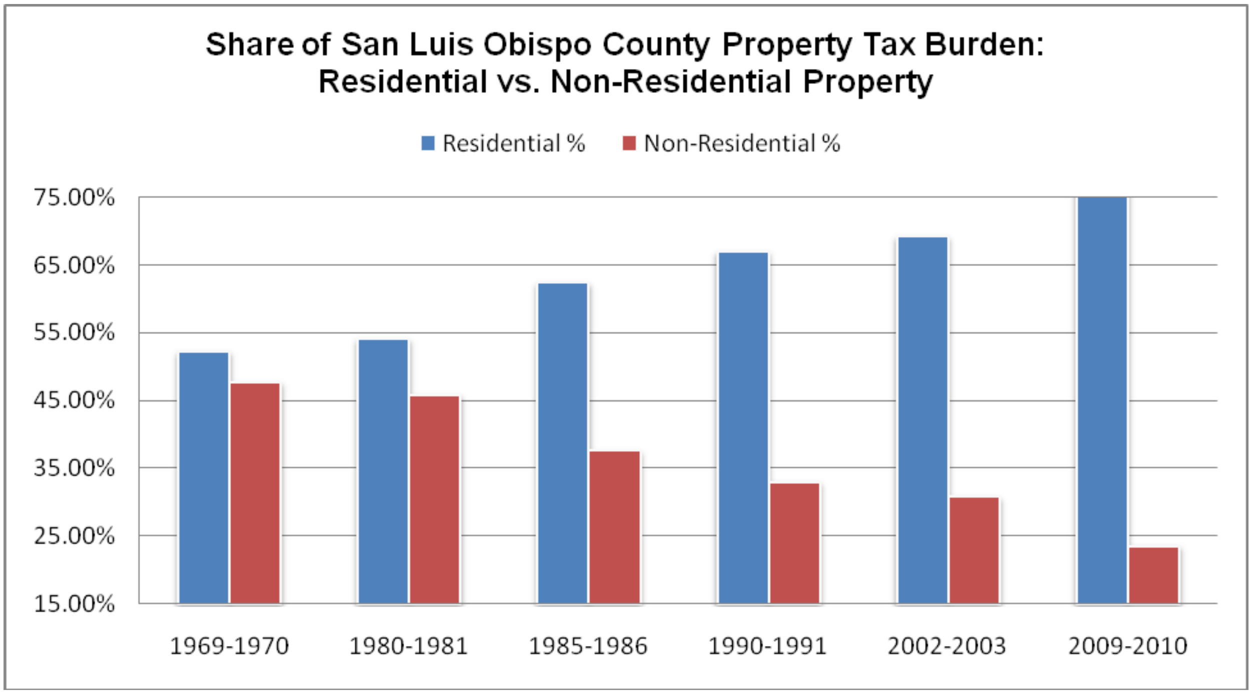


Share of San Joaquin County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1967-1968	34.79%	65.21%	-30.42%
1984-1985	57.30%	42.70%	14.60%
1989-1990	50.98%	49.02%	1.97%
2002-2003	64.88%	35.12%	29.76%
2004-2005	69.12%	30.88%	38.24%

Sources and Notes: BOE San Joaquin County Survey Reports (1985-1985 and 1989-1990 includes unsecured roll values and 1967 through 1989 data appraisal samplings). BOE and Data Quick (2009-2010).

San Luis Obispo County

The residential property tax burden has increased from 52% in 1969-1970 to 76% in 2009-10—a 24 point increase or 46% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 48% to 24%--a 24 point decrease or 50% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

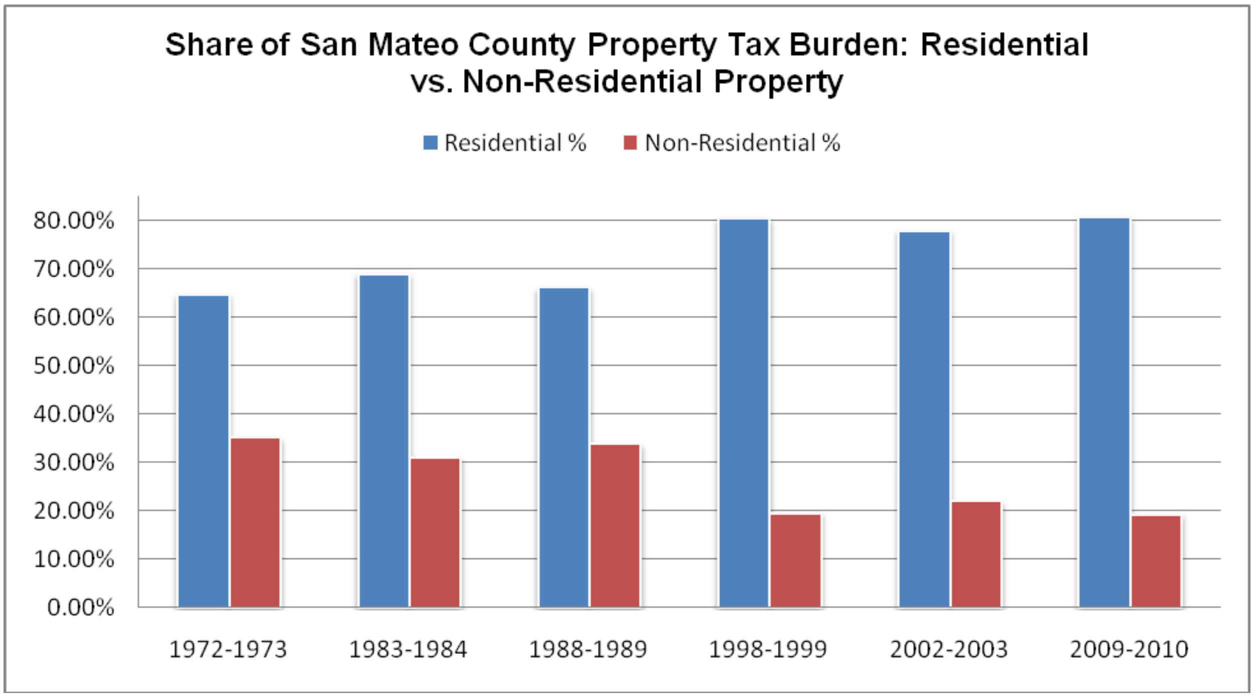


Share of San Luis Obispo County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1969-1970	52.21%	47.79%	4.43%
1980-1981	54.06%	45.94%	8.13%
1985-1986	62.35%	37.65%	24.69%
1990-1991	66.95%	33.05%	33.90%
2002-2003	69.15%	30.85%	38.30%
2009-2010	76.38%	23.62%	52.76%

Sources and Notes: BOE San Luis Obispo County Survey Reports (1980-1981 and 1985-1986 data includes unsecured roll values and 1969 through 1990 data appraisal samplings). BOE and Data Quick (2009-2010).

San Mateo County

The residential property tax burden has increased from 65% in 1972-1973 to 81% in 2009-10—a 16 point increase or 25% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 35% to 19%--a 16 point decrease or 48% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

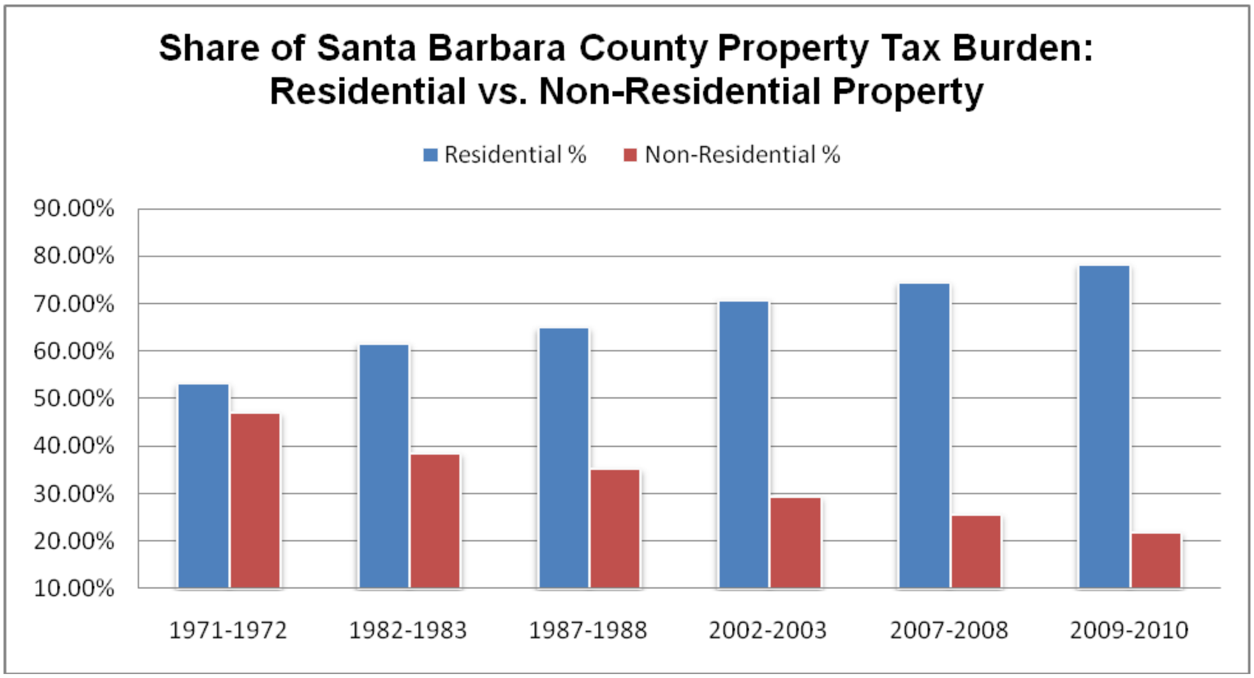


Share of San Mateo County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1972-1973	64.81%	35.19%	29.61%
1983-1984	69.00%	31.00%	38.00%
1988-1989	66.18%	33.82%	32.37%
1998-1999	80.45%	19.55%	60.90%
2002-2003	78.00%	22.00%	55.99%
2009-2010	80.75%	19.25%	61.49%

Sources and Notes: BOE San Mateo County Survey Reports (1983-1984 and 1988-1989 includes unsecured roll values and 1972 through 1988 appraisal samplings). BOE and Data Quick (2009-2010).

Santa Barbara County

The residential property tax burden has increased from 53% in 1971-1972 to 78% in 2009-10—a 25 point increase or 47% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 47% to 22%--a 25 point decrease or 53% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

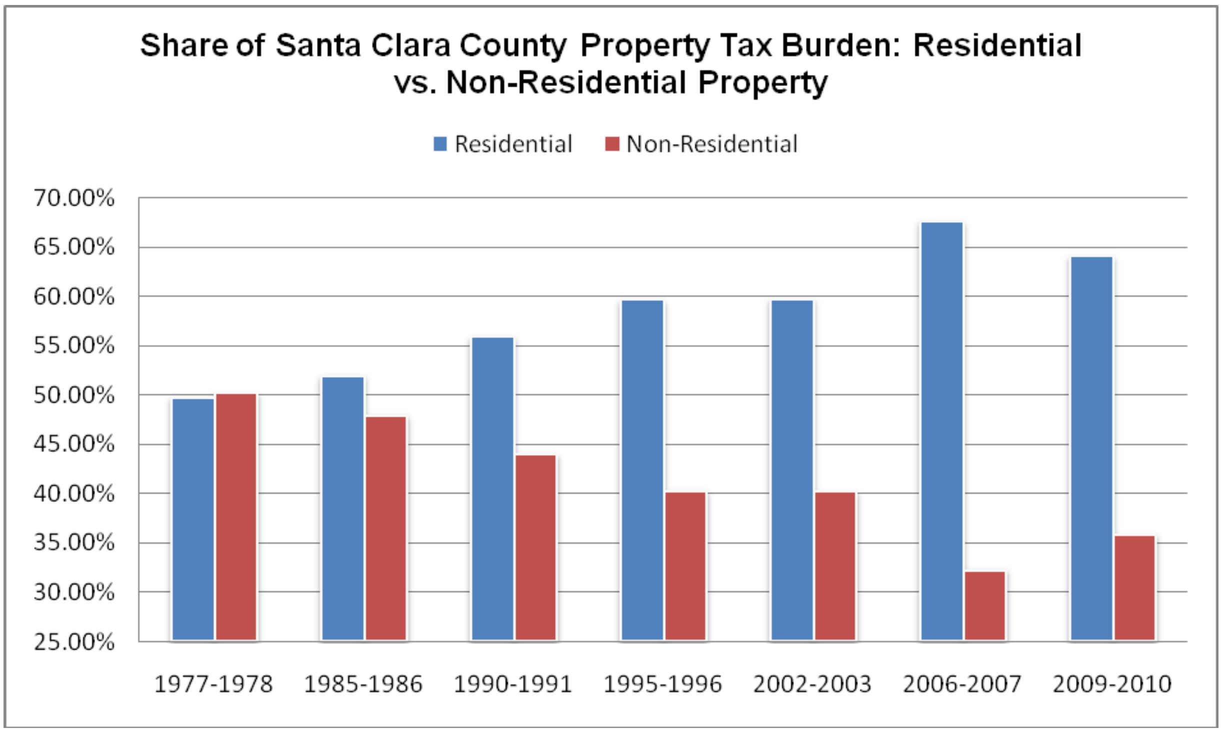


Share of Santa Barbara County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1971-1972	53.08%	46.92%	6.15%
1982-1983	61.57%	38.43%	23.14%
1987-1988	64.87%	35.13%	29.75%
2002-2003	70.78%	29.22%	41.56%
2007-2008	74.42%	25.58%	48.83%
2009-2010	78.19%	21.81%	56.39%

Sources and Notes: BOE Santa Barbara County Survey Reports (1982-1983 and 1987-1988 data includes unsecured roll values and 1971 through 1987 data appraisal samplings). BOE and Data Quick (2009-2010).

Santa Clara County

The residential property tax burden has increased from 50% in 1977-1978 to 64% in 2009-10—a 24 point increase or 48% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 50% to 36%--a 24 point decrease or 48% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

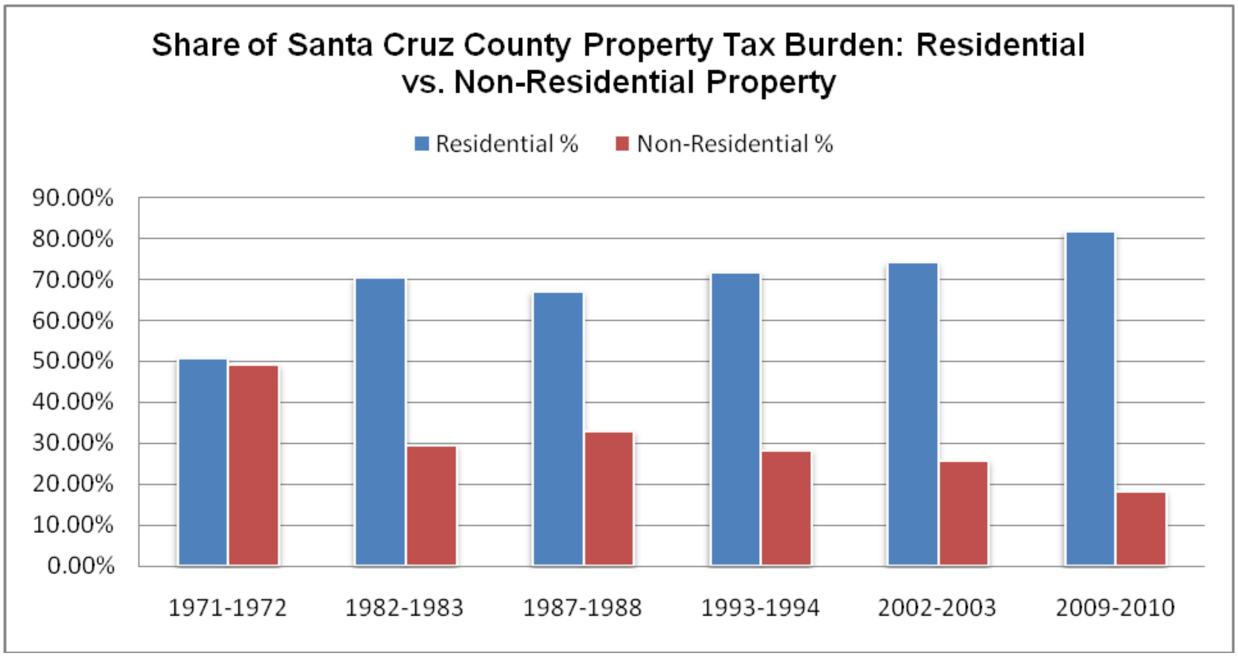


Share of Santa Clara County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential	Non-Residential	Differential %
1977-1978	49.78%	50.22%	-0.44%
1985-1986	51.99%	48.01%	3.99%
1990-1991	55.95%	44.05%	11.89%
1995-1996	59.69%	40.31%	19.38%
2002-2003	59.76%	40.24%	19.53%
2006-2007	67.70%	32.30%	35.39%
2009-2010	64.12%	35.88%	28.24%

Sources and Notes: Santa Clara Assessor’s Office.

Santa Cruz County

The residential property tax burden has increased from 51% in 1971-1972 to 82% in 2009-10—a 31 point increase or 61% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 49% to 18%--a 31 point decrease or 63% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

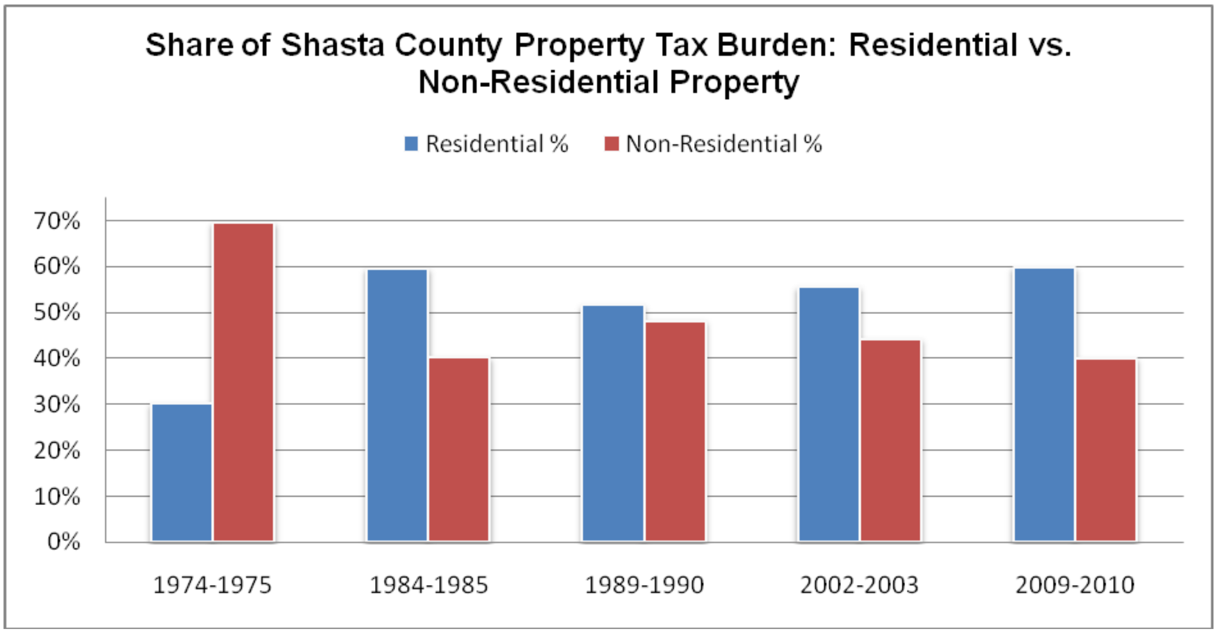


Share of Santa Cruz County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1971-1972	50.80%	49.20%	1.60%
1982-1983	70.50%	29.50%	41.00%
1987-1988	67.01%	32.99%	34.03%
1993-1994	71.71%	28.29%	43.41%
2002-2003	74.22%	25.78%	48.44%
2009-2010	81.72%	18.28%	63.43%

Sources and Notes: BOE Santa Cruz County Survey Reports (1971 through 1993 appraisal samplings and 1982-1983 and 1987-1988 includes unsecured roll values). Santa Cruz Assessor's Office (2008-2009). BOE and Data Quick 2009-2010.

Shasta County

The residential property tax burden has increased from 30% in 1974-1975 to 60% in 2009-10—a 30 point increase or 100% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 70% to 40%--a 30 point decrease or 43% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

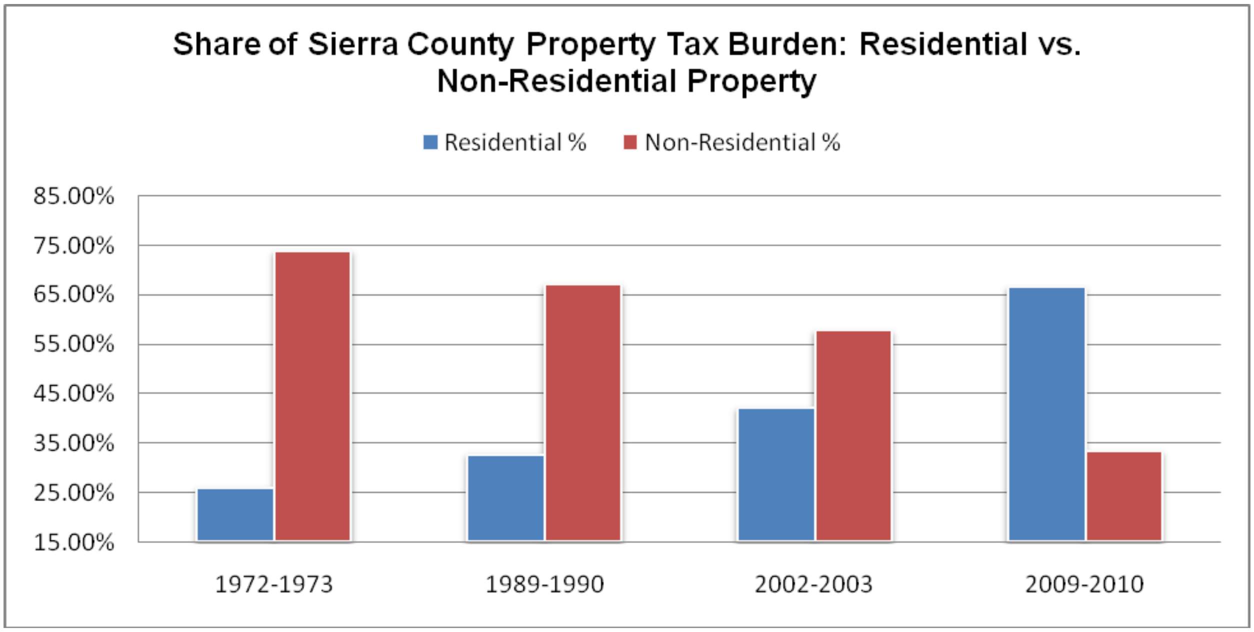


Share of Shasta County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1974-1975	30.25%	69.75%	-39.49%
1984-1985	59.71%	40.29%	19.41%
1989-1990	51.72%	48.28%	3.43%
2002-2003	55.66%	44.34%	11.31%
2009-2010	59.93%	40.07%	19.87%

Sources and Notes: BOE Shasta County Survey Reports (1974 through 1989 appraisal sampling data and 1984-1985 and 1989-1990 includes unsecured roll values). BOE and Data Quick (2009-2010).

Sierra County

The residential property tax burden has increased from 25% in 1972-1973 to 67% in 2009-10—a 42 point increase or 168% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 74% to 33%--a 42 point decrease or 57% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

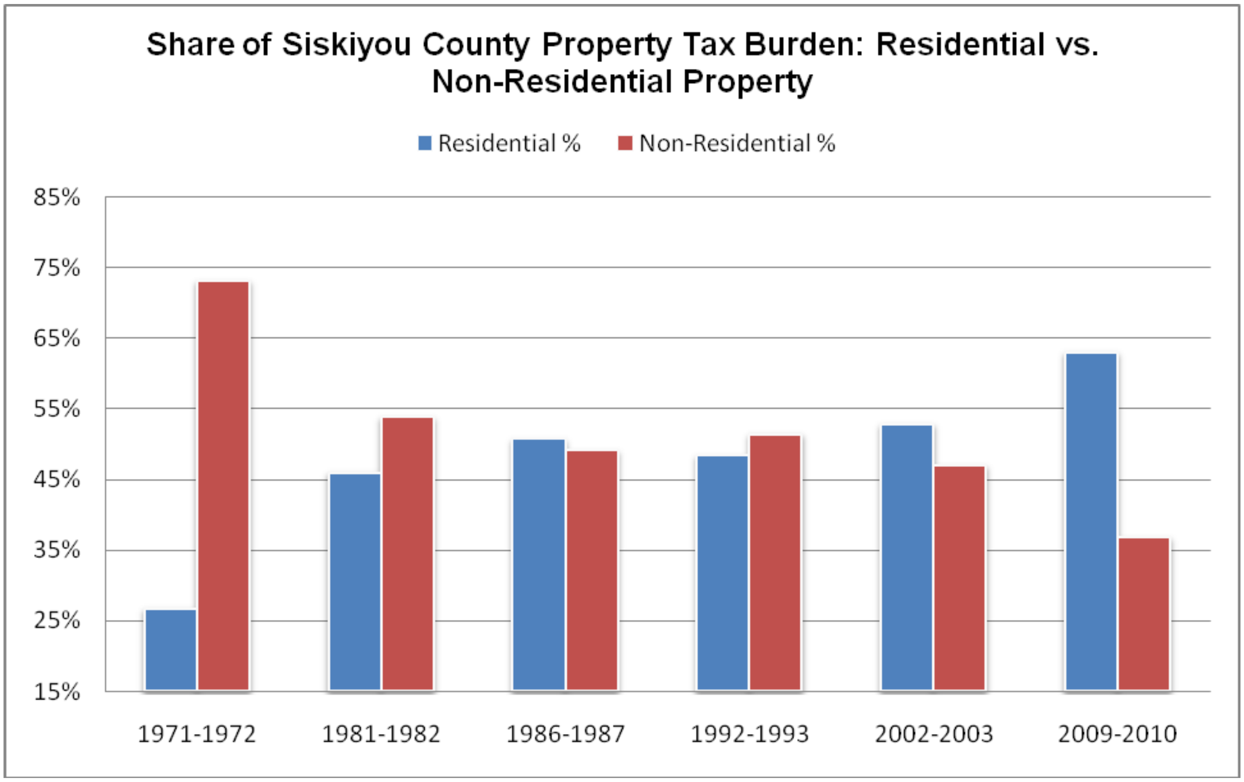


Share of Sierra County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1972-1973	25.98%	74.02%	-48.04%
1989-1990	32.85%	67.15%	-34.30%
2002-2003	42.17%	57.83%	-15.66%
2009-2010	66.62%	33.38%	33.25%

Sources and Notes: BOE Sierra County Survey Reports (1972-1973 and 1989-1990 appraisal samplings and 1989-1990 includes unsecured roll values). BOE and Data Quick (2009-2010).

Siskiyou County

The residential property tax burden has increased from 27% in 1971-1972 to 63% in 2009-10—a 36 point increase or 133% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 73% to 37%--a 36 point decrease or 49% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

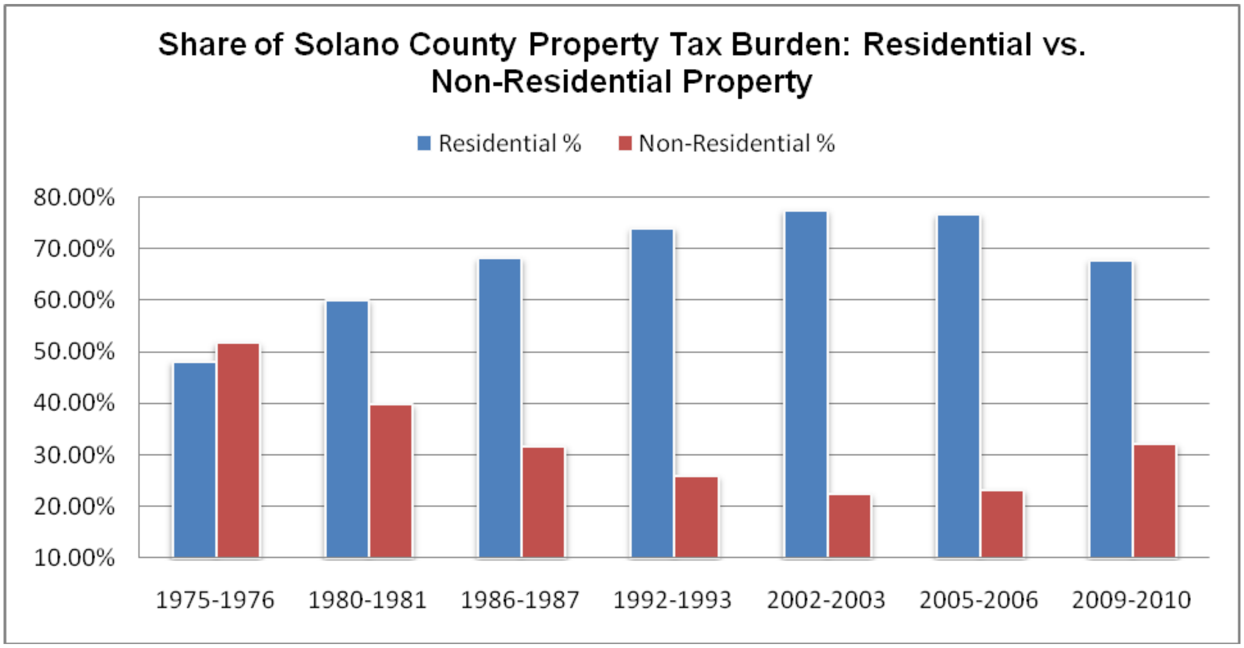


Share of Siskiyou County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1971-1972	26.74%	73.26%	-46.53%
1981-1982	46.05%	53.95%	-7.89%
1986-1987	50.82%	49.18%	1.63%
1992-1993	48.49%	51.51%	-3.02%
2002-2003	52.93%	47.07%	5.86%
2009-2010	63.14%	36.86%	26.28%

Sources and Notes: BOE Siskiyou County Survey Reports (1971 through 1992 data appraisal samplings and 1981-1982 and 1986-1987 data includes unsecured roll values). BOE and Data Quick (2009-2010).

Solano County

The residential property tax burden has increased from 48% in 1975-1976 to 68% in 2009-10—a 20 point increase or 42% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 52% to 32%--a 20 point decrease or 38% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

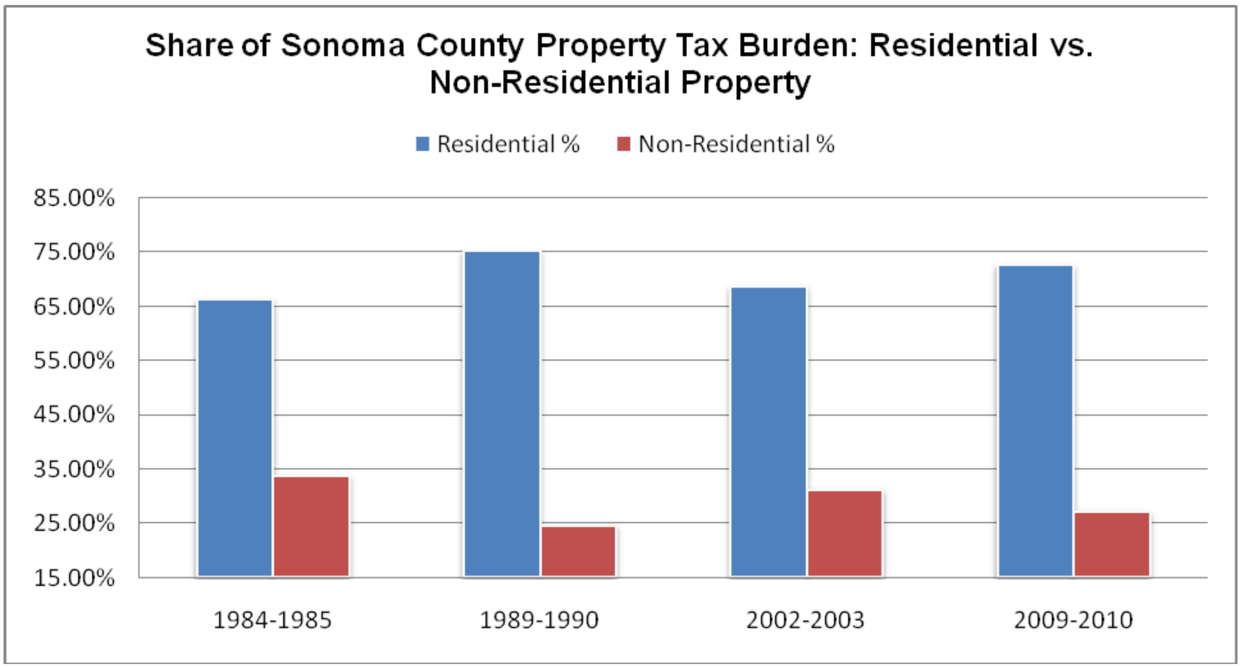


Share of Solano County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1975-1976	48.22%	51.78%	-3.56%
1980-1981	60.11%	39.89%	20.23%
1986-1987	68.22%	31.78%	36.45%
1992-1993	74.09%	25.91%	48.18%
2002-2003	77.57%	22.43%	55.13%
2005-2006	76.75%	23.25%	53.50%
2009-2010	67.91%	32.09%	35.83%

Sources and Notes: BOE Solano County Survey Reports (1980-1981 and 1986-1987 includes unsecured roll values and 1975 through 1992 appraisal samplings). BOE and Data Quick (2009-2010).

Sonoma County

The residential property tax burden has increased from 66% in 1984-1985 to 73% in 2009-10—a 7 point increase or 11% increase in the property tax burden on residential property owners. Over the same period, the non-residential property tax burden dropped from 34% to 27%--a 7 point decrease or 21% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

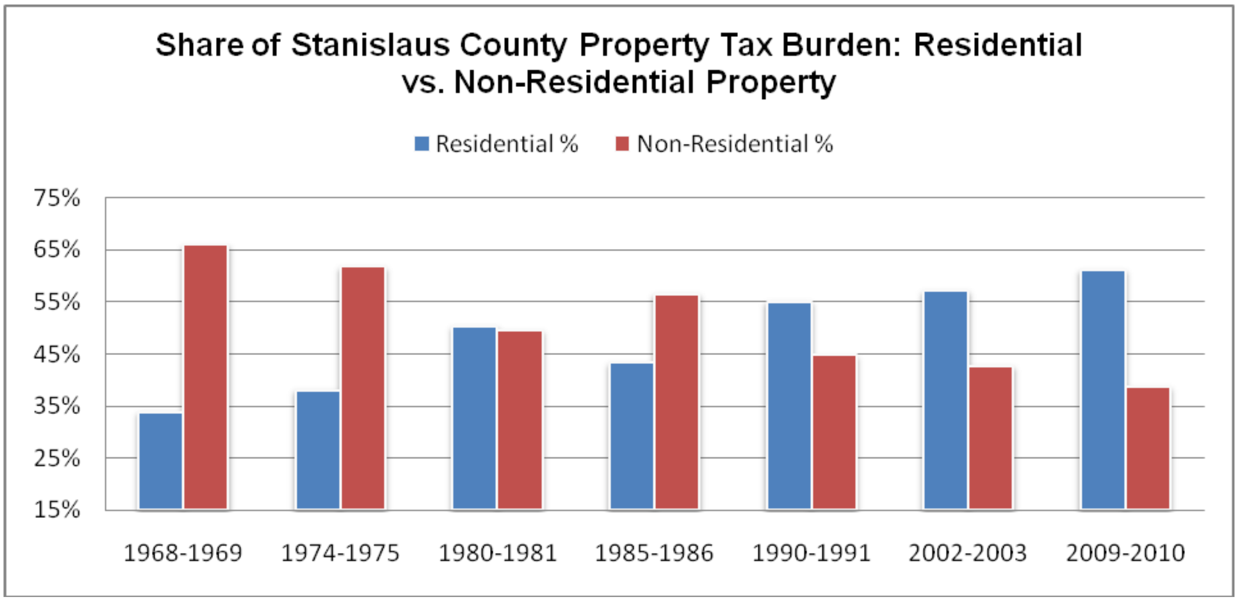


Share of Sonoma County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1984-1985	66.30%	33.70%	32.60%
1989-1990	75.33%	24.67%	50.67%
2002-2003	68.80%	31.21%	37.59%
2009-2010	72.77%	27.23%	45.53%

Sources and Notes: BOE Sonoma County Survey Reports (1984-1985 and 1989-1990 includes unsecured roll values and 1984-1985 and 1989-1990 appraisal samplings). BOE and Data Quick (2009-2010).

Stanislaus County

The residential property tax burden has increased from 51% in 1971-1972 to 82% in 2009-10—a 31 point increase or 61% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 49% to 18%--a 31 point decrease or 63% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

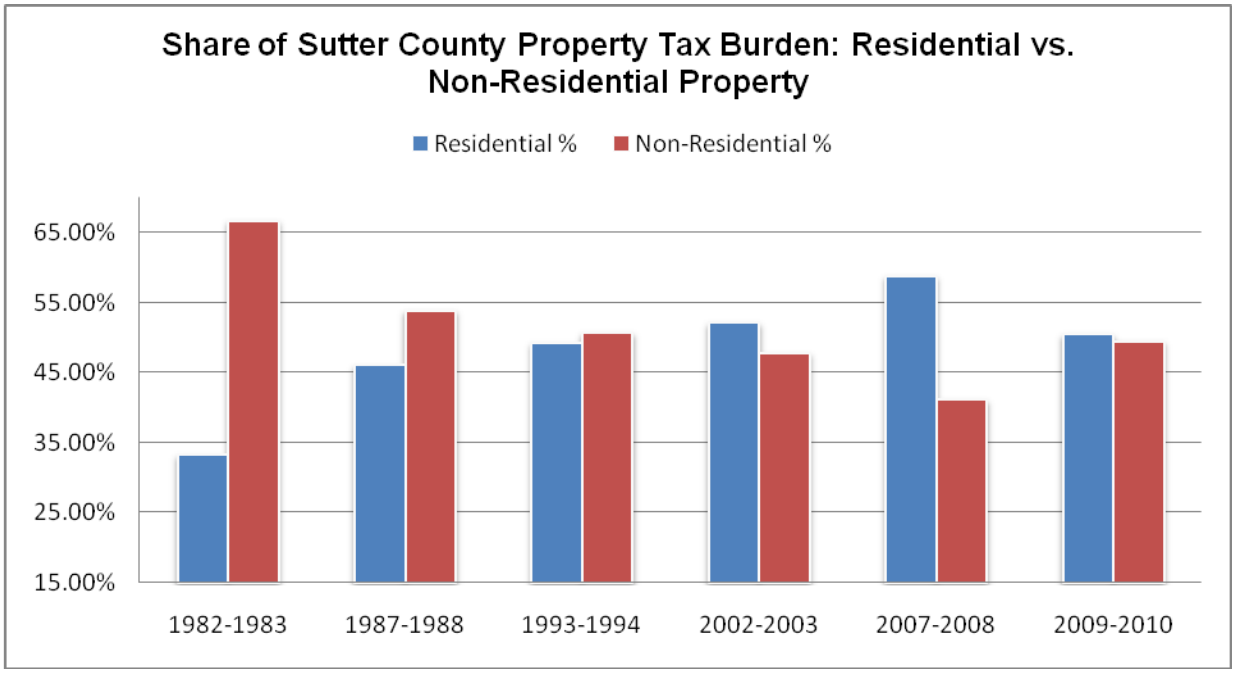


Share of Stanislaus County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1968-1969	33.93%	66.07%	-32.14%
1974-1975	38.17%	61.83%	-23.66%
1980-1981	50.42%	49.58%	0.84%
1985-1986	43.38%	56.62%	-13.24%
1990-1991	55.14%	44.86%	10.28%
2002-2003	57.27%	42.73%	14.54%
2009-2010	61.25%	38.75%	22.50%

Sources and Notes: BOE Stanislaus County Survey Reports (1985-1986 and 1990-1991 includes unsecured roll values and 1968 through 1990 data appraisal samplings). BOE and Data Quick (2009-2010).

Sutter County

The residential property tax burden has increased from 33% in 1982-1983 to 50% in 2009-10—a 17 point increase or 51% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 67% to 50%--a 17 point decrease or 25% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

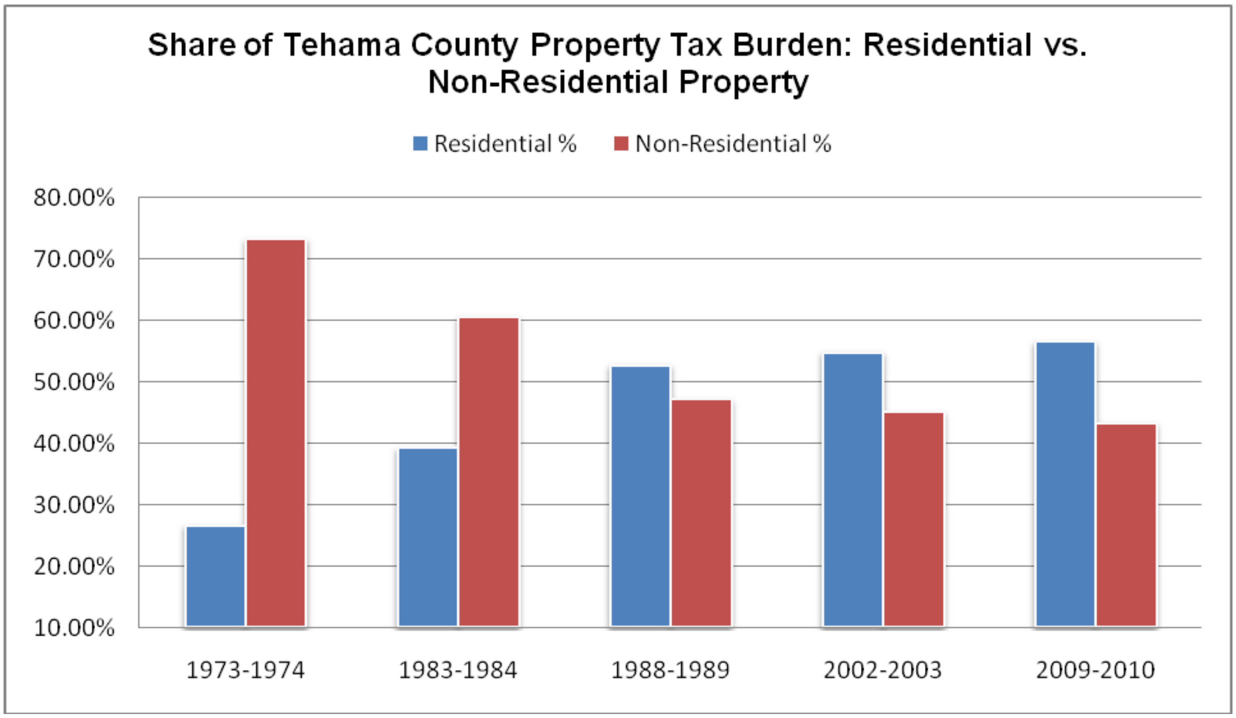


Share of Sutter County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1982-1983	33.25%	66.75%	-33.51%
1987-1988	46.08%	53.92%	-7.84%
1993-1994	49.29%	50.71%	-1.42%
2002-2003	52.15%	47.85%	4.30%
2007-2008	58.84%	41.16%	17.68%
2009-2010	50.49%	49.51%	0.97%

Sources and Notes: BOE Sutter County Survey Reports (1982 through 1993 data appraisal samplings and 1982-1983 and 1987-1988 include unsecured roll values). BOE and Data Quick (2009-2010).

Tehama County

The residential property tax burden has increased from 27% in 1973-1974 to 57% in 2009-10—a 30 point increase or 111% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 73% to 43%--a 30 point decrease or 41% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

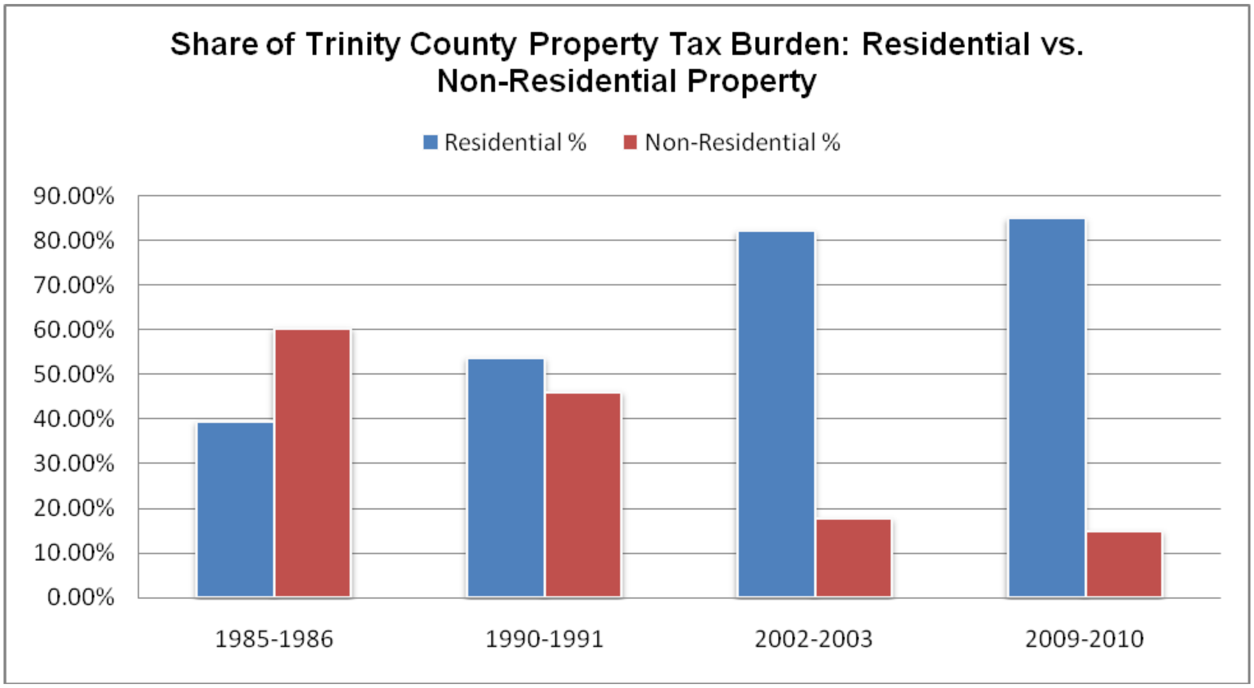


Share of Tehama County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1973-1974	26.62%	73.38%	-46.75%
1983-1984	39.31%	60.69%	-21.38%
1988-1989	52.79%	47.21%	5.58%
2002-2003	54.88%	45.12%	9.77%
2009-2010	56.63%	43.37%	13.27%

Sources and Notes: BOE Tehama County Survey Reports (1973 through 1988 data appraisal samplings and 1983-1984 and 1988-1989 includes unsecured roll values). BOE and Data Quick (2009-2010).

Trinity County

The residential property tax burden has increased from 40% in 1985-1986 to 85% in 2009-10—a 45 point increase or 113% increase in the property tax burden on residential property owners. Over the same period, the non-residential property tax burden dropped from 60% to 15%--a 45 point decrease or 75% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

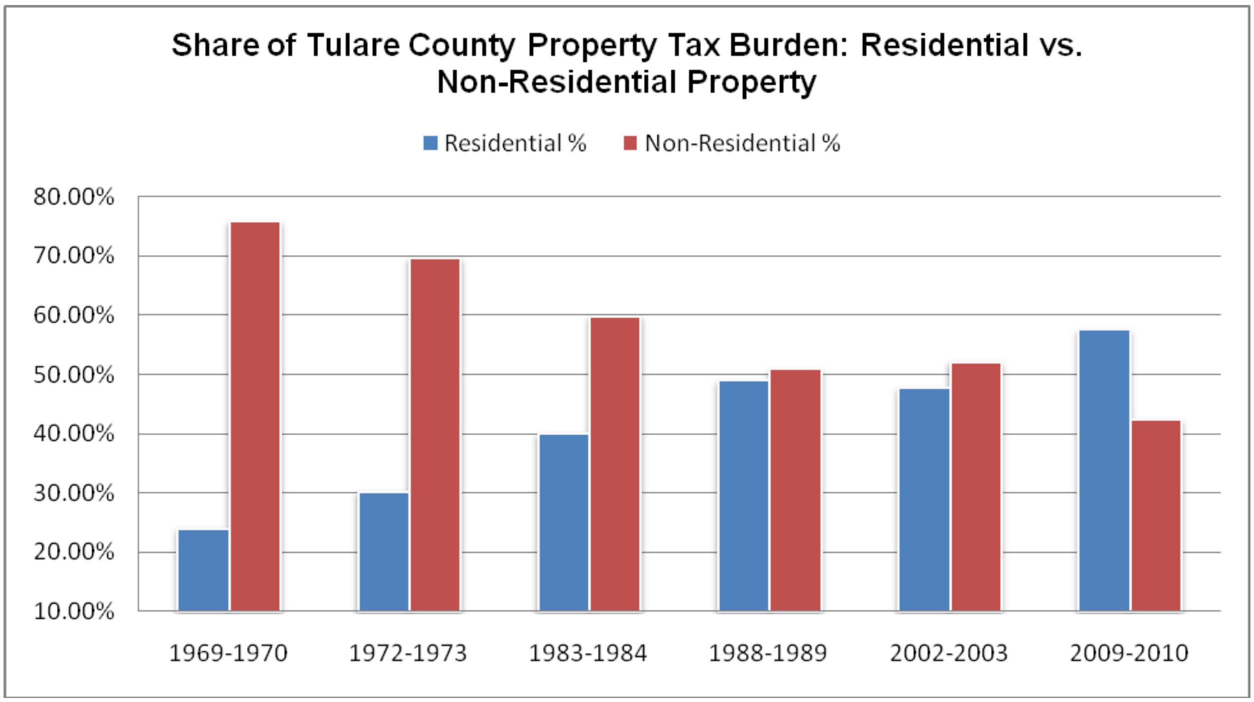


Share of Trinity County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1985-1986	39.52%	60.48%	-20.95%
1990-1991	53.84%	46.16%	7.67%
2002-2003	82.24%	17.76%	64.48%
2009-2010	85.12%	14.88%	70.24%

Sources and Notes: BOE Trinity County Survey Reports. BOE and Data Quick (2009-2010).

Tulare County

The residential property tax burden has increased from 24% in 1969-1970 to 58% in 2009-10—a 34 point increase or 142% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 76% to 42%--a 34 point decrease or 45% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

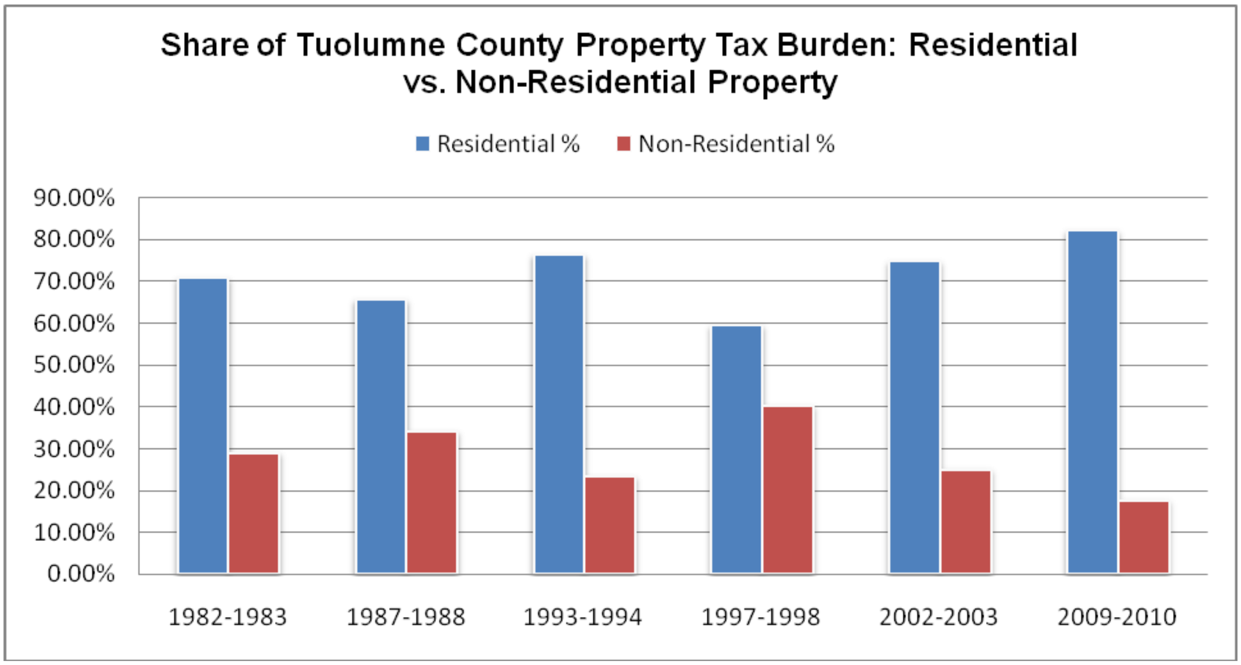


Share of Tulare County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1969-1970	24.10%	75.90%	-51.79%
1972-1973	30.30%	69.70%	-39.39%
1983-1984	40.10%	59.90%	-19.79%
1988-1989	49.01%	50.99%	-1.97%
2002-2003	47.79%	52.21%	-4.42%
2009-2010	57.59%	42.41%	15.19%

Sources and Notes: BOE Tulare County Survey Reports (1969 through 1988 data appraisal samplings and 1983-1984 and 1988-1989 include unsecured roll values). BOE and Data Quick 2009-2010.

Tuolumne County

The residential property tax burden has increased from 71% in 1982-1983 to 82% in 2009-10—a 11 point increase or 15% increase in the property tax burden on residential property owners. Over the same period, the non-residential property tax burden dropped from 29% to 18%--an 11 point decrease or 38% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

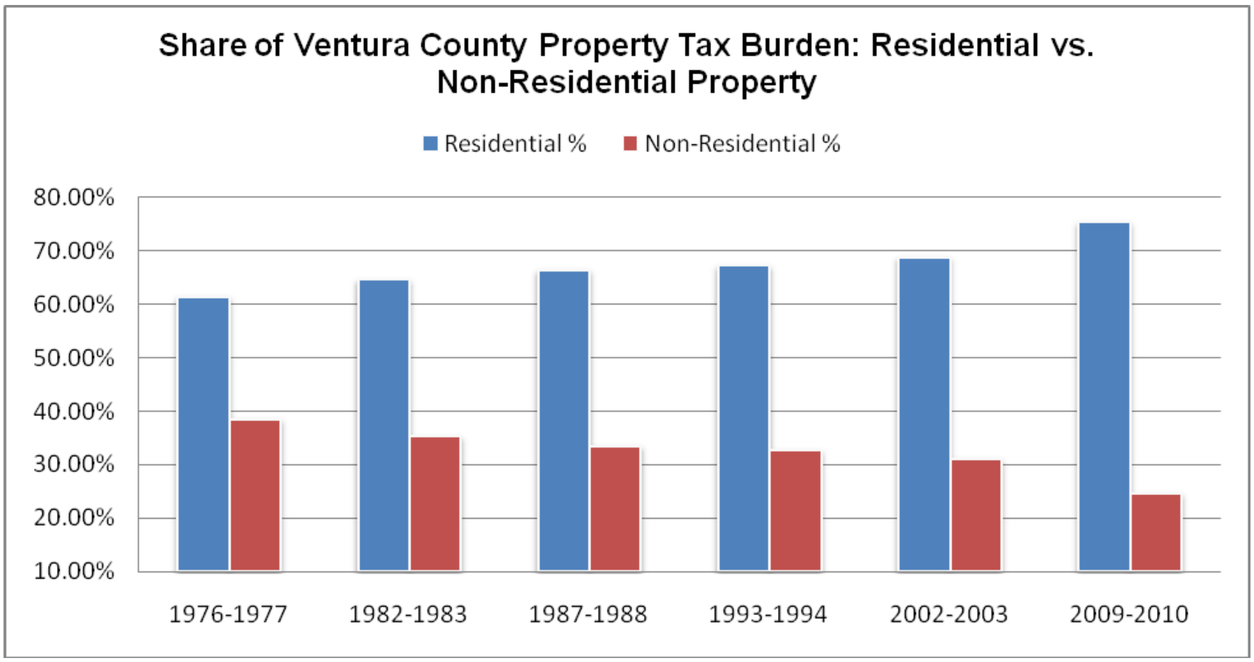


Share of Tuolumne County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1982-1983	70.90%	29.10%	41.81%
1987-1988	65.75%	34.25%	31.51%
1993-1994	76.50%	23.50%	53.00%
1997-1998	59.67%	40.33%	19.34%
2002-2003	74.95%	25.05%	49.91%
2009-2010	82.30%	17.70%	64.59%

Sources and Notes: BOE Tuolumne County Survey Reports (1982 through 1997 appraisal samplings and 1982-1983 and 1987-1988 include unsecured roll values). BOE and Data Quick (2009-2010).

Ventura County

The residential property tax burden has increased from 61% in 1976-1977 to 75% in 2009-10—a 14 point increase or 23% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 39% to 25%--a 14 point decrease or 36% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).

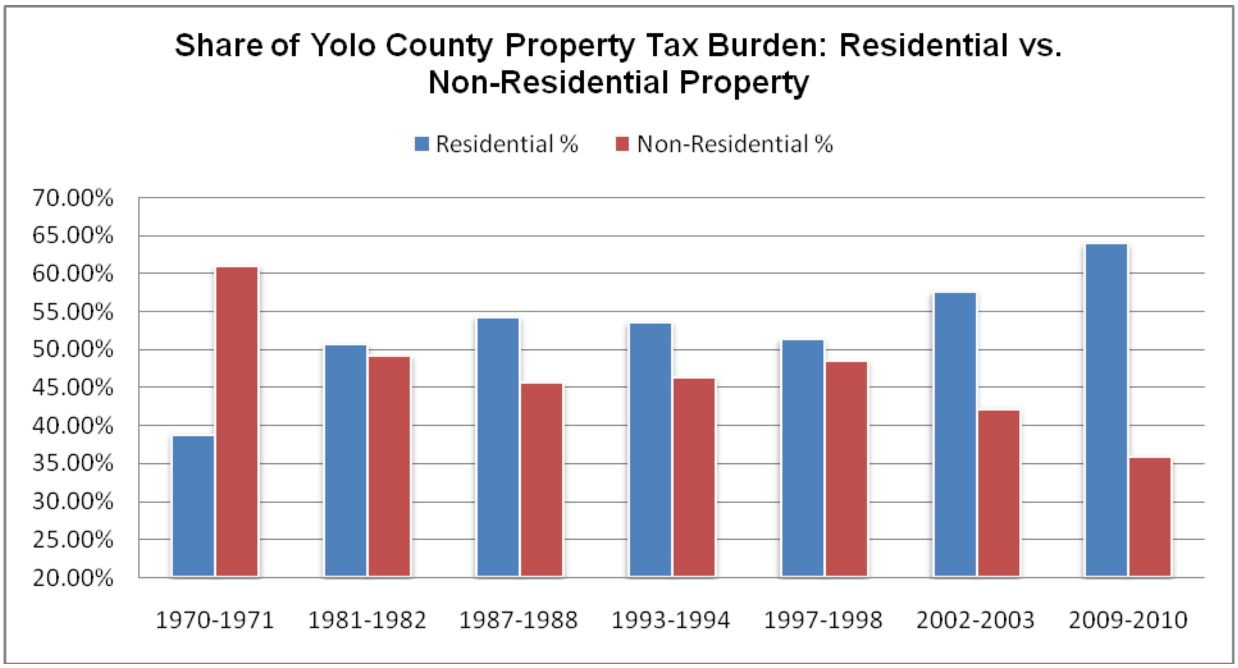


Share of Ventura County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1976-1977	61.45%	38.55%	22.90%
1982-1983	64.69%	35.31%	29.37%
1987-1988	66.46%	33.54%	32.92%
1993-1994	67.27%	32.73%	34.53%
2002-2003	68.86%	31.14%	37.72%
2009-2010	75.40%	24.60%	50.81%

Sources and Notes: BOE Ventura County Survey Reports (1976 through 1987 appraisal samplings and 1982-1983 and 1987-1988 data includes unsecured roll values). BOE and Data Quick (2009-2010).

Yolo County

The residential property tax burden has increased from 39% in 1970-1971 to 64% in 2009-10—a 25 point increase or 64% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 61% to 36%--a 25 point decrease or 41% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).



Share of Yolo County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1970-1971	38.89%	61.11%	-22.22%
1981-1982	50.73%	49.27%	1.47%
1987-1988	54.34%	45.66%	8.67%
1993-1994	53.64%	46.36%	7.28%
1997-1998	51.41%	48.59%	2.83%
2002-2003	57.73%	42.27%	15.45%
2009-2010	64.06%	35.94%	28.12%

Sources and Notes: BOE Yolo County Survey Reports (1970 through 1997 appraisal samplings and 1981-1982 and 1987-1988 includes unsecured roll values). BOE and Data Quick (2009-2010).

Yuba County

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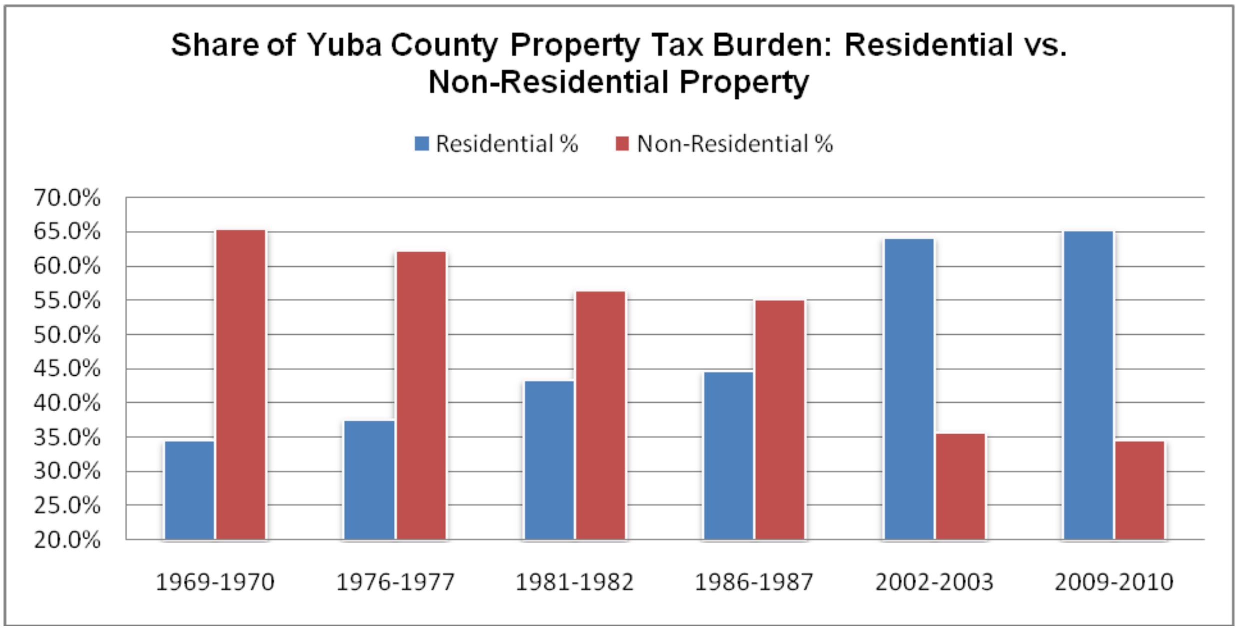
The residential property tax burden has increased from 35% in 1969-1970 to 65% in 2009-10—a 30 point increase or 67% increase in the property tax burden on residential property owners since the passage of Proposition 13. Over the same period, the non-residential property tax burden dropped from 65% to 35%--a 30 point decrease or 46% decrease in the property tax burden on non-residential property (i.e. commercial/industrial).



Share of Yuba County Property Tax Burden: Residential vs. Non-Residential Property			
Roll Year	Residential %	Non-Residential %	Differential %
1969-1970	34.5%	65.5%	-30.9%
1976-1977	37.7%	62.3%	-24.6%
1981-1982	43.4%	56.6%	-13.1%
1986-1987	44.7%	55.3%	-10.6%
2002-2003	64.2%	35.8%	28.4%
2009-2010	65.3%	34.7%	30.7%

Sources and Notes: BOE Yuba County Survey Reports (1969 through 1986 data appraisal samplings and 1981-1982 and 1986-1987 includes unsecured roll values). BOE and Data Quick (2009-2010).

Appendix A

Methodology

This study sought to obtain secured roll data aggregated by property type from years 1975 through 2009 for each county to determine if there has been a change in the composition of the roll since the passage of Proposition 13.

We were informed that the State Board of Equalization had data going back to 1981-82 showing the proportion of homeowners' exempt properties as a percentage of the total roll by county. However, no such data was apparently available for the split between residential and non-residential property.

We then contacted all 58 county Assessors' offices to obtain the data they had available. In the process of contacting the county Assessors' offices it was discovered that BOE's Assessment Standards Division (ASD) conducted periodic surveys that obtained county by county data aggregated by property going back to the mid-1960s. BOE survey data for the prior 10 years is located on the Board of Equalization's website while older reports are housed at the Board of Equalization.

We contacted the BOE and photocopied archives of the ASD reports. It appeared that some of the reports may have been missing but data was obtained for nearly every county going back to at least the 1970s until the early 2000s. We also obtained data from the County Assessors' Offices where available.

This report includes a mixture of data obtain from both the survey reports and directly from the County Assessors' offices. We have been careful to cite the data source and have commonly put data from both sources into a table to present a complete timeline of the data.

According to the Board of Equalization the Board's Assessment Standards Division (ASD) conducts surveys on a five-year cycle on each county assessor's office mandated by Section 15640 of the Government Code. These surveys conducted by the BOE "determine the adequacy of the procedures and practices employed by the county assessor."

According to the Board of Equalization aggregated assessed value by property type is gathered from each county assessor's office. Not every survey has aggregated assessed value by property type, as it is not mandated by law. However, a large amount of survey data we gathered from the Board of Equalization from historical surveys from the 1960s forward had such data. Survey data taken from the Board of Equalization was compiled in charts for the purpose of this study. While the majority of data points within each survey data are queried from a database, some of the smaller counties that do not have historical data coded by property type. In these cases the survey data includes a sampling of properties of both the secured and unsecured roll to estimate the composition of the roll comprised by residential and commercial/industrial property. The roll years with sampling data are noted in the summary of data.

Nearly all of the counties, even the smaller counties, began tracking roll information by property type by the 1980s and mid-1990s which allowed the survey reports to present aggregated data.

Over the course of this study we also contacted each individual County Assessor's office and requested historical roll year data aggregated by property type. We also located some of the data from Annual Reports and Comprehensive Annual Financial Report conducted by counties. However, a number of counties were unable to provide such data for several reasons, primarily budget and staffing constraints, but also that historical data was not required by law to be kept by the assessors. All counties are required by law to have their roll data "machine prepared" compliant with Revenue and Taxation Code, Section 109.5. According to the Board of Equalization this can be anything from a type writer to a super computer.

Despite these limitations several counties were able to provide complete data including assessed property value aggregated by property type. These counties include Los Angeles, Contra Costa, San Francisco, and San Diego. Some counties were able to provide summary reports. Summary reports have use-codes and a total assessed property value assigned to each use-code code. Santa Barbara and Marin Counties were compiled by use code using summary reports for each year.

In addition, the coding of roll data by property type varies by county. The Board of Equalization outlines the minimum requirements for the roll Revenue and Taxation Code, Section 2152, but does not have specific requirements that require the county Assessor's to aggregate parcels by property type.

Moreover, the BOE does not define property type. Defining property type is left exclusively to counties. This creates an issue when comparing data county-to-county because each county defines property differently. What some counties defined as residential property another county may define as agricultural or commercial for the same property.

For example San Francisco County Assessor's Office has data on their website showing an increasing tax burden shift to homeowners. Their chart includes apartments as commercial and industrial properties. Other counties including Contra Costa County included apartments as "residential" property in their data in their annual report. San Francisco County included apartments in industrial and commercial assessed value citing the income generating nature of apartments. We attempted to make all categories consistent across counties, and found that any inconsistencies had little effect on the overall data.

Other issues include mixed-use properties, vacant property, and properties with more than one property type. For these reasons and the nature and accuracy of correctly assessing property values, data provided by the Board of Equalization and individual counties will never be 100% accurate. Over time, the number of use-codes may have increased or decreased and the definitions of property type may have changed but data from both BOE and data from individual assessor's offices shows a consistent shift – an increasing tax burden on residential property.

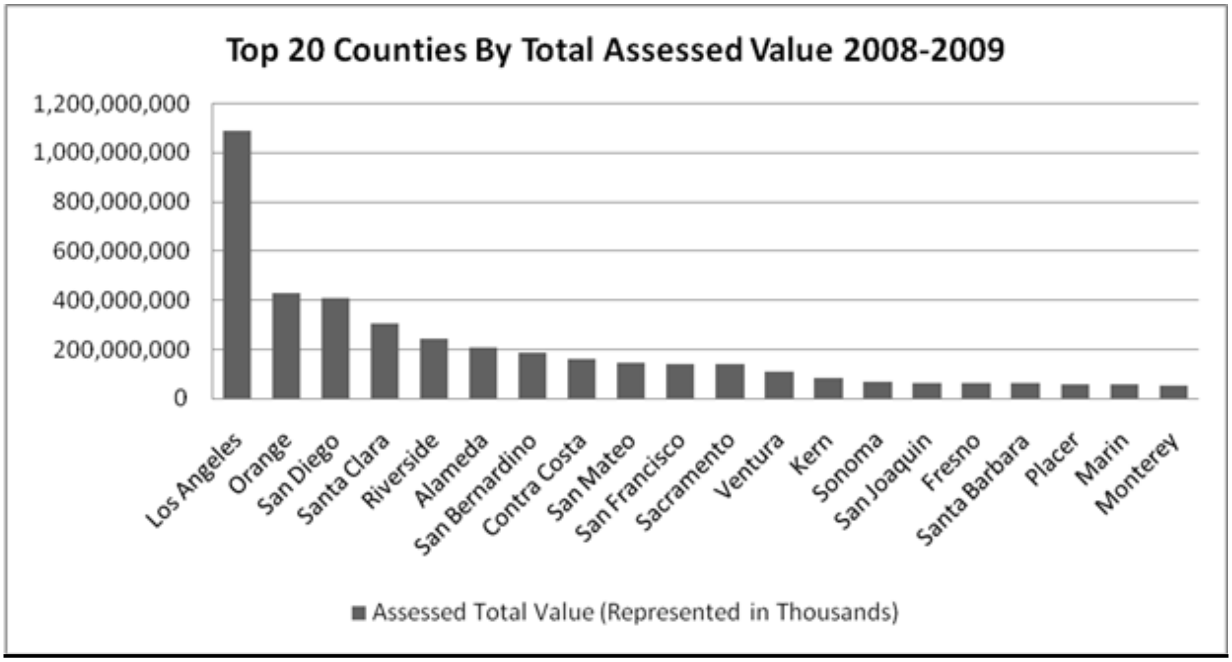
Appendix 2: Additional Property Tax Data

STATE- AND COUNTY-ASSESSED VALUE OF PROPERTY SUBJECT TO GENERAL PROPERTY TAXES ON THE SECURED AND UNSECURED ROLLS, BY COUNTY, 2008-09 (In thousands of dollars)

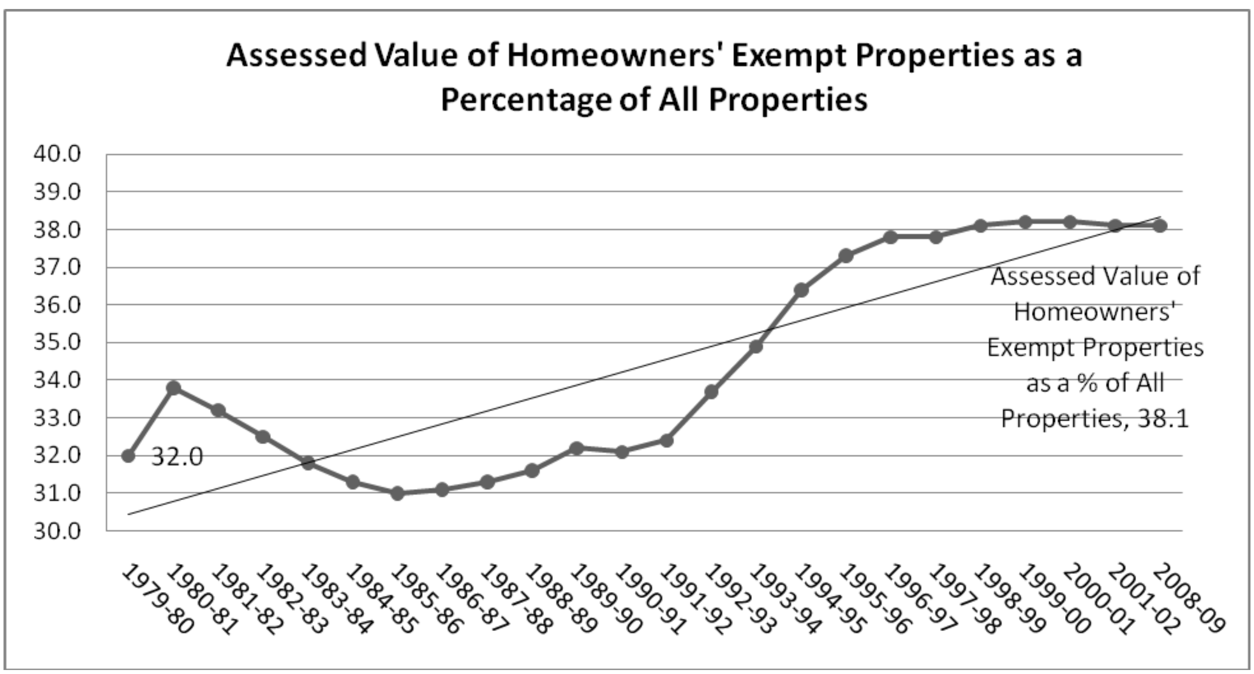
County	Secured valuations			Unsecured valuations (Local only) b/	Total assessed value
	State-assessed	Locally assessed	Total		
1	2	3	4	5	6
Alameda	$2,722,686	$190,490,463	$193,213,149	$11,601,304	$204,814,453
Alpine	21,747	714,389	736,136	31,764	767,900
Amador	184,117	4,636,708	4,820,825	132,945	4,953,771
Butte	624,069	17,826,948	18,451,017	836,897	19,287,914
Calaveras	110,393	6,998,329	7,108,722	122,157	7,230,879
Colusa	161,666	2,260,438	2,422,104	237,669	2,659,773
Contra Costa	2,865,923	151,965,005	154,830,928	5,130,325	159,961,253
Del Norte	41,342	1,642,400	1,683,743	43,952	1,727,695
El Dorado	288,742	27,343,456	27,632,199	653,138	28,285,337
Fresno	2,582,622	58,332,410	60,915,032	2,555,829	63,470,861
Glenn	104,424	2,420,498	2,524,922	103,696	2,628,618
Humboldt	234,994	10,085,795	10,320,789	480,438	10,801,227
Imperial	297,831	10,145,704	10,443,535	784,347	11,227,881
Inyo	94,789	3,167,580	3,262,369	1,285,535	4,547,904
Kern	3,383,510	77,910,340	81,293,850	3,058,230	84,352,080
Kings	358,899	8,178,803	8,537,703	409,040	8,946,743
Lake	115,527	6,735,844	6,851,370	178,540	7,029,911
Lassen	158,716	1,993,996	2,152,712	118,556	2,271,268
Los Angeles	13,102,558	1,027,889,341	1,040,991,899	48,053,950	1,089,045,848
Madera	361,125	11,693,409	12,054,534	394,829	12,449,362
Marin	384,762	54,333,180	54,717,942	1,282,485	56,000,426
Mariposa	75,157	1,987,961	2,063,118	52,868	2,115,986
Mendocino	202,194	9,492,052	9,694,246	313,105	10,007,350
Merced	444,860	18,526,900	18,971,760	1,123,636	20,095,395
Modoc	152,820	867,030	1,019,850	29,703	1,049,553
Mono	81,920	5,568,571	5,650,491	318,760	5,969,251
Monterey	1,358,180	49,573,443	50,931,623	2,144,692	53,076,314
Napa	225,153	25,730,608	25,955,761	1,187,262	27,143,023
Nevada	270,279	16,151,196	16,421,474	378,473	16,799,947
Orange	4,978,991	403,512,858	408,491,849	20,981,471	429,473,319

Placer	897,370	57,080,704	57,978,073	1,550,119	59,528,192
Plumas	407,099	3,817,772	4,224,871	106,109	4,330,980
Riverside	3,952,409	230,893,580	234,845,989	8,160,220	243,006,209
Sacramento	1,644,091	130,564,910	132,209,000	5,679,536	137,888,537
San Benito	105,350	6,393,499	6,498,849	251,836	6,750,684
San Bernardino	5,360,070	171,804,997	177,165,067	10,033,960	187,199,027
San Diego	8,300,796	385,065,065	393,365,860	14,528,886	407,894,746
San Francisco	2,033,644	130,824,731	132,858,375	9,061,374	141,919,748
San Joaquin	1,556,616	59,050,512	60,607,128	3,659,633	64,266,761
San Luis Obispo	2,798,090	39,040,880	41,838,970	1,088,076	42,927,047
San Mateo	1,406,730	133,289,758	134,696,488	9,859,554	144,556,042
Santa Barbara	806,086	57,827,035	58,633,120	2,850,912	61,484,032
Santa Clara	3,681,249	281,772,239	285,453,488	21,541,992	306,995,480
Santa Cruz	291,493	33,580,381	33,871,874	861,471	34,733,345
Shasta	730,853	15,174,778	15,905,631	840,189	16,745,820
Sierra	42,644	512,849	555,493	33,069	588,562
Siskiyou	268,845	3,895,795	4,164,639	207,955	4,372,594
Solano	780,609	43,886,856	44,667,464	1,877,514	46,544,979
Sonoma	731,429	66,710,636	67,442,065	2,508,655	69,950,719
Stanislaus	407,584	38,190,131	38,597,715	1,826,744	40,424,459
Sutter	415,305	7,831,163	8,246,468	522,966	8,769,434
Tehama	199,741	4,843,426	5,043,167	175,663	5,218,831
Trinity	27,184	1,106,207	1,133,390	34,327	1,167,717
Tulare	652,992	26,197,774	26,850,766	1,397,892	28,248,658
Tuolumne	118,897	6,478,507	6,597,404	198,804	6,796,208
Ventura	1,420,150	102,613,143	104,033,294	4,234,843	108,268,136
Yolo	442,390	19,439,468	19,881,858	1,102,872	20,984,730
Yuba	240,034	4,961,532	5,201,566	249,031	5,450,597
Totals	$75,709,742	$4,271,023,980	$4,346,733,722	$208,469,794	$4,555,203,515

Source: BOE



Source: BOE



Source: BOE

Part II: More Loophole than Tax: How the Law Fails to Assess Commercial and Industrial Property

The system by which commercial property is assessed is irrational, loophole-ridden, complex, increases assessment on some properties while allowing others to escape reassessment, and generally is incapable of being defended as rational public policy. While business groups defend the outcome—very low property taxes for many businesses—we challenge anyone to defend the confused and confusing system which treats similar commercial properties very differently, depending on how they are organized.

The first part of this report (Exhibit A) provides examples of the failure to reassess major corporate properties which have apparently undergone a change of ownership. In some of these cases, it is possible or likely that they should be reassessed under current law, thereby relieving the state's fiscal crisis. In other cases, 100% changes of ownership legally avoid reassessment.

The second part of this report (Exhibit B) describes complex cases by which change of ownership is avoided, in some cases without the specific companies identified because of confidential information. Some of these cases are well known, but the section provides detail on the incredible complexities by which the law can be avoided.

Although the system is so obscure and complex, we believe that many of the properties we have identified—particularly the bank mergers—should in fact be reassessed by county assessors, bringing more revenue immediately to the local governments and the state. In other cases, it would appear that no reassessment would take place under current law, even when 100% of the company has changed hands. And, in some cases, some properties would be reassessed while others of the same company would not be, based on ownership patterns, such as leases and franchises, which to us calls into question the rationality of the entire law.

This report is just a beginning of an on-going examination of the results of our system of commercial property tax. Because the information we sought in this first step, on avoidance of change of ownership, is complex, we have attempted to be as cautious as possible, making sure that we note that some of the details we present are subject to further examination. But the overall findings of the report are unchallengeable: the system is arbitrary, confusing and complex, and properties can change ownership continually without reassessment, whether by intentional tax avoidance or just the failing operation of the law, while other similar properties are in fact reassessed.

Current Law

The California Constitution requires property to be re-assessed upon “a change in ownership”. For homeowners and home purchasers, this requirement is clear: when a home is purchased, the home is reassessed at the purchase price, and the homeowner pays tax on that full market value. A home cannot be financed unless there is a clear ownership on the deed, so, aside from narrow legally permitted exceptions (e.g. parent to child transfer), homeowners always face a tax bill based on market value of a new purchase.

For commercial property, the system often fails to capture actual changes in ownership. The basic problem is that the law does not fit the reality of property ownership: commercial property is held in many complex forms which make “a change of ownership” difficult to determine. These forms include limited partnerships, limited liability companies, subchapter S corporations, family trusts, publicly-traded corporations, private equity holdings, real estate investment trusts, and others. These diverse forms of holding investment property have primarily to do with the means of structuring investments, including access to liquidity, profit-sharing and tax arrangements, that is, the financial structure of an investment. However, many properties are also structured to avoid change of ownership, particularly the many properties held in trusts. (See Exhibit B, detailing the incredibly complexity in the system).

Despite the complexities of property ownership, the problem in the law can be simply understood: a change of ownership does not occur unless over 50% of a property is purchased by a single owner. So if three purchasers purchase 100% of a property, no change of ownership occurs. If stock transactions for a publicly-traded corporation occur every day and 95% of the company changes hands over time, but no one purchaser buys more than 50% of stock, no change of ownership occurs. If limited partners who own a shopping center sell to several other limited partners, no change of ownership occurs if no one buys more than 50%. If two private equity firms and a real estate investment trust each buy an entire company, no change of ownership occurs. Or, if a change in company ownership occurs, but the property is held through a leasehold, no change of ownership for the property occurs.

This report provides a number of real-world examples of how the system fails to capture these changes in ownership for commercial property. We have examined several transactions in detail. And we have focused on private equity buyouts, which are very public purchases of entire corporations, to see if their property has been reassessed. Major corporations with extensive property holdings have been bought and sold in ways which avoid reassessment, or which apparently should have been reassessed but have not been.

From our examination of property tax records, these examples appear to be the tip of the iceberg in which thousands of properties change ownership each year in name and deed without requiring reassessment. And, in the case of trusts, thousands of properties are owned in such a way that they will never change ownership.

Our Approach to this Study

In the report that follows, we have begun the process of examining assessment records and legal cases to describe specific changes in ownership which have not led to reassessment. These records can be confusing and difficult to access. For example, because property is held in different ways, transfers may be recorded without reassessment, or such transfers may have generated reassessment. Some counties have reassessed properties for which corporate ownership changes have occurred, and others may not. When we have pointed to some properties to some county assessors, they were not aware that corporate buy-outs had taken place which might generate reassessment.

So, the properties we have examined here are just the beginning of the process. All property is local, and all values are related to the surrounding properties and neighborhood, so the most effective process of really examining these issues is on a community-by-community, property-by-property basis. We provided some of this approach by comparing properties in different areas in our 2004 report.

One of the most effective approaches is one taken by Jennifer Bestor of Menlo Park, in her open letter to Warren Buffet http://caltaxreform.org/?p=253 in which she examines Menlo Park properties which she knows well. In one example, she notes that an independently owned gas station is assessed at a far higher rate than those owned by corporate owners, and that highly valuable commercial property leased by Trader Joe's in Menlo Park is assessed at less than many homes, since it is owned by a family trust with a Massachusetts address. Her exposure of the irrationality of one town met with highly favorable response. It is this exposure that we hope to accomplish in subsequent analyses throughout the state. Ultimately, when enough people understand the irrationality of the system, there will be support for change.

The Examples

We examined in detail the transaction between Martini and Gallo, in which Martini winery properties were sold to E.J. Gallo through many complex steps, resulting in no reassessment despite deed changes recorded with the county. Another transaction, which cost Mono County many millions of dollars in revenue, is the sale of Mammoth Mountain resort in such a way that there was no "change in control"—another complex feature by which the law is manipulated. Exhibit B demonstrates the enormous complexity of many of these transactions which avoid changes of ownership. For example, the sale of One Market Plaza in San Francisco generated years of litigation over efforts to avoid the law. Some of this information is already well-known as a result of litigation, while some of it is entirely obscure to those who try to make sense of our tax system.

We were also able to focus on high-profile private equity buyouts and mergers which apparently have failed to generate reassessments. Bain Capital, Kohlberg, Kravis and Roberts, and Vornado Realty Trust purchased Toys “R” Us, with apparently less than a 50% stake for each firm, however, in several counties Toys “R” Us properties, held by a subsidiary called Giraffe Properties, have not been reassessed.

Goldman Sachs, Bain Capital, and TNR purchased Burger King in 2002 and sold it off again in 2006. Some Burger King properties have been reassessed but others have not, as documented in exhibit A. Of course, many Burger King properties appear to be held by trusts owned by the franchisees, so that despite the change in corporate ownership many properties would not be reassessed, although some are owned by the corporation and would be reassessed--if the law covered these buy-outs. As noted, some of these properties are assessed at values of 25 years ago.

The vast Hilton Hotel chain, which includes subsidiaries such as Doubletree, Hampton Inn and Embassy Suites, was purchased by the Blackstone Group, a private equity firm, in 2007. From our examination, many of these hotels are assessed at very low values compared to their competitors, and have not been reassessed. We found that some have been reassessed and others have not been, because many are owned by the franchisees and not the corporation. Separate property holdings, often in “family trusts” or in real estate investment groups, essential insulate property owners against reassessment, even when the underlying company has been sold.

Similarly, it is hard to fathom why the bank mergers of 2008 have not led to reassessment. In fact, it appears that prior mergers, such as the purchase of Washington Mutual by JP Morgan Chase Manhattan, has not triggered reassessment in the vast majority of counties. Because these chains are complex and assessor information limited, it is possible that these properties will be reassessed, but so far many of them have not been. We would urge assessors to quickly move to reassess these properties in the wake of the fiscal crisis facing our local governments and the state. If such assessments are not required under current law, we urge that the assessors and the Board of Equalization make the reasons for that transparent, and work to change the law that would reassess bank-owned property which results from mergers and acquisitions.

In some cases, even when the law apparently should work simply, reassessments have not taken place. Shell Oil merged with Pennzoil Quaker State in 2002, thereby taking ownership of Jiffy Lube International. Yet our research shows that some Jiffy Lube properties have not been reassessed since the 1980’s, despite this merger. Just recently, one county decided that Jiffy Lube should have been reassessed 8 years ago, possibly at our prompting, and sent out a reassessment letter.

Save Mart stores purchased Albertson's in 2006, and, in Sacramento County, a number of them have in fact been reassessed. Yet two others have escaped reassessment, which are apparently owned by other investors but include Albertson's, Inc. in their name on ownership listings but apparently not a sufficient percentage for reassessment. We challenge any defenders of the system to provide a rationale for such apparently arbitrary distinctions, in a system which is supposed to assess property values.

Similarly, CVS Pharmacy acquired the entire Long's Drugs chain, and now operate them under their new name. We have identified many Long's Drugs properties with assessment which go back to the 1970's and 1980's. Again, either the acquisition was structured in such a way as to avoid reassessment, or the assessors and the Board of Equalization have failed to pick up this change of ownership. If it is the latter, we would hope that counties act quickly to correct this oversight.

One area of future research is the assessment of publicly-traded corporations. In our past research, titled the "California Commercial Property Tax Study," 2004 (click here for report or visit www.caltaxreform.org) we found properties owned by publicly-traded corporations to be assessed at original values, going back to the 1970's. Most, although not all, such corporations are owned by many thousands of shareholders, including pension funds, mutual funds, and other institutional investors, with the largest shareholders having only small minority ownership stakes. The majority of their shares may have changed hands over many years, with no changes of ownership ever recorded, unless there are large corporate buyouts by one company, and even those, as we show, may not be reassessed. However, major corporations which have not been purchased are able to maintain very low assessments of their land.

The Disney Corporation provides an accessible example of the types of tax losses which accrue from failure to reassess property, because they have acquired contiguous land on its Disneyland holdings for expansion. Such acquisitions allow comparisons of values, provided that the comparisons are only on the land and not the improvements which, in the case of an amusement park, may be difficult to compare with other properties.

This data is from the previous study, cited above. In 2004, the bulk of land in Disneyland was taxed at 1975 values, with a tax of 5 cents/square foot. Subsequent Disneyland expansions show land taxed at growing amounts as new properties were acquired, until, in 2002, new property is assessed and taxed at 37 cents/square foot of land. If the under-assessed and under-taxed Disney land were brought up to 2002 values, Disneyland would pay Orange County $4,672,217.74 more per year in tax. This amount is likely to be larger in 2010, because at an increase of 2% per year as permitted by law, the tax difference between the vast amount of property valued at 1975 values becomes even greater.

In our future research, we will bring this data up to date, and examine the property owned by large publicly-traded corporations such as Disney. As this example shows, large companies continually buy new property at higher assessed values, and pay higher taxes on them, but their current property continues to be at low values because, despite extensive stock transactions, change of ownership rarely occurs.

Exhibit A: Summary of Company Buyouts/Mergers that Escaped Reassessment

Summary Chart

Acquired Company	Purchaser(s)	Year	Property Summary and Assessment Range	Notes
Martini Vineyards	E&J Gallo	2001	8 properties in Napa and Sonoma Counties, 1,300 acres not reassessed, Taxed at $1.87/acre to $724/acre	Transaction structured to avoid reassessment
Toys "R" Us and Babies "R" Us and Affiliates	Four Affiliates: Bain Capital, Kohlberg Kravis, Roberts&Co., Vornado Realty Trust	2005	Properties located in major counties including Los Angeles, San Bernardino, San Diego, Ventura, Orange, Stanislaus counties not reassessed, taxed at $0.003/sq. ft. to $0.48/sq. ft.	Some have been reassessed but many have not
Burger King	Three Private Equity Firms: Goldman Sachs, Bain Capital, TPG Capital	2002	92% of Burger Kings are owned by Franchisees. Several locations in San Diego not reassessed, taxed at $0.27 to $0.35/sq. ft.	Many have been reassessed others have not, additional research needed

Long's Drug Stores	CVS Caremark Corp.	2008	50 plus properties across the state in most major counties not reassessed, \$0.05/sq. ft. to \$0.36/sq. ft.	None of the Long's Drugs examined have been reassessed
Washington Mutual	JP Morgan Chase Manhattan	2008	100 plus properties across the state in nearly all major counties not reassessed, taxed at \$0.001/sq. ft. to \$3.48/ sq. ft.	Very few of WaMu's assets have been reassessed
Wachovia Corp.	Wells Fargo	2008	Properties in Sacramento and Riverside County have not been reassessed, taxed at \$0.15/sq. ft. to \$0.28/sq. ft.	A number of Wachovia's have been reassessed, some have not
Pennzoil Quaker State Co. (owns Jiffy Lube Service Stations)	Shell Oil Company	2002	Properties in Santa Clara, San Francisco, Ventura, Contra Costa, Sacramento, and Alameda County not reassessed, taxed at \$0.11 to \$2.22/sq. ft.	Very few of the Jiffy Lube properties have been reassessed
Guitar Center	Bain Capital	2007	Property in Sacramento County not reassessed, taxed at \$0.17/sq. ft.	Some have been reassessed
Smart and Final	Affiliate of Apollo Management	2007	Property in Riverside and Sacramento County not reassessed, taxed at \$0.12/sq. ft. to \$0.16/sq. ft.	A lot of property owned by franchisees not reassessed.
Club Corp.	KSL Capital LLC.	2006	Property in most major counties including Contra Costa, San Bernardino, San Diego, Los Angeles, Riverside, Sacramento, and Orange counties not reassessed, taxed \$0.001 to \$0.04/ sq. ft.	None of these golf properties appear to have been reassessed

Univision Communications	Five private equity firms: Saban Group, Madison Dearborn Partners, Providence Equity Partners, TPG, and Thomas H. Lee Partners	2007	Properties located in Sacramento and San Diego Counties not reassessed. Sacramento studio taxed at $0.21/sq. ft.	Some properties reassessed
SunGard	Seven Private Equity Firms: Goldman Sachs Capital Partners, Silver Lake Partners, Bain Capital, TPG Capital, Kohlberg Kravis Roberts, Providence Equity Partners, Blackstone Group	2005	Properties in Alameda and Orange County not reassessed, taxed at $0.16 to $0.17/sq. ft.	
Burlington Coat Factory	Bain Capital	2006	Properties in Ventura and San Diego counties not reassessed, taxed at $0.12/sq. ft.	
Albertson's	Save Mart	2006	Properties in Sacramento County not reassessed	
Hilton Hotels	Blackstone Group (private-equity firm)	2007	Properties all across the state not reassessed, taxed at $0.12/sq. ft. to $2.16/sq. ft. of land.	Some properties reassessed, some not reassessed. Many properties are not held by Hilton
Mammoth Mountain Ski Resort	Intrawest Corporation	1997	Intrawest acquired 51.48% of ownership shares but the property was not reassessed due to legal ambiguity in law	Property reassessed in 2005 when property resold

Sources: Dataquick, County Assessor's Offices

<u>E & J Gallo Buys Martini Vineyards Without Triggering Reassessment (2001):</u> The Napa County Assessor's Office reports one transaction that took place in Napa County in 2001 where approximately 12 shareholders of E & J Gallo Winery acquired the shares owned by approximately 20 shareholders of the Martini Winery, with the name changing and the deed changing, but since no shareholder bought over 50% no reassessment took place. A closer look at this case study reveals that E & J Gallo appeared to deliberately structure this change in ownership to avoid property tax reassessment. It was widely reported in the media that E & J Gallo purchased the Louis M. Martini in St. Helena in a deal made final on September 9, 2002.

The deal was reported to include the purchase of 984 acres of vineyards and business property in Napa County as well as vineyards in Sonoma County. In preparation for the sale, Martini consolidated its land holdings into one company called G3 Properties Inc in 2002, according to documents filed with the Sonoma and Napa County Assessors' Offices. On January 23, 2003, E & J Gallo formed G3 Enterprises. A document filed with the Napa County Assessor's Office on October 10, 2002 states that G3 Properties Inc., formerly known as Louis M. Martini grants to the E & J Winery the fixtures and structures but not the land upon which the fixtures are located for more than 900 acres of property in Napa County.

On December 30, 2005, G3 Properties, Inc., the Martini-owned corporation, merged with G3 Enterprises Inc., the Gallo controlled corporation, and became G3 Enterprises Inc. Napa County Assessor Office records show that G3 Properties and the Martini family owned at least 5 separate parcels which span 691 acres of property, primarily vineyards, in Napa County that transferred to the Gallo-controlled G3 Enterprises, as a result of the merger. Market value of the property is estimated to be between $60,000 and $80,000 an acre, however, according to the Napa County Assessor's Office the property has not been reassessed in a very long time. Several of the parcels of land are assessed as low as $180 to $420 per acre. If the property were assessed at market value, Gallo would owe an estimated $500 per acre in property taxes—an amount which is greater than the amount the property is assessed at per acre—or less than 1/100th of the amount of property taxes that they should be paying.

The deal also included the transfer of the 576-acre Monte Rosso Vineyard in Sonoma County, a vineyard listed as formerly being owned by the Martini Family. According to the Sonoma County Assessor's Office, Gallo Vineyards Inc. purchased the property in 2003 and then transferred the property to G3 Enterprises Inc. in 2007. The Sonoma County Assessor's office reports that the 576-acre parcel still has a 1975 base year despite the transfer. That property appears to be vastly underassessed. The property is currently assessed at $1,325/square acre, while market value of Sonoma vineyards are valued at more than $30,000/ square acre.

Bain Capital and Affilitates Buys Toys "R" Us But Several California Properties Not Reassessed (2005): Toys "R" Us, Inc. operated as a public company from 1978 until July 2005, when an investment group consisting of affiliates of affiliates of Bain Capital Partners LLC, Kohlberg Kravis, Roberts & Co. (KKR), and Vornado Realty Trust (NYSE: VNO) completed an acquisition of Toys"R"Us, Inc. for $6.6 billion. The acquisition encompassed all worldwide operations of Toys"R"Us, Inc., including the Toys"R"Us and Babies"R"Us businesses. With the completion of this transaction, each of the investors owns an equal stake in Toys"R"Us, Inc, according to the Toys "R" Us website. Several California properties have not been reassessed as a result of the 2005 transaction but other properties have been reassessed.

Property Summary:

►In Orange County, a Toys "R" Us (25362 El Paseo, Mission Viejo) is owned by Giraffe Properties LLC (a Toys "R" Us subsidiary) was reassessed in 2005 (Note: lot sq. ft. unavailable online), according to the Orange County Assessor's Office.

►A Babies "R" Us in San Diego County (1990 University Dr. Vista) is also owned by Giraffe Properties LLC but was last reassessed at market value in 2000, according to the San Diego County Assessor's Office. The property is taxed at $0.18/sq. ft of land.

►In San Bernardino County, two Toys "R" Us properties which are owned by "Toys "R" Us Delaware Inc., were not reassessed as a result of the 2005 buyout. A company warehouse located at 1110 W Merrill Ave, Rialto was last reassessed at market value in 1997. An adjacent property with the same owner was last reassessed at market value in 1992, according to the San Bernardino County Assessor's Office. Both properties are significantly underassessed--the first property is taxed at $0.03/sq. ft of land and the second property is taxed at $0.003/sq. ft. of land (Note: not a typo, 3/10 of a cent).

►Two Toys "R" Us properties in Stanislaus County (2700 and 3500 Sisk Road, Modesto) were also listed as last transferring ownership in 1999 and are taxed at $0.10/sq. ft of land. Both properties are owned by Giraffe Properties LLC, according to Dataquick.

►In Ventura County, a Babies "R" Us (2340 Lockwood Street, Oxnard) was last reassessed in 1997 and is owned by Giraffe Properties LLC, according to the Ventura County Assessor's Office. The property is taxed at $0.11/sq. ft. of land. Another Ventura Toys "R" Us was last reassessed in 1986. This property is owned by 2005 RE I LLC Trust and is assessed at $0.19/sq. ft. It is not known if this property owner is a Toys "R" Us subsidiary or not.

►A Toys "R" Us in Los Angeles County (7100 Eastern Ave., Bell Gardens) was reassessed in 2006. The property is owned by Giraffe Properties LLC and is taxed at $0.44/ sq. ft of land.

Goldman Sachs, Bain Capital, and TPG Capital Acquire Burger King in 2002 But Several California Properties Have Not Been Reassessed (2002): Goldman Sachs, Bain Capital, and TPG Capital agreed on a high profile $1.5 billion leverage buyout of Burger King from Diageo in December 2002. The consortium had support from Burger King's franchisees who controlled approximately 92% of Burger King restaurants at the time of the transaction. In February 2006, Burger King announced plans for an initial public offering. Several Burger King properties based in California have not been reassessed as a result of the transaction.

Property Summary:

►In San Diego County, none of the Burger King locations examined in this study have been reassessed based on the 2002 sale, according to the San Diego County Assessor's Office. All four of the properties listed below are owned by Burger King Corporation and are not listed as being owned by franchisees, according to Dataquick. A Burger King located at 815 Highland Ave. in National City was last reassessed in 1985 and is currently taxed at $0.35/sq. ft. of land.

A Burger King located at 728 W San Marcos Blvd. in San Marcos was last reassessed in 1985 and is taxed at $0.29/sq. ft. of land. A Burger King located at 377 Vista Village Dr. in Vista was last reassessed in 2000 and his taxed at $0.28/sq. ft. of land. A Burger King located at 822 N Johnson Ave. in El Cajon was last reassessed at market value in 2001 and is taxed at $0.27/sq. ft. of land.

►In Los Angeles County, several Burger King locations were reassessed in 2003, presumably due to the 2002 sale. These include Burger King locations at 127 Avalon Blvd., Los Angeles, 1925 Pico Blvd., Santa Monica, and 1439 W Manchester Avenue, Los Angeles. The properties are owned by Burger King Corp.

CVS Caremark Corp. Buys Long's Drug Stores But Dozens of California Properties Escape Reassessment (2008): On August 12, 2008, Long's Drugs announced that they were being acquired by CVS Caremark Corp., the operator of the national CVS/pharmacy chain of drugstores. The $2.7 billion deal gave CVS 521 Long's locations to expand its presence on the West Coast, primarily in California. Several dozen properties still listed as being owned by Longs Drugs Inc. have not been reassessed at market value. This study has not found a single Long's Drugs that appears to have been reassessed based on the 2008 sale. For more on this buyout click here.

Property Summary:

►In Los Angeles County, four Long's Drug store properties were last reassessed at market value in 1975 and are vastly underassessed, according to the Los Angeles County Assessor's Office. All four properties are owned by Longs Drug Stores Inc. A located at 727 S Glendora Ave. in West Covina is taxed at $0.07/sq. ft. Another location near the corner of Silver Spur and Deep Valley in Rolling Hills is assessed at $0.08/sq. ft. of land. An adjacent property at 901 Silver Spur Road in Rolling Hills is also assessed at $0.08/sq. ft. The fourth location located at 18441 Ventura Blvd. in Tarzana is also assessed at $0.08/sq. ft. of land.

►In Alameda County, at least five Long's Drug Store Properties have not been reassessed as a result of the 2008 buyout and are at very early base year values, according to the Alameda County Assessor's Office. All five properties are owned by Longs Drug Stores Inc., according to Dataquick. A location at 699 Lewelling Blvd. in San Leandro has a 1984 base year value and is taxed at $0.22/sq. ft. of land. A Long's Drug property at 3320 Fruitvale Ave. in Oakland has a 1975 base year value and is assessed at $0.11/sq. ft. of land. Another property at 2314 Santa Clara Ave. in Alameda has a 1984 base year value and is taxed at $0.33/sq. ft. of land.

►In Ventura County, at least two Longs Drug store properties have not been reassessed and are at base year values that are from the 1980s, according to the Ventura County Assessor's Office. Both properties are owned by Longs Drug Stores Inc. These include a property at 1822 E Avendia De Los Arboloes in Thousand Oaks which has a 1985 base year and is taxed at $0.17/sq. ft. of land and a property at 2120 Newbury Road in Thousand Oaks that is also taxed at $0.17/sq. ft. of land.

►Several Long's Drug properties in Contra Costa County have not been reassessed and are at 1975 base year values, according to the Contra Costa County Assessor's Office. A property in Walnut Creek at 1123 S California Blvd. in Walnut Creek is listed as last transferring ownership in 1967 and is taxed at $0.12/sq. ft. A Danville property (650 San Ramon Valley Blvd.) is listed as last transferring in 1973.

JP Morgan Chase Buys Washington Mutual But No Reassessment Has Taken Place (2008):
In 2008, JP Morgan Chase Manhattan merged with Washington Mutual Bank (WaMu) in a reported $1.9 billion buyout of the company (link to article click here). By adding Washington JP Morgan Chase added a strong west coast presence by adding some 2,200 WaMu locations, including hundreds of locations in California. A review of WaMu properties has found that very few of these properties have been reassessed to date.

Property Summary:

►More than 100 former Washington Mutual properties in most major counties in the state have yet to be reassessed as a result of this merger.

►In San Francisco city and county, the Assessor's Office reports that none of the Washington Mutual locations have been reassessed based on the 2008 change in ownership.

►In Alameda County, a Chase Bank located at 5800 Stoneridge Mall in Pleasanton was last reassessed in 1996, according to the Alameda County Assessor's Office. The property is owned by American Savings Bank (a WaMu asset) and is taxed at $0.20/sq. ft. of land. Another location at 39395 Paseo Padre Parkway in Fremont was last reassessed in 1997 and is taxed at $0.25/sq. ft. of land.

►In Riverside County, a Chase Bank located at 499 Palm Canyon in Palm Springs was last reassessed in 1983, according to the Riverside County Assessor's Office. The property is owned by the Federal Savings and Loan Association (tax rate not available). Another Chase Bank located at 1118 W Ramsey Street in Banning was last reassessed at market value in 1989, according to the Riverside County Assessor's Office. This property is owned by American Savings Bank and is taxed at $0.41/sq. ft. It was not reassessed at market value in 1996 when Washington Mutual bought American Savings Bank in 1996.

►In Los Angeles County, a Chase Bank at 6300 Van Nuys Blvd in Los Angeles was last reassessed at market value in 1997 and is assessed at $0.18/sq. ft, according to the Los Angeles County Assessor's Office. The property owner is American Savings Bank, according to Dataquick.

►In Orange County, a Chase Bank located at 1455 Baker Street in Costa Mesa was last reassessed in 1998, according to the Orange County Assessor's Office. The property is owned by Home Savings of America and is taxed at $3.48/sq. ft.

►In Santa Clara County, at least two Chase Banks have been reassessed at market value based on the 2008 transaction, according to the Santa Clara County Assessor's Office. These properties include a location at 2791 Story Road in San Jose that is taxed at $0.45/sq. ft and a location at 192 Los Gatos Saratoga Road in Los Gatos. That is taxed at $0.66/sq. ft. of land. Both locations are listed as being owned by JP Morgan Chase. However, a third property located at 5220 Prospect Road in San Jose was last reassessed in 1982 and is taxed at $0.20/sq. ft. of land. The property is owned by Great Western Savings and Loan which was acquired by Washington Mutual in 1997. The property escaped reassessment both in 1997 and in 2008, according to the Santa Clara County Assessor's Office.

Wells Fargo Buys Wachovia Corp. But No Reassessment Has Taken Place (2008): In December 2008, Wells Fargo & Company purchased Wachovia Corp. for a reported $15.1 billion in an all-stock deal (link to article click here), but some of Wachovia's California assets have been reassessed to date and some have not.

Property Summary:

►Some counties including San Bernardino, Alameda, and Orange County have reassessed some Wachovia Bank locations.

►In Sacramento County, a Wachovia Bank at 1510 Arden Way is listed as last transferring in 1980 and is taxed at $0.21/sq. ft. while another location at 11201 Gold Express Dr. is listed as transferring in 1995 and is taxed at $0.15/sq. ft.

►In Riverside County, Wachovia Development Corp. owns a property at 3404 Indian Ave. in Perris that has not been reassessed at market value since 2003, according to the Riverside County Assessor's Office. The property is taxed at $0.28 sq. ft. of land. Another property owned by World Savings Bank, a Wachovia asset, was last reassessed in 2006 but is slated to be reassessed based on the 2008 sale, according to the Riverside County Assessor's Office.

Shell Oil Co. Merges With Pennzoil Quaker State Co., Owner of Jiffy Lube Service Stations But Several Jiffy Lube Stations Have Not Been Reassessed (2002): In 2002, Shell Oil Co. acquired Pennzoil Quaker State Co., owner of Jiffy Lube, in a $1.8 billion merger. Pennzoil would become a wholly owned subsidiary of Shell Oil Co. Several Jiffy Lube service stations in Sacramento, Santa Clara, Alameda, and San Francisco Counties have not been reassessed to date. Many Jiffy Lube locations appear to be owned by franchisees but a number of the stations which have not been reassessed are owned by the corporate parent. For more information on this merger click here.

Property Summary:

►Despite changing hands in 2002, the Santa Clara County Assessor's office reports that they were just recently informed of the Jiffy Lube sale and are taking steps to reassess Jiffy Lube properties in the county. A Jiffy Lube property owned by Jiffy Lube International that is located at 701 1st Street in Gilroy was last assessed at market value prior to 1999. In 1999, the parcel was created but the property was not reassessed at that time because the value was derived from a previous parcel sale, according to the Santa Clara County Assessor's Office. The property is taxed at $1.47/sq. ft. of land.

►In San Francisco County, two properties owned by Jiffy Lube International of MA located at 6099 Geary Blvd. have not been reassessed since 1984 and 1996, according to the San Francisco Assessor's Office. Once property is assessed at $1.56/ sq. ft. of land (1984 base year) and the other is assessed at $2.22/sq. ft. of land—far below market value. When reported to the Assessor's office, they did not know why these properties had not been reassessed and asked for additional information.

►In Ventura County, a station owned by Jiffy Lube International located at 4426 E Los Angeles Avenue was last reassessed in 2005, three years after the change in ownership, according to the Ventura County Assessor's office.

►In Contra Cost County, a station owned by Jiffy Lube International located at 2099 Camino Ramon in San Ramon is listed as last changing hands in 1995 and is taxed at $0.29/sq. ft., according to the Contra Costa County Assessor's Office.

►In Sacramento County, Jiffy Lube International of Maryland owns a station located at 4841 Sunrise Blvd. which appears to have not been reassessed. The property is assessed at $0.11/sq. ft. of land.

►In Alameda County, a property owned by Jackson Amador Associates located at 153 W Jackson Street in Hayward was last reassessed in 1995 and is taxed at $0.26/sq. ft. of land, according to the Alameda County Assessor's Office.

Bain Capital Acquires Guitar Center, But Some Property Not Reassessed (2007): In 2007, Guitar Center Management Company Inc., was acquired by Bain Capital, one of the world's leading private investment management firms (manages $60 billion in assets). Most Guitar Centers appear to reside at leased locations. For more information about the acquisition of Guitar Center Management Company Inc., by Bain Capital Group click here.

Property Summary:

► In Sacramento County, a Guitar Center located located at 1745 Alta Arden Express Way in Sacramento has not been reassessed since 1994, according to the Sacramento County Assessor's Office. Assessor records show that on March 7, 1995 the property was deeded by four individuals to a limited partnership called ARHO LP, which is listed as the current owner of the property. The property is taxed at $0.17/sq. ft.

►In Los Angeles County, a property owned by Guitar Center Management located at 7425 W Sunset Blvd. in Los Angeles was reassessed in 2007, according to the Los Angeles County Assessor's Office.

Affiliate of Apollo Management Acquires Smart and Final Stores But Several Properrties Not Reassessed (2007): In 2007, an affiliate of Apollo Management, a major private equity firm, acquired Smart and Final for $813.9 million. The Apollo affiliate also entered into a stock purchase agreement with Paris-based Casino Guichard-Perrachon, S.A. which owned roughly 55% of Smart & Final's common stock. Many Smart and Final stores are franchises but several California locations are owned by Smart and Final Inc. or its affiliates. For more information on this acquisition click here.

Property Summary:

►In Riverside County, a Smart and Final property owned by Smart and Final Inc. located at 4039 Tyler Street in Riverside has not been reassessed since 1999, according to the Riverside County Assessor's Office. The property is taxed at $0.12/sq. ft. of land.

►In Sacramento County, two Smart and Final locations in Sacramento (6340 Stockton Blvd. and 4820 Madison Ave.) are listed as being taxed at $0.16/sq. ft. and $0.17/sq. ft. No transfer dates were listed in the system for these properties, but the properties appear to be undervalued because they are taxed at $0.16/sq. ft. and $0.17/sq. ft. of land. Both properties are owned by Smart/Final Properties I LLC which appears to be a Smart and Final affiliate.

KSL Capital LLC Buys ClubCorp. But Several California-Based Golf Courses Not Reassessed (2006): ClubCorp. Inc., a Dallas company that is the golfing industry's largest owner of private clubs, was bought out by a Colorado-based private equity firm KSL Capital LLC in 2006 for $1.5 billion. Several golf courses located in California have not been reassessed for a number of years. The properties are all listed as being owned and operated by Club Corp. on the company's website. The properties are owned by holding companies that all list the same Club Corp. Scottsdale, Arizona PO BOX as the property mailing address. (Note: Golf courses are assessed at a lower value that other commercial property but these properties are still vastly underassessed) For article click here.

Property Summary:

►Under the California law, golf courses are assessed at reduced values but at least 16 Club Corp. properties appear to have not been reassessed as a result of this buyout and are assessed at extremely low values.

►In Contra Costa County, a Club Corp. club called Crow Canyon Country Club has not been reassessed at market value since 1981, according to the Contra Costa County Assessor's Office. The property, which is located at 711 Silver Lake Drive in Danville, is taxed at $0.04/sq. ft. of land.

►In San Bernardino County, a Club Corp. club called Spring Valley Country Club was reassessed for some new construction in 2000 but the underlying land has not been reassessed since prior to 1987, according to the San Bernardino County Assessor's Office. Assessor computer records only go back to 1987. The property, which is located at 13229 Spring Valley Parkway in Victorville is assessed at $0.001/sq. ft. of land—vastly underassessed.

►In San Diego County, a Club Corp. club called Shadowridge Country Club has not been reassessed since 1995, according to the San Diego County Assessor's Office. The property is located at 1980 Gateway Drive in Vista and is taxed at $0.02/sq. ft. of land.

►In Los Angeles County, a Club Corp. Club. called Braemar Country Club has a 1975 base year and is taxed at $0.01/sq. ft. of land, according to the Los Angeles County Assessor's Office. The property is located at 4001 Reseda Blvd. in Tarzana.

►In Riverside County, three Club Corp. clubs have not been reassessed, according to the Riverside County Assessor's Office. Canyon Crest Country Club located at 975 Country Club Drive in Riverside has a 1975 base year and is taxed at $0.02/sq. ft. of land. Desert Falls Country Club located at 1111 Desert Falls Parkway in Palm Desert has a 1993 base year and is taxed at $0.04/sq. ft. of land. Indian Wells Country Club located at 46000 Club Drive in Indian Wells has a 1994 base year and is taxed at $0.04/sq. ft.

►In Sacramento County, Teal Bend Golf Course located at 7200 Garden Highway is taxed at rates as low at $0.001/sq. ft. and has not been reassessed at market value since the course was built in 1994, according to the Sacramento County Assessor's office.

►In Orange County, Coto De Caza Golf Club located at 25291 Vista Del Verde in Coto De Caza has a 1994 base year. The tax per sq. ft. of land was not available for this property.

Univision Communications Bought by a Group of Five Private Equity Firms But At Least Two Univision Properties Have Not Been Reassessed (2007): In 2007, Univision Communications Inc., was acquired by a group of five private equity firms including the Saban Group, Madison Dearborn Partners, Providence Equity Partners, Texas Pacific Group and Thomas H. Lee Partners. At least two California properties, both owned by Univision Communications Inc., were not reassessed at market value following Saban Group's acquisition of Univision Television Inc. in 2007. For more information about the acquisition of Univision Communications Inc., by the Saban Group click here.

Property Summary:

►Univision's Sacramento Television studio (1710 Arden Way, Sacramento) is owned by Univision Television Group but was last reassessed at market value in 1994, according to the Sacramento County Assessor's Office. The property is taxed at a mere $0.21/sq. ft of land.

►Univision's San Diego County studio (7110 Via Capri, La Jolla) is owned by Univision Communications and was last reassessed at market value in 2002, according to the San Diego County Assessor's Office. The square footage of the property was not available online.

►Univision's Los Angeles property (5999 Center Dr., Los Angeles) is owned by the Univision Television Group and was reassessed at market value in 2007. The property is taxed at $2.20/sq. ft. of land.

Seven Private Equity Firms Buy SunGard Technology Company But Two California Properties Appear to Not Have Been Reassessed (2005): In 2005, a group of seven private equity firms bought SunGard, a leading software and IT company, in a transaction valued at $11.3 billion. At least two California properties, one in Contra Costa County and one in Orange County, appear to have not been reassessed as a result of the buyout. The group of seven private equity firms includes Goldman Sachs Capital Partners, Silver Lake Partners, Bain Capital, TPG Capital, Kohlberg Kravis Roberts, Providence Equity Partners, and the Blackstone Group.

Property Summary:

►In Contra Costa County, a Sungard property owned by SunGard Recovery Services located at 2481 Deerwood Dr. in San Ramon was last reassessed at market value in 2001. The property is taxed at $0.17/sq. ft. of land.

►In Orange County, at Sungard owned by SunGard Recovery Services located at 6803 International Ave. in Cypress also has a 2001 base year. The property is taxed at $0.16/sq. ft of land.

Bain Capital Acquires Burlington Coat Factory But At Least Two California Properties Not Reassessed (2006): In 2006, Bain Capital investment group purchased Burlington Coat Factory for $2.1 Billion but one property in San Diego County and one in Ventura County have not been reassessed as a result of the buyout. Burlington Coat Factory sells coats and apparel at discounted prices in 44 states and has 394 stores nationwide. For more information on Bain Capital's acquisition of Burlington Coat Factory click here.

Property Summary:

►In San Diego County, a Burlington Coat Factory property at 1617 Capalina Rd. in San Marcos has a 2000 base year and is taxed at $0.12/sq. ft. of land, according to the San Diego County Assessor's Office. The property is owned by a holding entity called Burlington Coat Factory Warehouse of SD Inc. Rancho 76 Inc.

►In Ventura County, a Burlington Coat Factory property located at 4762 Telephone Rd. in Ventura has a 1999 base year and is taxed at $0.12/sq. ft. of land, according to the Ventura County Assessor's Office. The property's listed owner is Burlington Coat Factory, Realty of Ventura Inc. DBA Burlington Coat Corp.

Save Mart Buys Albertson's Stores But Some Stores Have Note Been Reassessed (2006): In 2006, Albertson's LLC Northern California stores were sold to Save Mart Supermarkets, a Modesto supermarket chain. Both Albertson's and Save Mart are privately held companies and did not reveal the terms of the deal. At least some of the stores appear to have not been reassessed.

Property Summary:

►Many of the Albertson's properties in Sacramento were reassessed upon a change in ownership but at least two of the stores in Sacramento County were not. For example, the Save Mart supermarket at 2501 Fair Oaks Blvd. (Loehmann's Plaza) in Sacramento has not been reassessed. The 108,464 square foot parcel at 2501 Fair Oaks Blvd. is still listed as being owned by Patitucci Investment Company (Albertson's Inc.) and has not been reassessed since the property was purchased on June 23, 1999. According to the California Secretary of State's Office, Patitucci Investment Company is owned by John W. Patitucci and Joseph A. Patitucci. The Save Mart supermarket located at 9137 Kiefer Blvd. also has not been reassessed. The 390,733 square foot parcel is still listed as being owned by Rosemont Plaza LP (Albertson's Inc.) and has not been reassessed since June 23, 1999. Rosemont Plaza LP is owned by an entity called 1996 Alcheck Family Trust.

Hilton Hotel Chain Bought by Blackstone Group But Dozens of California-based Hotels Not Reassessed (2007): In October 2007, the Blackstone Group, one of the nation's largest private equity firms, acquired the Hilton Hotel chain in a public to private transaction but dozens of Hilton-owned hotels have not been reassessed to date in many of the state's major counties including Sacramento, San Francisco, Santa Clara, and Los Angeles. Hilton's family of hotels includes Waldorf Astoria, Doubletree, Embassy Suites, Hilton Garden Inn, Hampton Inn, etc. In nearly every case, the hotel properties appears to be owned by a third party. This transaction is documented on the Blackstone Group's website here.

Property Summary:

►Some of the Hilton Hotels properties have been reassessed, others have not even in the same county. The Hilton San Jose (300 Almaden Blvd., San Jose) was last reassessed in 2007, according to the Santa Clara Assessor's Office. The property is owned by PCCP DCP West Hotel Partners LLC, according to Dataquick. The land is taxed at $1.04/sq. ft. But the Hilton Santa Clara (4949 Great America Parkway, Santa Clara) was last reassessed at market value in 2004. The property, is owned by Lawrence LUI & Stanford Hotel and is leased by Ontario Airport Hotel Corporation, according to Dataquick. This property is taxed at $0.64/sq. ft. of land. Four other Hilton Hotels in Santa Clara County, which appear to be owned by franchisees, were not reassessed and are base year values from the 1990s, according to the Santa Clara County Assessor's Office.

►At least six Hilton Hotels located in Los Angeles, which appear to be owned by franchisees, have also not been reassessed as a result of the 2007 buyout, according to the Los Angeles County Assessor's Office. For example, the Beverly Hilton (9876 Wilshire Blvd., Los Angeles) was last reassessed in 2004 and is taxed at $2.16/sq. ft. of land. The property is owned by Oasis West Realty LLC, according to Dataquick.

51% of Mammoth Mountain Ski Area Sold To Intrawest Corporation But But No Reassessment Occurred (1997). In 1997, a foreign company called Intrawest Corporation acquired 51.48% of the ownership shares in Mammoth Mountain Ski Area, a California

Corporation. The Mono County Assessor moved to reassess the property but Intrawest argued that it owned 51% of the company but did not have a controlling interest because of how the company's bylaws were written. The Mono County Counsel then obtained an opinion from the State Board of Equalization which found that Intrawest had control on some decisions but not on the majority of decisions. The Mono County Assessor did not feel the BOE opinion was strong enough and decided not to reassess the property. The Mono County Counsel then asked the California Attorney General's office for an opinion but they declined, hinting that it probably would not be in their favor, thus it would be better to not issue an opinion. In 2005, Intrawest sold a majority interest in Mammoth Mountain Ski area to an entity controlled by Starwood Capital Group Global, L.L.C. (Starwood) for $365 million. The property was subsequently reassessed. (Source: Mono County Counsel's Office)

Whole Foods buys Wild Oats But Los Angeles Property Escapes Reassessment (2007): In 2007, Whole Foods, the nation's largest organic and natural foods retailer purchased Wild Oats Grocery stores for $565 million. The Whole Foods located at 504 Wilshire Blvd. in Los Angeles, a former Wild Oats Grocery store was not reassessed at market value. The owner is Wild Oats Markets Inc/Lease ADM, according to the Los Angeles County Assessor's Office. The company is also listed as the owner of the adjoining Whole Foods parking lot. A neighboring property, similar in size, 530 Wilshire Blvd., has a property value of $3,288,378 and an improvement value of $8,790,097 while the Whole Foods property has a land value of $1,172,755 and an improvement value of $729,201, according to the Los Angeles County Assessor's Office.

San Francisco Fisherman's Wharf Holiday Inn Sold But Not Reassessed (2008): In 2008, according to the San Francisco Assessor's Office the Holiday Inn located at 1300 Columbus Avenue in Fisherman's Wharf was purchased by FJM Wharf Associates LLC. However, according to the San Francisco Assessor's Office the property has not been reassessed at market value. The property was last reassessed at market value in 1993. The property's land values for 2007 and 2008 are $15,508,814 and $15,818,990, respectively. A neighboring property across the street, Courtyard by Marriot which was last reassessed at market value in 2005 has a land value of $29,442,154, despite having a much smaller lot 55,688 square feet compared to Holiday Inn's 81,060 square foot lot.

San Francisco Commercial Office Building Unreported Change of Ownership (2005): A historic commercial office building located at 111 Sutter Street in San Francisco changed ownership on March 29, 2005 but no change of ownership was reported to the San Francisco County Assessor's Office. The Assessor's office was notified of the change of ownership by the State Board of Equalization, resulting in an increase of more than $5 million in annual property taxes for the city and county San Francisco. (Source: SF Assessor's Office)

San Franciscco Financial District Waterfront Complex Sold But Not Reassessed (2008): In 2008, according to the San Francisco Assessor's Office two large commercial properties located in the Financial District and walking distance to the Embarcadero promenade waterfront were purchased by Arden Realty Inc., but were not reassessed at market value. According to the San Francisco Assessor's Office, the properties were last assessed at market value in 1999. The property located at 75 Broadway has an assessed land value of $21.8 million and improvement value of $12.9 million for 2008. The property located on Davis Street has a land assessed value of $15.8 and improvement value of $10.3 million for 2008. Neighboring properties with similar lot sizes have land value and structural values exceeding $100,000,000.

Corporate Changes Of Ownership In Riverside County Still Not Reassessed After More Than 10 Years: A February 2009 audit of the Riverside County Assessor's Office by the State Board of Equalization, found that several pieces of commercial property changed corporate ownership prior to 2005 but have not been properly reassessed. The State Board of Equalization notified the Assessor's Office of the corporate change in control in the 1990s and early 2000s but the properties were never reassessed. "Discussions with staff suggested that the title division may have lost track of some of the monthly packages mailed from the Board of Equalization's Legal Entity Ownership Program (LEOP) and were not aware of the changes in control," states the audit. "In other cases, the transfers are still being processed while additional information is being collected," states the audit. The BOE's LEOP program sends out a periodic listing to all counties of the legal entities that have experienced changes in control. "Many of the transfers we reviewed that occurred prior to 2005 remain unprocessed," states the audit.

Several Commercial Properties Change Ownership In Imperial County Without Reassessment: A February 2008 audit of the Imperial County Assessor's Office by the State Board of Equalization found "a number of parcels that were not reassessed despite changes of control of the legal entities that owned them." "In one instance, two separate changes in control occurred approximately one year apart. One of the two parcels owned by the corporation was correctly revalued for both changes in control, but the assessor failed to revalue the other parcel upon the second change in control."

Exhibit B: The Convoluted Legal System Behind "Change of Ownership"

This section demonstrates the incredible complexity in the legal system which allows properties to avoid assessment even when a change of ownership occurs. As some of these cases demonstrate, the relatively straightforward process of assessing a property can turn into a protracted legal nightmare, based on complex financial transactions that have nothing to do with property valuation. Assessors cannot be faulted for the failure to assess many properties, because they are stuck with a nearly impossible task of evaluating transactions that have little to do with the nature of their job: property valuation.

The law is so complex and difficult to enforce that in many cases, it is unclear to the County Assessors, and even expert attorneys at the State Board of Equalization, if a change in ownership has occurred. This has lead to a situation where commercial property owners are encouraged to put a failed system to the test by structuring a change in ownership transaction to avoid triggering reassessment.

A close examination of the system shows that it is extremely difficult or impossible in certain cases for County Assessors to enforce the law. Commercial property owners exploit the numerous loopholes in the current system and are continuously coming up with new ways to game the system.

We have found, for example, that many properties which apparently changed ownership have not been reassessed, as we noted in Exhibit A. In this section, we document in substantial detail the legal complexities which make the system so difficult to enforce and administer. Several hundred published change in ownership opinions are listed on the State Board of Equalization's website (http://www.boe.ca.gov/proptaxes/pdf/220.pdf), which provides formal and informal advice to Assessors and taxpayers on many thousands of occasions since the enactment of Prop. 13.

Here are some of the cases which demonstrate how difficult it is to apply the law. In some of these cases, the assessor prevailed against clear efforts to avoid the law, but the difficulty of doing so demonstrates the expense, time, and irrationality of a process whose simple task is to do what is done in 49 other states: determine a property value for purposes of assessment.

One Market Plaza Case (1990s)

Perhaps the most instructive case to date is the One Market Plaza change in ownership case which provides an in-depth look at the most extensive, and potentially the most expensive, case litigated to date that highlights the deficiencies in the state's change in ownership laws.

In this case, the taxpayer, IBM Personal Pension Plan (the Plan) and Equitable Life Assurance Company (Equitable) of the United States, deliberately structured a change in ownership of a major skyscraper office building located in San Francisco to avoid reassessment.

The San Francisco Assessor's Office only discovered the transaction through a tip provided by a private attorney. The change in ownership took place in 1986, but was not discovered by the Assessor's office until 1993.

The taxpayer then lied to the Assessor's office about a change of ownership taking place and made the Assessor's Office search through more than 30 boxes of company documents, which took several months, to determine if a "change in ownership" had in fact occurred.

The reassessment, which resulted in more than $64 million in additional property tax dollars in City coffers, only came about after an extensive investigation which included the review of thousands of pages of documents, a federal lawsuit, a lengthy hearing before the Assessment Appeals Board (AAB), and two lawsuits in San Francisco Superior Court, according to court documents.

The property owner, Equitable utilized a complicated multi-step approach that involved setting up two "separate accounts" into which the purchaser of the property, the Plan deposited payment for the building.

"Apparently the only right of ownership denied to the Plan was the right to record the deed," state court documents. The Assessor's office normally discovers changes of ownership when a new deed is recorded.

The Plan and Equitable fought the Assessor's office every step of the way which lead to several court battles and appeals that dragged out over more than 12 years. In the end they lost on all accounts and were required to pay $64 million in escape assessments which included an $18 million tax fraud penalty for trying to cover up the change in ownership.

The One Market Plaza case is the most egregious example of a taxpayer deliberately structuring a "change in ownership" case to avoid reassessment, but there are countless others. The appendix below provides excruciating detail on this case.

100% Corporate Stock Buyout of Major Real Estate Investment Corporation Fails to Trigger Change in Ownership (1989)

The Board of Equalization reports another example of a major real estate investment corporation undergoing a 100% change in ownership without reassessment. The company will remain nameless because the example is cited in a confidential opinion issued in September 1989 in which an unnamed County Assessor's Office asked the State Board of Equalization for an opinion on whether a series of transactions resulted in a change of ownership.

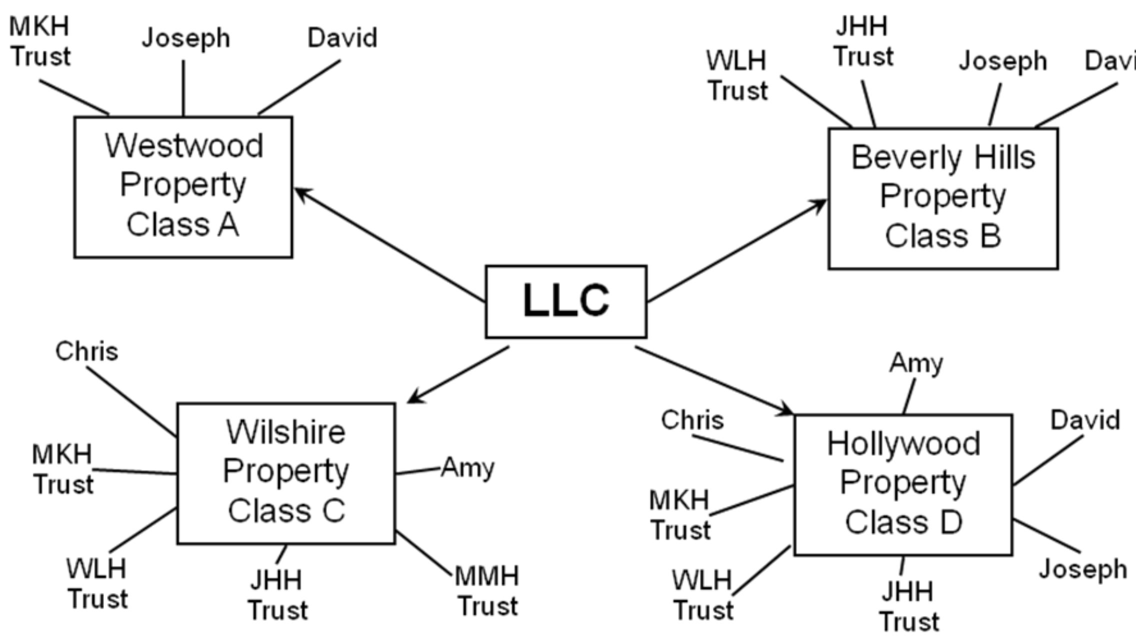
According to the opinion, the corporation was incorporated in Nevada in 1958 by an individual who transferred all its real property into "Z Corporation" in exchange for all its stock." Its assets consisted of mostly "cash and developed and undeveloped real estate located in California and held for rental and investment purposes." In 1989, eight individuals purchased bought shares in the corporation, however, no purchaser bought more than 50% of the outstanding stock of the corporation, so no reassessment took place.

The purchasers then went on to set up a new ownership structure of the corporation and changed its place of organization from the State of Nevada to the State of California. To accomplish this, the purchasers formed a new California Corporation (NEWCO), a 100%-owned California subsidiary, and had Z Corporation merge into NEWCO, while keeping equivalent ownership shares in the corporation.

The BOE found that no reassessment would be triggered by the series of transactions because no individual purchaser would have direct or indirect control of all the voting stock of Z Corporation.

*The State Board of Equalization provides a number of other examples of how whole companies can be liquidated or sold without triggering reassessment. They provided the chart below.

Example: LLC Liquidated Without Triggering Change in Ownership



All owners transfer to LLC and retain proportional ownership interests in their class of real property. Two managers of LLC, neither acquire add'l LLC interests

Corporations Utilize Step Transactions Used to Avoid Change in Ownership

On numerous occasions commercial have undertaken a series of transactions to avoid triggering reassessment. The Courts developed a "step transaction doctrine" to try to prevent taxpayers from avoiding reassessment through a series of transactions that have no purposes other than to escape "change in ownership."

According to the BOE, the doctrine was developed by the federal courts to prevent taxpayers from avoiding federal income tax through the use of a series of transactions which, in form, individually and in sequence either avoid or limit the tax consequences of the taxpayer's actions. "When applying the doctrine, the courts have looked through the form of these transactions to their true substance and have ignored some of the steps (“collapsed” or “stepped” them into a single transaction) for tax purposes,” states a BOE analysis.

It has been the position of the BOE staff, since as early as 1981, that the step transaction doctrine is applicable to real property transfers involving change in ownership cases, according to a BOE analysis. The ultimate decision of the application of the step transaction doctrine was left to the discretion of the county assessors, which is often problematic to apply. County Assessors are often very cautious in applying the doctrine because it takes a highly knowledgeable and skilled attorney to sort through a series of complicated legal transaction.

And even if a change in ownership is discovered, the Assessor knows their decision will be appealed to the County Assessment Appeals Board at minimum, and likely litigated in court if the taxpayer is not satisfied with that decision.

According to the BOE, the first reported instance of a California Court applying the step transaction doctrine in a change in ownership situation occurred in Aden vs. Lynch which was decided by the California Court of Appeals on May 31, 1990 (220 Cal. App. 3d 1429).

This case involved the transfer of an apartment house owned by a corporation in which two shareholders owned 50 percent of the shares. The corporation transferred a one-half interest in the property to each shareholder, and on the same day, one shareholder purchased the interest of the other.

The County Assessor applied the step transaction doctrine and reassessed 100% of the property on grounds that the transactions were, in substance, a transfer of the property from the corporation to one stockholder.

However, based upon testimony that the stockholder wished to acquire the property free of any corporate liabilities, the trial court found that there was an independent business purpose for the steps taken and that the step transaction doctrine did not apply. The court of appeals sustained the trial court, finding that the step transaction doctrine did not apply unless there was no valid economic or business purpose for the step transaction.

“It concluded that as long as there was a valid economic or business purpose it was unimportant that one motive was the reduction of taxes,” states the BOE opinion. This court case opened the door to other corporations undertaking similar step transactions to avoid change in ownership, which is why the California Supreme Court ordered these case to be decertified for publication as legal precedent on August 16, 1990.

Shuwa Investments Corp. v. County of Los Angeles (1991)

In Shuwa Investments Corp. v. County of Los Angeles (1991), Shuwa, the buyer of an office building named Arco Plaza, structured a three-step process to purchase the complex from a general partnership to try to avoid triggering a change in ownership reassessment.

In 1985, ARCO Plaza was owned by the Flower Street Limited, a California general partnership in which the Atlantic Richfield Company (ARCO) owned a 50% share and Bank of America owned a 50% share.

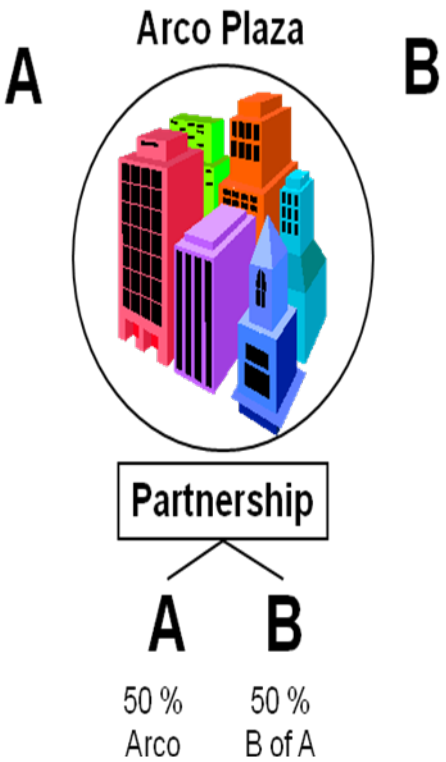
In 1986, the parties arrived at a structure for the transaction in which 1) ARCO would sells its partnership interest in Flower Street to Shuwa, 2) Bank of America and Shuwa would liquidate Flower Street and receive their respective 50% undivided interests in the ARCO Plaza; and 3) Bank of America would then sell its 50% interest to Shuwa.

A 100% change of ownership resulted but Shuwa contended that no reassessment should take place. The Los Angeles County Assessor's Office reassessed the property for the 1986-87 tax year and levied a $3.2 million supplemental tax bill based on the increase in the assessed value. Shuwa paid these taxes but filed an appeal before the County Assessment Appeals Board claiming a partial refund based on a 50% change in ownership.

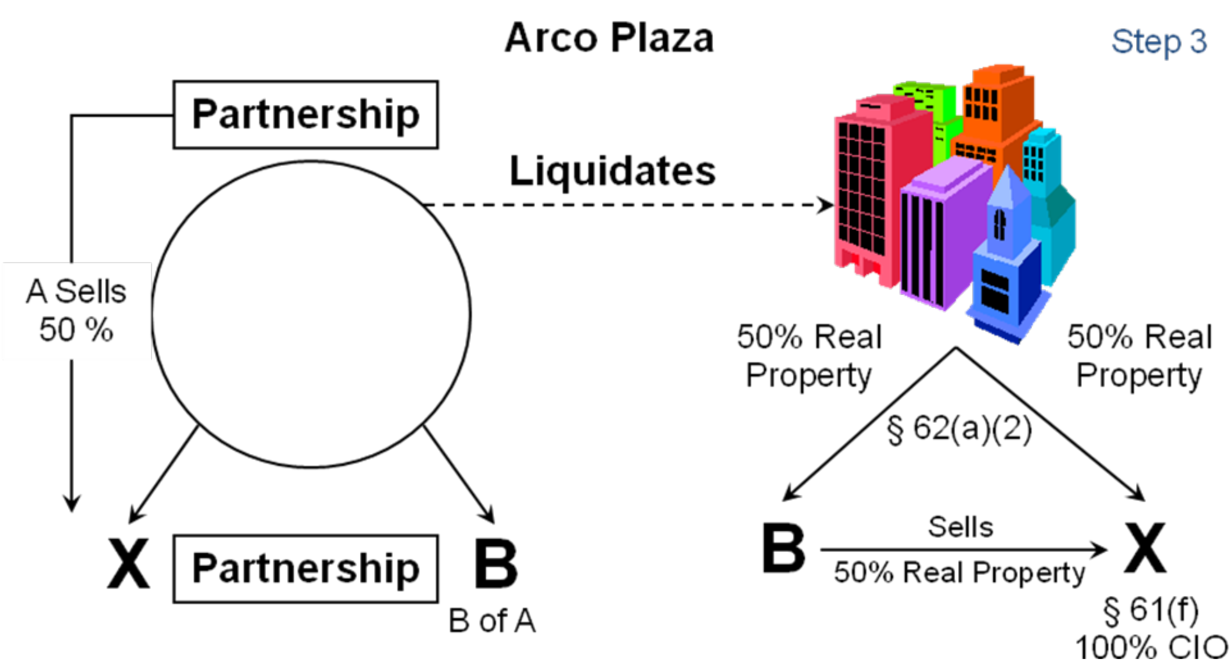
The County Appeals Board denied Shuwa's appeal finding that Shuw effectively controlled the partnership and transaction and that it was the intention of Shuwa to purchase 100 percent of the property in one continuous process.

After Shuwa's appeals were denied, Shuwa filed a complaint for refund in Superior Court alleging that neither the transfer of ARCO's partnership interest nor Flower Street's pro rata distribution of the ARCO Plaza was a "change in ownership." The trial court granted a summary judgement for the county, finding that the purpose of the transaction was intended to avoid property taxes.

The Court of Appeal affirmed the decision, finding that if each of the three steps was considered discretely, the entire transaction would have resulted in only a 50% change of ownership (see image on next page).


Arco Plaza
A
B
Partnership
A
B
50 %
Arco
50 %
B of A

Steps 2 and 3


Arco Plaza
Step 3
Partnership
Liquidates
A Sells
50 %
X
Partnership
B
B of A
50% Real
Property
50% Real
Property
§ 62(a)(2)
B
Sells
50% Real Property
X
§ 61(f)
100% CIO

The Court went on to hold, however, that under any one of a number of tests, including the end result test, the interdependence test, and the binding commitment test, the step transaction doctrine applied to render the three-step transaction a single transaction resulting in a 100 percent change in ownership.

"The three steps were really component parts of a single transaction, the ultimate intent being for the buyer to acquire all of the property; the buyer would not have purchased one-half partnership interest without also acquiring the other partner's interest; and there was a binding commitment among the parties to use the three-step process. The court further held that one partner's purpose of avoiding federal tax liability, and the buyer's desire to avoid potential partnership liability did not provide substantial independent business purposes for the structure of the transaction," state court documents.

Shuwa Case Raises More Questions Than It Resolved

A BOE opinion on the Shuwa case notes that "it should be recognized that many transactions are not so well documented and the true substance is not so clear." Moreover, in the absence of the documentation of the Shuwa case showing the intent it would have been much harder to determine if the property should be reassessed.

Shuwa applied three tests in making its determination and concluded that all three were satisfied under the facts before the court:

1) **End Result Test:** The question of whether the reported separate transactions were really component parts of a single transaction intended from the outset to be taken for the purpose of reaching the ultimate result.
2) **Interdependence Test:** The question of whether on a reasonable interpretation of objective facts the steps are so interdependent that the legal relations created by one transaction would have been fruitless without a completion of the series.
3) **Binding Commitment Test:** The questions of whether there is a binding commitment to take all steps if the first step is taken.

"Unfortunately, the decision does not make clear whether the step transaction doctrine may be applied if only one of the tests is satisfied, if two out of three tests is satisfied, or whether all three tests must be satisfied. The only indication of the court's thinking on this issue seems to be the reference to an authority suggesting that different tests are applicable in different contexts," states the BOE opinion.

"The decision does not address the issue of what role business purpose may play where the substance is not as clearly established as it was in this case."

"It is the position of the Board, therefore, that future step transaction decisions should be made by assessors based upon all of the facts of each transaction. If those facts demonstrate that in substance a change in ownership occurred, then the transaction should be treated accordingly."

Shuwa Decision Encourages Abuse of System and Places an Impossible Burden on County Assessors

The Shuwa case determination placed the burden on the County Assessors to determine if the step doctrine applies or not. The Shuwa case demonstrates that a property can be reassessed if the Assessor finds evidence that a property owner structured a series of transactions to avoid triggering a change in ownership.

This places an enormous burden on County Assessors. Assessors are put in the position of having to undertake a lengthy investigation to determine what the true business purpose of a transaction or series of transactions was. Such a task requires a series of document requests and an in-depth investigation that takes several months, if not years. Corporations have every incentive to hide the true purpose of their transactions and withhold information about their intentions from County Assessors. County Assessors do not have the resources to adequately pursue each case, nor should they be required to do so in the first place.

Corporations Utilize Mergers, Corporate Reorganizations and Liquidations To Avoid Triggering A Change In Ownership (1995)

A November 1995 opinion issued by the Board of Equalization opinion provides another illustration of how companies can merge without triggering a change in ownership.

According to the opinion, two companies which own real property in the State of California merge without triggering a change in ownership of any of their property. One company, called Corporation B, merges into Corporation A without triggering reassessment.

Prior to the merger, Corporation A was a California corporation which owns real estate in the various counties of California a 44.76 percent shareholder but not a director of Corporation B; the remaining six shareholders (individuals of Corporation B were directors of Corporation B; the nine shareholders of Corporation A (all individuals) included the six shareholders of Corporation B who were directors; and after the transaction, Corporation B no longer existed and had the identical shareholders it had before the transaction but with different share percentages than before the transaction (see chart on next page)

The schedule shows that Corporation A shareholders' percentage ownership ranges from 5.1 percent to 46.35 percent. No individual shareholder would acquire more than 50 percent of the stock of Corporation A as a result of the proposed merger (See image on next page).

CORPORATE REORGANIZATION

Corporation 'A' shares currently issued and outstanding	251.0770
Shares of stock to be issued to Corporation 'B' shareholders at 8:5 ratio	401.7232
Shares of stock for Corporation 'A' issued after reorganization, including shares due to Corporation 'A'	652.8002
Total shares of stock of Corporation 'A' issued and outstanding after reorganization, not including retired shares due to Corporation 'A'	472.9732

	A	B	C	D	E	F	G	H
Shareholders	Percent Ownership of Corp B	Proposed # of Shares to be issued of Corp A @ 8:5	Number of Existing Shares in Corp A	After Shares are Issued: Total # of Shares in Corp A	Post Merger Percent Ownership of Corp A	Post Merger % Ownership of Corp A after retiring Corp A shares	Pre Merger Percent Ownership of Corp A	Percent Change Between F & G
Corporation A	0.4476	179.8270	0.0000	179.8270	0.2755	0.0000	0.0000	0.0000
Stockholder #1	0.3196	128.3767	90.8385	219.2152	0.3358	0.4635	0.3618	0.1017
Stockholder #2	0.0466	18.7039	6.9400	25.6439	0.0393	0.0542	0.0276	0.0266
Stockholder #3	0.0466	18.7039	6.9400	25.6439	0.0393	0.0542	0.0276	0.0266
Stockholder #4	0.0466	18.7039	6.9400	25.6439	0.0393	0.0542	0.0276	0.0266
Stockholder #5	0.0466	18.7039	6.9400	25.6439	0.0393	0.0542	0.0276	0.0266
Stockholder #6	0.0466	18.7039	6.9400	25.6439	0.0393	0.0542	0.0276	0.0266
Stockholder #7			77.3385	77.3385	0.1185	0.1635	0.3080	(0.1445)
Stockholder #8			24.1000	24.1000	0.0369	0.0510	0.0960	(0.0450)
Stockholder #9			24.1000	24.1000	0.0369	0.0510	0.0960	(0.0450)
Totals	1.0000	401.7232	251.0770	652.8002	1.0000	1.0000	1.0000	0.0000

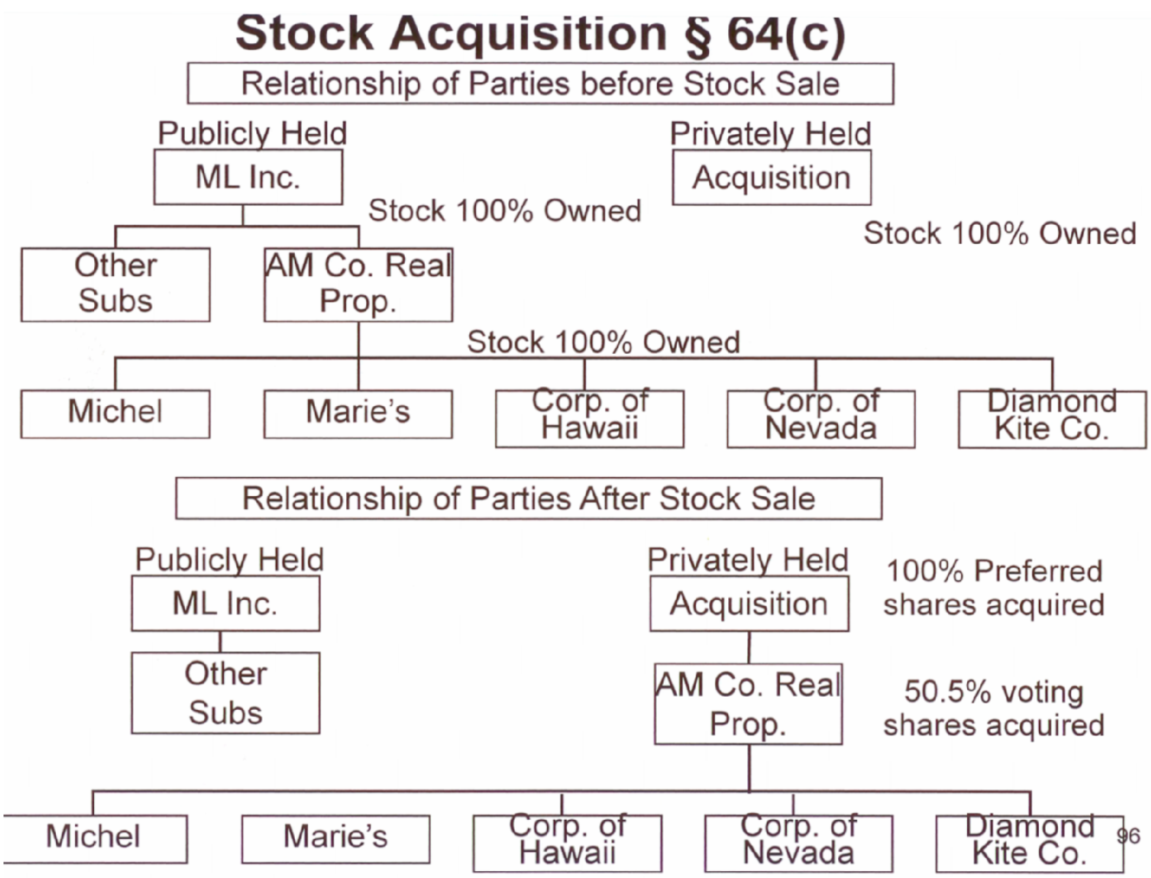
In connection with the merger of Corporation B into Corporation A, Corporation A will issue new shares of stock to the former shareholders at a ratio of 8:5 or less. This ratio is based upon the approximate value of Corporation B to Corporation A.

Corporation A is a shareholder of Corporation B and pursuant to the merger, would receive shares of stock of Corporation B. Corporation A would immediately retire its shares of stock in itself, and return these shares to the status of authorized but unissued shares. The resulting percentage ownership of each shareholder of Corporation A is reflected in column F of the schedule.

Using a ratio of 8:5, no shareholder would acquire 50 percent or more of the stock of Corporation A as a result of the merger. The total change in the ownership of stock in Corporation A is also less than 50 percent.

This example shows how County Assessors are tasked with sorting through complicated stock transactions to determine if a change in ownership has in fact occurred. As this example demonstrates, this can be an extremely complex task.

BOE Reports the Case of a Stock Acquisition of a Company that Owns Real Property in California Which Did Not Result in Reassessment



*The BOE provided another example of a corporate merger and stock acquisition that did not result in a change in ownership of one of the corporations but did result in a reassessment of the other corporation (see charts on the next pages).

Summary of the 1993 case:

220.0114 Corporate Stock Transfers: Corporation A is owned 96.3 percent by Corporation B and 3.7 percent by individual Z. Corporation B is owned 99.5 percent by individuals X and Y and 0.5 percent by individual Z. Corporation B is merged into Corporation A by stock cancellations and transfers that will provide newly issued voting stock in Corporation A to the owners of Corporation B.

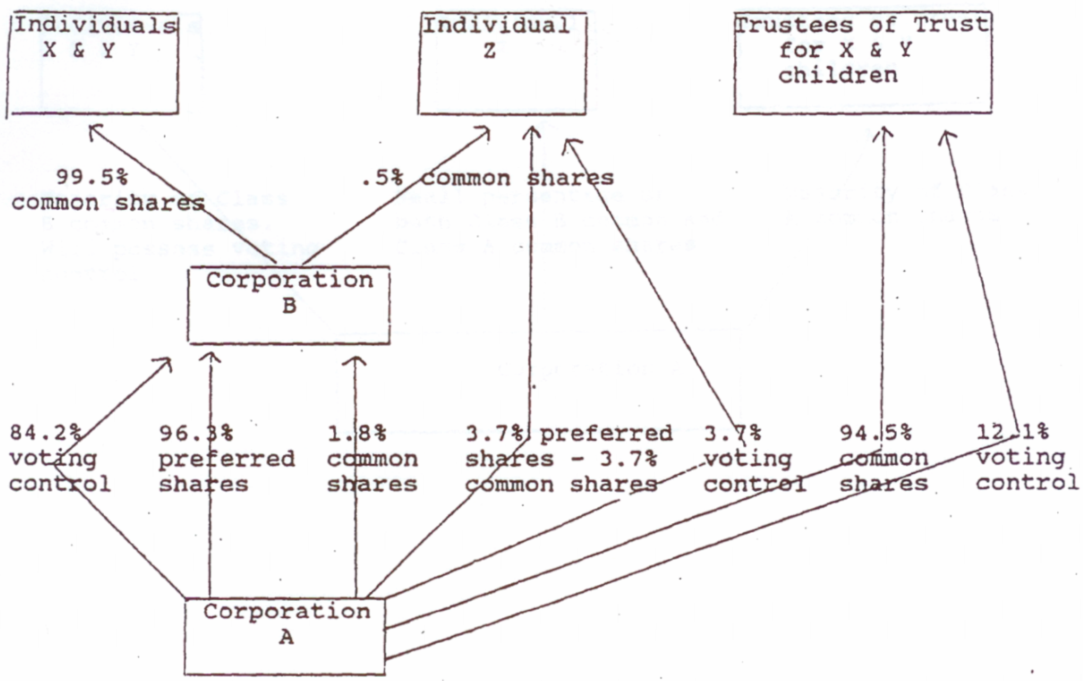
After the merger, the former owners of Corporation B, X and Y, will retain their majority interest in and control of Corporation A through ownership of the newly issued voting stock in Corporation A. The real property transferred from Corporation B to Corporation A as a result of the merger would undergo a change in ownership.

After the merger, the proportional ownership interests of the transferors in the real property does not remain the same and, therefore, Revenue and Taxation Code section 62(a)(2) does not apply. Furthermore, the stock transfers do not constitute a reorganization of corporations in an affiliated group and, thus, the exclusion of section 64(b) is inapplicable.

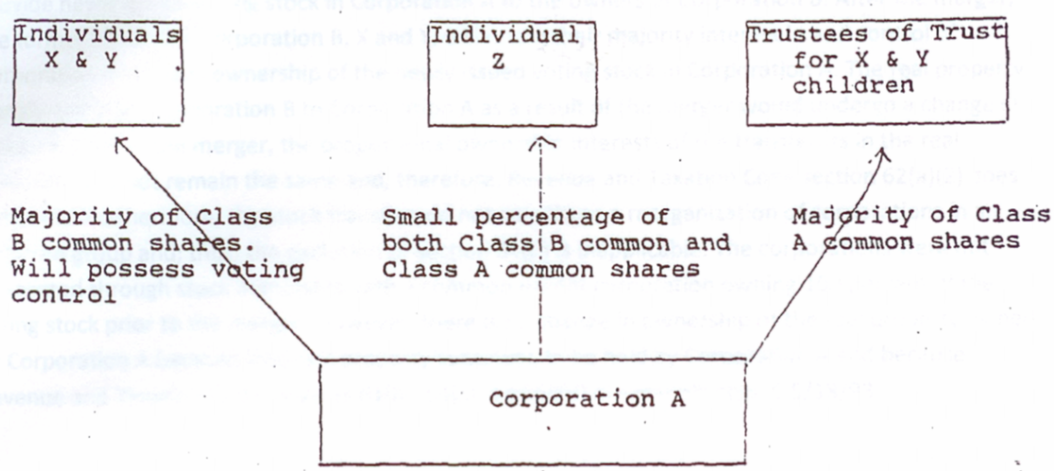
The corporations were not connected through stock ownership with a common parent corporation owning 100 percent of the voting stock prior to the merger.

However, there is no change in ownership of the real property owned by Corporation A because that real property continues to be held by Corporation A and because Revenue and Taxation Code sections 61(b), 64(c), and 64(d) are inapplicable.

CORPORATE STRUCTURE PRIOR TO MERGER



CORPORATE STRUCTURE AFTER MERGER



Another Recent Case that Did Not Result in a Change in Ownership: BOE Opinion Issued on July 23, 2008.

220.0376.005 Limited Liability Company. A limited liability company (Original LLC) is owned by five trusts. D is the trustor of two trusts and M is the trustor of three trusts. D's two trusts owned a 45 percent and a 5 percent interest respectively.

Under Step 1, D's two trusts withdrew from Original LLC, and Original LLC transferred the 45 percent and 5 percent interest in the real property to the two trusts in the same proportional interest.

As a result of the withdrawal, M's three trusts became an 80 percent, 10 percent, and 10 percent owners respectively of Original LLC. In Step 2, D's two trusts formed a new limited liability company (New LLC) and transferred their 45 percent and 5 percent interest in the real property respectively in exchange for a 90 percent and a 10 percent membership interest in the New LLC respectively.

Under Step 1, the transfer of D's 50 percent interest in Original LLC to D's trusts is excluded from change in ownership under Revenue and Taxation Code section 62(a)(2). As a result of the transfers and withdrawal of D's trusts as members of Original LLC, M's trusts became the owner of 100 percent of Original LLC, resulting in M obtaining a controlling interest in Original LLC under section 64(c)(1).

However, because the proportional ownership interests in the real property remain the same before and after the transfers, section 62(a)(2) excludes such transfers from change in ownership. As a result of the exclusion, M becomes an original co-owner under section 64(d). Subsequent transfers of cumulatively more than 50 percent of the ownership interests in Original LLC by M will cause a change in ownership of all the real property owned by Original LLC that was previously excluded from change in ownership under section 62(a)(2).

Under Step 2, the subsequent transfer of a 45 percent interest and a 5 percent interest in the real property by D's two trusts respectively to New LLC is excluded from change in ownership under section 62(a)(2) as D's ownership interest in the real property remains the same before and after the transfers. Thus, D becomes an original co-owner in New LLC under section 64(d).

Law Unclear In Many Cases Even To The Experts, Many Cases Bound To Litigated If Assessor Reassesses the Property

In 1992 a County Assessor's Office asked the Board of Equalization on two separate occasions if a complicated corporate reorganization involving several mergers and stock acquisitions would result in a change in ownership. Due to the ambiguity of the law and court precedent, the Board of Equalization said it is likely that it would trigger a change in ownership but did not issue a definitive opinion because it was unclear.

This is a very tough case to follow but essentially involves a 100% change in ownership of Corporation H, among other things, without triggering a definitive change in ownership.

Assumed Facts

►R is a California corporation owned as follows: 62.50% by B; 31.25% by G; and 6.25 percent by C (B, G and C are individuals).

►H is a California corporation and its stock is owned 74.6% by R; 24.8% by E (a California corporation wholly owned by individual J); and 0.6% by W (an individual). H is the owner of real property located within the State of California.

►N is a newly-organized Nevada corporation. The stock of N will be owned approximately as follows: 55% by B; 28% by G; 10% by J; 6% by C and 1% by W.

►Z is a Nevada corporation, of which all of the stock is owned by W.

Plan for Reorganization

►W will transfer the stock of H to Z as a capital contribution.

►Z will merge into R and W will receive the stock of R.

►E will merge into R and J will receive the stock of R.

►At this point in time, the stock of H will be owned 100% by R and the stock of R will be held in identical fashion to the stock of N.

►H will be merged into R.

►R will be merged into N.

"Although the facts of this case present the question of whether Section 64(b) or Section 61(i) (transfer of real property from corporation to corporate shareholder) is applicable in the context of a corporate reorganization, we think it is possible, if not likely that since R and H did not become affiliated until the third step of the plan of reorganization, a court could find Section 64 (b) inapplicable," states the BOE opinion.

The BOE opinion said "a question arises as to the applicability of the step doctrine" and leaves it up to the local assessor to apply the doctrine and its tests.

This is a case where 100% of the ownership of Corporation H changed, hands but the parties involved enacted a series of complicated mergers and acquisitions to avoid triggering reassessment. The County Assessor asked the BOE to agree that no change in ownership had occurred, but the BOE would not issue a definitive response.

It is highly unlikely that the Assessor chose to reassess the property in light of the BOE opinion and because their initial assessment was that no change in ownership had occurred.

Corporations Utilize Long-Term Leases To Avoid Triggering Reassessment

Current law specifies that long-term leases of less than 35 years in duration are not reassessable events. Leases of more than 35 years trigger reassessment.

Again the devil is in the details and it is extremely difficult for assessor's to discover long term leases and reassess properties in the event that a lease of great than 35 years has been entered into.

Several cases involving leases demonstrate the ability of property owners to utilize the use of long-term leases to effectively transfer control the property without generating a change in ownership.

E & J Gallo Enacts Long-Term Leases To Avoid Triggering Changes of Ownership

On June 4, 2007, the E&J Gallo Winery, announced that it had purchased 150-acres of vineyards in the Chiles Valley in St. Helena from the California Wine Company.

Records filed with the Napa County Assessor's Office, shows that Gallo Vineyards Inc. purchased the structures and vineyards on a long term lease on a 78-acre parcel in the Chiles Valley (025-260-025) but did not purchase the land. The land (025-260-025) is owned by Pacific Union College (50%) and the City of St. Helena (50%) and assessed at $18,000 per acre, far below market value.

Napa County Assessor records note that Gallo Vineyards Inc. purchased the structures and land on a long term lease on another 72.25 acre parcel (025-260-019) in on January, 10 2007 in the lower Chiles Valley. The parcel is still listed as being owned by Mary Anne Gilson.

Napa County Recorder recodes indicate that on May 31, 2007, the California Wine Company turned over to Gallo Vineyards Inc. all of its rights, title and interests under an unrecorded lease that was recorded on July 31, 1995 with the property owner Mary Anne Gilson (025-260-019). The original lease expires in 2029.

The lease effectively gives Gallo control of the property by providing that Gallo has the first option to purchase the property if the owner decides to sell the leased property to a third party.

Another Long-Term Lease Example

In another case, eight doctors purchased a long-term lease of more than 35 years for office space in a condominium complex without triggering reassessment.

The case is detailed in a September 1989 opinion issued by the BOE in response to a request from the San Diego County Assessor's Office. The piece of property in question, Parcel A was originally an unimproved parcel of real property located in San Diego County and owned by Mrs. B.

Mrs. B entered into a sixty-year ground lease with the XYZ partnership (Partnership) with the requirement that the partnership construct a medical condominium office building on the parcel. This was in fact undertaken and upon completion of the medical office condominium project, the various condominium units were purchased by eight different doctors (Doctors).

Under the terms and conditions of the purchase agreement, each of the doctors purchased an interest in the condominium unit, and also entered into a sublease with the Partnership. Mrs. B was the master lessor under a ground lease, the Partnership was the lessee and sublessor, and the doctors were each sublessees.

Subsequently, the Partnership became insolvent and through the course of the insolvency proceedings, elected to give up any and all interest it had to the condominium project and transferred its interest to Mrs. B. At that time, the original lease and the subleases to the doctors had more than forty years to run.

Mrs. B desired to enter into a direct lease relationship with the Doctors, however, in order to avoid the complexity of numerous separate leases with each of the Doctors, the parties desire to structure the transaction in such a way that Mrs. B and the doctors utilize the original lease between Mrs. B and the partnership with some amendments. Mrs. B would act as the lessor and designate the condominium owner's association as the lessee under the lease. The condominium's owner association would then enter into a separate sublease agreement with each doctor to receive rent.

The BOE opined that no change in ownership would be required because the doctors were the primary owners of the property under the subleases. No one doctor would take control of the property, triggering a change in control.

Additional Loopholes and Problems With The Administration Commercial Property Tax System

The state's current system for enforcing change of ownership is primarily based upon "self-reporting" and provides much opportunities for companies to escape reassessment by merely failing to report changes of ownership.

Given the many complexities involved with changes of ownership it is likely that some property owners do not even know that their company has undergone a reassessable event and is required to be reported to the County Assessor's Office.

Individuals and corporations which own real property in the State of California a required to file a change in ownership statement when the transfer is recorded, or, if the transfer is not recorded, within 45 days of the date of transfer. The penalty for failure to file a change in ownership statement upon written request by the Assessor is only $100 or 10% of the new base year value resulting from the transfer, whichever is greater, but cannot exceed $2,500 unless the failure to file was willful.

As demonstrated by the One Market Plaza case, the taxpayer failed to file a change in ownership statement and it was only through a stroke of luck that the Assessor discovered the change in ownership.

County Assessors Are Not Able To Uncover Many Changes of Ownership

According to the BOE, the Assessor's primary means of discovering that properties have changed ownership is to review the deeds and other documents record with the County Recorder's office. The recorder provides the assessor with electronic images of all recorded documents that may result in a reassessable change in ownership event.

One major problem with this system is that many properties change ownership without a deed being recorded. For example, when one corporation buys out another corporation, the company name and property owner name commonly stays the same even though the property has underwent a 100% change in ownership.

The shares of a partnership or LLC may turnover without a new deed being recorded. The BOE notes that "discovery of these types of changes in ownership is difficult for assessors because ordinarily there is no recorded notice of the change in entity control."

California law requires the Franchise Tax Board to assist the BOE in discovering changes in control and ownership of legal entities (i.e. corporations, partnerships, and limited liability companies) that own real property in California.

To do so, the Franchise Tax Board provides questions on the income tax returns filed by legal entities (for corporations, Form 100, question J; for partnerships, Form 565, question T; and for limited liability companies, Form 568, question O).

If an entity answers yes to any of the three questions on the return or the entity failed to answer the questions, the Franchise Tax Board transmits this information to the BOE. If the company answers "no", nothing further is done. It is likely that many companies which in fact underwent a reassessable change in ownership failed to check this box, yet were not pursued any further.

The BOE sends the list of entities which answered yes to the change in ownership question a Form BOE-100-B, Statement of Change in Control and Ownership of Legal Entities. The Board uses this statement to (a) determine whether a legal entity has undergone a change in control and ownership, and (b) if so, to identify any real property owned by the entity at the time of the change.

The Board compiles this information and transmits it to county assessors, who have the responsibility for reassessing real property. To help the county assessors, the BOE's Legal Entity Ownership Program (LEOP) unit investigates and verifies changes in entity control and legal ownership reported by legal entities. The BOE transmits each county a list, with corresponding property schedules, of legal entities that have reported a change in control or ownership.

However, many of the acquiring entities do not provide information sufficient to identify the real property that they own. The BOE states that Assessors should independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

An initial review for assessment practices found that several properties slipped through the cracks and were not reassessed despite a change in ownership or control. This initial review is just the tip of the ice berg. There are likely to be thousands of cases of properties which slipped through the cracks since Prop. 13 passed 30 years ago, which cost state and local governments billions of dollars in lost tax revenues.

<u>Appendix: One Market Plaza Example</u>

Executive Summary

The One Market Plaza case is the most extensive, and potentially the most expensive, case litigated to date that highlights the deficiencies in the state's change in ownership laws. The change in ownership too place in 1986, but was not discovered by the Assessor's office until 1993.

The reassessment, which resulted in more than $64 million in additional property tax dollars in City coffers, only came about after an extensive investigation which included the review of thousands of pages of documents, a federal lawsuit, a lengthy hearing before the Assessment Appeals Board (AAB), and two lawsuits in San Francisco Superior Court, according to court documents.

The taxpayers at issue, IBM Personal Pension Plan (the Plan) and Equitable Life Assurance Company (Equitable) of the United States, deliberately structured a "change in ownership" to avoid reassessment. The property owner, Equitable utilized a complicated multi-step approach that involved setting up two "separate accounts" into which the purchaser of the property, the Plan deposited payment for the building.

"Apparently the only right of ownership denied to the Plan was the right to record the deed," state court documents. The Assessor's office normally discovers changes of ownership when a new deed is recorded.

The Plan and Equitable fought the Assessor's office every step of the way which lead to several court battles and appeals that dragged out over more than 12 years. In the end they lost on all accounts and were required to pay $64 million in escape assessments which included an $18 million tax fraud penalty for trying to cover up the change in ownership.

The change of ownership of One Market Plaza would have never been discovered if it was not for the work of a private attorney who happened to discover the possible change in ownership through a confidential source and "street sources" while working on behalf of a tenant of One Market Plaza who the new owners were trying to evict. When Equitable was first approached about the change in ownership, a company representative lied to the Assessor's office by saying that "there were no unrecorded documents giving the Plan any ownership rights in the property."

The Assessor's office did not conduct a full investigation until the private attorney filed a lawsuit in 1992 on the behalf of city taxpayers that sought to compel the city to investigate the unreported change of ownership and reassess the property. When the Assessor contacted the property owners they still would not admit that a change in ownership occurred and provided him with more than 30 boxes of information to look through to assess if there had been a change in ownership.

It took the Assessor's office almost four months to go through the materials but they determined that there had in fact been a change in ownership through a complex transaction dating back to 1986.

Discovery of Possible "Change in Ownership" of One Market Plaza

In 1991, the change in ownership case was first brought to light by an attorney named Wayne Lesser, who represented the owner of a small sandwich shop in One Market Plaza. Lesser was representing the sandwich shop owner, Joseph Abouab and his wife, who were defending themselves in a declaratory relief action involving the owners of One Market Plaza, who allegedly wanted Abouab evicted.

As part of his "due diligence" Lesser investigated a fictitious business filing pertaining to the owner of One Market Plaza and learned that the filing had expired. This then lead Lesser to uncover the new owners and the "clue the ownership of [One Market Plaza] had changed," according to court documents.

In late August 1991, a meeting was held to attempt to settle the declaratory relief action with the owners of One Market Plaza. The meeting was attended by Lesser, Abouab and four other representatives from One Market Plaza, "one of whom refused to identify his principal or even answer why he was there." According to Lesser, this unidentified person told Abouab that the building owners wanted him out, there would be no settlement and that they would "bury him."

Lesser's representation of Abouab terminated shortly thereafter but he continued to investigate the change in ownership at One Market Plaza, and along the way developed various sources, including several "street sources" and "confidential source" within the Equitable Life Assurance Company of the United States—one of the owners of the plaza.

Beginning in October 1991, Lesser started communications with the San Francisco Mayor's Office and City Attorney's Office to inform them about the "possible change of ownership of a large downtown building." Lesser did not identify the building but, in Lesser's words, "sought to interest them in potential legislative action in the nature of a local whistle blowers statute styled after California Government Code section 12652 to benefit Mr. Abouab and the City." Such legislation would presumably reward persons who bring forward information leading to the reassessment of unreported changes of ownership.

City officials proposed draft legislation to the board of Supervisors but the board did not pass the ordinance. In early October 1991, Lesser was advised of the unsuccessful attempt.

Lesser Files Lawsuit to Compel City To Investigate Change in Ownership

On October 8, 1992, Lesser filed a petition for writ of mandamus on behalf of the taxpayers of the city and county of San Francisco that sought to compel the city to investigate an unreported change of ownership at One Market Plaza and to reassess the property. The petition sought attorneys' fees.

The writ refered to a "confidential source within Equitable Life Assurance Company of the United States who was Lesser's client and numerous "street sources" but did not disclose any of the sources.

A stipulation executed in connection with Lesser's motion below states that sometime in late 1990 or early 1991, the city had received a "tip" from an unidentified person to former Assessor Richard Hongisto regarding a possible change in ownership at One Market Plaza.

Court documents state that "neither petitioners nor their counsel know who this source was, nor did they play any role in causing this unidentified person to contact Assessor Hongisoto. Neither the petitioners nor their counsel were aware that this contact had take place at the time that they filed their original writ," according to court documents.

In response to the tip, the city sent an appraiser named Eugene Barron to look into the matter, according to court documents that referenced a short memorandum that he prepared. The memo states that he contacted a representative for Equitable Life Assurance Company of the United States, who was believed to be the owner of One Market Plaza, and was told that there were no unrecorded change in ownership documents.

"Barron apparently accepted this representation at face value and concluded that there was no need for further action to investigate the tip," court documents state.

It was later discovered that Equitable Life Assurance Company (Equitable) was not the real owner of the property and that a change in ownership had in fact occurred through a complex series of transactions that were designed to hide the change in ownership by not having a deed recorded with the County Assessor's Office.

Assessor's Office Begins Investigation of Possible Change of Ownership

Following the receipt of information from Lesser, the San Francisco Assessor's office began its investigation into the matter, under the supervision of chief Assistant Assessor Steven Dunbar. Dunbar was second in command of the San Francisco office and had extensive experience involving change in ownership issues.

Dunbar began almost immediately and on October 30, 1992, acting under the statutory power of Revenue and Taxation Code sections 441 subdivision (d) and 470, sent letters with document demands to Equitable, and the Plan, and related entities concerning the ownership of One Market Plaza.

In response to Dunbar's request the Plan produced some 26 boxes of documents relating to One Market plaza, but did not admit that a change in ownership had in fact occurred. "These boxes were delivered to Dunbar's office and he personally went through each of them, flagged those that seemed most relevant to the change of ownership determination, and had copies of many of those documents sent to the city attorney's office for their review.

Equitable also produced many boxes of documents, which Dunbar and the deputy city attorneys reviewed and copied. "This investigation consumed half of Dunbar's working time for some three to four months," state court documents.

According to Dunbar, these confidential materials provided key evidence and the foundation of what would be his conclusion that a 1986 transaction constituted a change in ownership under California property tax law.

Court Documents Detail Complex Change in Ownership Transactions

Court documents later revealed that in 1973 One Market Plaza Joint Venture (Joint Venture) was formed as a general partnership between the Equitable Life Assurance Society of the United States (Equitable), a New York Corporation, and Southern Pacific Land Company (Southern Pacific) a California. Shortly thereafter, the Joint Venture build two large office tower on one parcel of property and a parking garage on a second parcel on what would become One Market Plaza.

In 1985, IBM Personal Pension Plan, an employee benefit plan established by International Business Machines Corporation (IBM) for the benefit of IBM's former employees, asked its investment advisor, Equitable to develop proposals for the Plan to invest in a portfolio of office buildings. At the time, One Market Plaza was owned by the Joint Venture. Equitable held a 90% interest and Southern Pacific held 10%, according to court documents.

In December 1986, Equitable and the Plan entered into entered into a complex transaction, called a group annuity contract, by which the Plan acquired 90% of Equitable's 90% interest in the Joint Venture (thus 81 percent of the whole). This interest was placed into a separate account titled "Separate Account 143," that would be established and maintained by Equitable exclusively on behalf of the plan.

In exchange, the Plan deposited $185 million, representing 81% of the subject property's fair market value, into Separate Account 143. Such "separate accounts" are highly regulated transactions authorized by the insurance laws of California and New York, through which insurance companies sell annuities backed by assets placed into separate accounts, segregated from the insurance companies general assets, to place those assets beyond the reach of the company's general creditors. It is undisputed that the insurance laws of California and New York treat assets placed in the separate account of an insurance company as legally remaining the property of the insurer (here, Equitable), not the beneficiary (here, the Plan).

As a result of the 1986 transaction and subsequent transactions, Equitable retained legal title to One Market Plaza and remained a general partner in the Joint Venture, but the transactions in substance transferred beneficial ownership to the Plan. Following the 1986 transaction, the Plan bore the risks and benefits of 81% of the property and collected income from rents on the Plans share of the property through a separate account. The Plan, pursuant to the 1986 transaction, had the power to hire the remaining interest in the property to the plan. As a result of subsequent transactions, Equitable held a nominal 99.5% interest in the Joint Venture, with 90 of that interest allocated to Separate Account 143 on the Plan's behalf.

"Apparently the only right of ownership denied to the Plan was the right to record the deed," state court documents.

According to court documents, Equitable sought exemptions under the Employee Retirement Income Security Act of 1974 (ERISA) from the United States Department of Labor and therefore chose not to report the transactions to the San Francisco Assessor's Office.

In March 1990, equitable and the Plan entered into a second group annuity contract and created "Separate Account 178," into which Equitable reallocated all of it interest in the Joint Venture from Separate Account 143. At this point, One Market Plaza was still owned by Joint Venture, which itself was owned by Equitable on the Plan's behalf. Also in March 1990, Equitable notified its property insurer to terminate coverage of the subject property effective March 30, because as of that date Equitable would no longer have an ownership interest in the subject property. Again, no deed was recorded.

In June 1990, the remaining 0.5 percent interest in the Joint Venture was sold by Equitable Variable Life Insurance Company, Equitable's wholly owned subsidiary, to the Plan's wholly owned subsidiary, One Market Plaza Corp. Again, Equitable sought exemptions under the Employee Retirement Income Security Act of 1974 (ERISA) from the United States Department of Labor and therefore chose not to report the transactions to the San Francisco Assessor's Office, according to court documents. Court documents also name Chase Manhattan as a party to the 1986 and 1990 transactions, which acted as a trustee for the Plan and IBM.

In November 1990, the Plan identifying itself as the owner of the subject property, replaced Equitable's management company as the manager of the subject property with the Plan's own manager, the Yarmouth Group.

In June 1993, the Plan terminated the second annuity contract and Special Account 178 in order to transfer the subject property to a third party purchaser, and directed Equitable to transfer the proceeds from the sale to the Plan. In 1994, One Market Plaza was sold to an unrelated third party.

In November 1994, IBM, Chase, as a trustee for the Plan, and Equitable executed a release and indemnification agreement provided that upon completion of the sale of the subject property, the separate account and the Joint Venture were dissolved and the Plan was given all rights and liabilities arising from any reassessments and penalties.

Assessor's Office Moves to Reassess One Market Plaza

In March 1993, Dunbar discussed his intent to reassess the One Market Plaza property with attorneys in the city attorney's office and the attorney's told him that they would support his decision. Dunbar had the property reassessed, based on a 1986 base year value, and on March 10, 1993, the Assessor's office notified One Market Plaza Corporation (the entity formed to manage the property) that the property would be reassessed because the 1986 separate account transaction constituted a change in ownership under California property tax law.

In March and April 1993, the Assessor's office sent out notices of supplemental and escape assessments on property, with the new 1986 base year value based on the purchase price that had been paid by the Plan for the property during the 1986 transaction.

Following additional investigation, in November 1994 the Assessor's office increased the assessed value of the property based on the income method rather than fair market value. The Assessor also imposed a 25% fraud penalty for the years 1987 through 1992 based on the failure to report the 1986 transaction as a change in ownership.

In 1995, following authorization by IBM, Chase Manhattan Bank wired approximately $18.4 million to the City and County of San Francisco as payment of the fraud penalties.

Chase Manhattan Appeals Assessor's Determination In Federal District Court

In 1995, Chase, as a trustee for the Plan, filed an action in United States District Court, Northern District of California, seeking a declaratory judgment that the City's attempt to reassess the property was preempted by ERISA (Chase Manhattan Bank, N.A. v. San Francisco (N.D. Cal., June 28, 1995).

The City filed a motion to dismiss the case for lack of subject matter jurisdiction, which the district court granted on July 6, 1995. Chase then appealed to the Ninth Circuit Court of Appeals, which affirmed that the federal suit was property dismissed (Chase Manhattan Bank, N.A. v. San Francisco (9th Cir. 1997).

One Market Plaza Files Appeals With the Assessment Appeals Board Challenging the Reassessment and Fraud Penalties

Following the defeat in federal court, Equitable and One Market Plaza Corporation filed applications with the Assessment Appeals Board (AAB) to challenge the reassessment of the property and the fraud penalties.

Prior to the AAB hearing, the Plan and the City began settlement negotiations, which led to a proposed settlement with the following: the Plan would not contest the assessor's change of ownership determination; the parties would stipulate to values for the property that were somewhat lower than those that had been assessed in 1994, and the city would refund the $18 million fraud penalty that had been imposed.

Lesser vigorously opposed the settlement and corresponded with the AAB to encourage them to reject the settlement. The AAR rejected the settlement and subsequent negotiations led to another stipulated settlement. Lesser again objected and the AAB again rejected the deal.

Following the AAB's rejection of the proposed settlements, the matter proceeded to a contested hearing before AAB which began on January 31, 2001 and concluded on May 29, 2001, consuming 19 days of public hearings and a number in closed session.

Numerous witnesses testified and more than 100 exhibits were introduced. Lesser testified and presented evidence over the strenuous objections of the City Attorney and IBM. Lesser submitted IRS From 5500, an opinion from the State Board of Equalization, and a letter to the Department of Labor from Equitable's counsel.

"While "Lesser" were not parties to the AAB proceedings, nonetheless, [Lesser] provided critical admissible evidence that the AAB incorporated in its decision upholding the fraud penalty and change of ownership.

On August 31, 2001, the AAB issued a decisions that was a complete victory for the City: The AAB determined that there had been a change in ownership based on the 1986 separate account transaction, accepted the values the assessor had submitted, and upheld the fraud penalties.

Thereafter, the City and Assessor notified the AAB that the "taxpayer" was due a partial refund as a result of the AAB's decision and that the property should in part be valued at a lower rate than the assessor used. On March 8, 2002, the AAB issued a clarification of its prior order holding that the fraud penalty could be applied only to the One Market Plaza office building, and not the off-site garage.

Plan Challenges AAB Decision in State Court

In February 2002, the Plan filed a complaint in San Francisco Superior Court, which challenged both the conclusion of a change in ownership and the fraud penalty. However, during the trial court proceedings, the Plan narrowed the relief sought to a full refund of the fraud penalties imposed, or in the alternative, to a partial refund of the fraud penalties imposed on the garage site based on the clarification order.

In May 2002, the Assessor filed a petition for writ of administrative mandamus against the AAB, seeking to set aside the March 2002 clarification order on grounds that the AAB lacked jurisdiction to modify the substance of its August 2001 decision.

The two actions were consolidated and came on for hearing before Judge Alex Saldamndo. On April 28, 2004, Judge Saldamando returned a judgement which affirmed all actions of the AAB. The Judge upheld the AAB's tax fraud ruling but eliminated the fraud penalty assessments on the garage parcel of the subject property which lead to $2 million of the $18.4 million in fraud penalties being refunded to the Plan.

The Plan appealed to the Court of Appeal of California and in August 2005, Division Five of the Appellate Court rejected the refund of taxes and the penalty assessments paid because the Plan lacked judicial standing to seek the refund. The court pointed to the fact that Chase, not the Plan paid the tax and penalties.

The court found that numerous sections in the revenue and taxation code specify that "judgment shall not be rendered in favor of the plaintiff" when the action is brought "by or in the name of an assignee" of the person who paid the tax or amount paid, "or by any other person other than the person who paid" the tax or fee at issue.

"The reason these tax statutes impose such a restrictive standing requirement is evident. This limitation frees the taxing authority from the burden, often far greater than in the instant case, of untangling a web of agreements and/or accounts in order to ascertain who is the proper recipient of any refund due," stated the court.

"Although the Plan may be the real party in interest as to the taxes and penalties paid by Chase, the Plan's failure to pay the taxes barred it from bringing this refund action," stated the court. The Court reversed the partial refund of $2 million in fraud penalties paid by the Plan for the garage portion of One Market Plaza.

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