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Taxes like yesteryear

By Patrick Duffy
Special to The Times

Like many other baby boomers, Manhattan Beach residents John Osten, 62, and his wife Rose, 61, were in search of a simpler life.

After raising their family in the "tree" section of this ocean-side city and with plenty of e quity built up during 18 years at their 3,000 square foot, single-family home, the Osten's were hoping to return to the Strand area adjacent to the city's beach, where they had once lived an active life of surfing, running and biking.

Everything in their grand plan seemed workable except for one thing the higher property taxes the Ostens would have to pay if they moved. Although they would have been able to sell their existing home for about what a smaller house near the beach would cost, they worried their taxes would quadruple from their existing tax base of just $220,000. Until, that is, the Ostens learned about California Proposition 60.

Proposition 60, a constitutional amendment passed by California voters in 1986, provides tax relief to home-owners older than 55 by allowing them, with certain restrictions, to transfer their existing property tax base to a replacement home of the same or a lesser value within the same county if the transactions take place within a two-year period. In 1990, Proposition 110 extended those same benefits to severely physically disabled home-owners of any age. Proposition 90, approved in 1988, allows California counties to accept an existing property tax base from another participating county.

The savings in taxes was the deciding factor for the Ostens to sell their larger home three miles from the beach for $880,000 and buy - for $1,000 less - a three-level house on a lot shared with another home just steps from the sand.

"I really could not have afforded to get back to the beach," said John Osten, who credits real estate agents Serene and Barry Sulpor for telling him about the money-saving tip and following up with the paperwork.

The Sulpors, a Shorewood Realtors husband and wife team covering the South Bay region for 20 years, said they are seeing the use of this tax break increase as boomers begin to retire and look to trade more spacious homes in the suburbs for smaller ones, often in lifestyle-oriented locations near golf courses, lakes, and beaches.

"It's becoming more and more popular," Serene Sulpor said, "but we're often surprised at how unfamiliar people are with the law."

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Office: 310.545.7740 Email: sb.beachhomes @gmail.com

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Consequently, the Sulpors strongly recommend sellers work with agents and escrow companies familiar with the necessary paperwork to ensure that all rules are followed and deadlines met.

Benefit can be used once

For one, there are numerous restrictions for eligibility: either a single person or a spouse must be at least 55 years of age when selling the original property, the replacement property must be a principal residence with a current market value equal to or less than the original principal residence, and the new property must be purchased or built within two years of the first home being sold. Moreover, because home-owners can benefit from Proposition 60 only once, it's important to choose that second home wisely.

But Proposition 60 covers only property transfers within the same county. Proposition 90 allows broader exsisting property tax base transfers - but only if the country in which the replacement property is located chooses to participate.

So far Proposition 90 has not proved very popular, with only seven of the state's 58 countries allowing these inter-county exchanges, and several others passing ordinances in favor of it, then rescinding them later.

So, although Southern California residents over 55 who live in the counties of Ventura, Los Angeles, Orange and San Diego can downsize and keep their existing tax base, those who might consider a move to retirement
areas around Riverside County's Coachella Valley (including the cities of Palm Springs, Rancho Mirage, Palm Desert and La Quinta), the vast mountain areas of San Bernardino County or even much of the San Francisco Bay Area, are out of luck.

Riverside County rescinded its ordinance allowing Proposition 90. According to Larry Ward, the tax assessor for Riverside County, his office received several thousand applications between 1990 and 1995 - an average of 1,200 to 1,500 per year - but a financial analysis discovered ongoing losses from the assessment roles, so the county Board of Supervisors decided to repeat participation in 1995.

Given that Ward still receives regular calls about the now-defunt law - and must inform potential applicants that county leaders have yet to consider reinstatement - he suggests that some sort of meanstreet test or income cap for eligibility might help persuade more counties to enact it.

Real estate agent Lana Fears, with Prudential California Realty in Palm Springs, said it's traditional retirement communities like hers that suffer the most from Riverside County's decision to disallow Prop 90. Fears also argues that since the potential tax benefit is specifically oriented toward retired people, its absence can severely limit newcomers from other counties. "People on very limited incomes simply can't afford that higher tax base."

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Southeast of Palm Springs in LaQuinta, agent Carey Ann Parker, with Desert Homes Today Realty, regularly receives calls from potential buyers who are surprised and upset to learn that Proposition 90 doesn't apply to there. "For some, it would truly make a difference, allow them to buy their dream homes and live out their retirement."

Prop. 90's pluses

Meanwhile, San Bernardino County could soon be the eighth county statewide to allow Proposition 90. Armed with a proposal drafted by Assessor Bill Postmus, a pair of county supervisors recently introduced a compromise measure that would enact the tax-relief program for five years. It is currently under review but not yet approved. Supervisor Brad Mitzelfelt argues that even a five-year period could help boost the county's attraction as a relatively low-cost alternative to coastal regions.

Since many county governments see Proposition 90 only as a revenue loss, they miss its potential benefits, such as assisting retirees, supporting local businesses or reducing foreclosures, according to Michelle Steel, the 3rd District board member for the state Board of Equalization, which oversees California sales tax revenues.

"Local governments will easily make up this lost revenue in the economic activity and tax revenue generated by new residents, " she said, citing recent government studies. Assuming 500 applicants per year, Steel said, and anticipated property tax loss of less than $400 compares to an estimated $860 in sales taxes each new resident to the county generates.

Proposition 90 also might make a dent, however small, in the rising tide of foreclosures now hitting the Inland Empire, she suggested.

"In most cases, foreclosed homeowners fail to pay the assessments for park fees, lighting districts, Mello-Roos taxes and other specialized fees in addition to property taxes," Steel said. These are essential to maintaining basic neighborhood infrastructure, including schools, parks, roads and fire protection.

Given that San bernardino County recorded the state's third-largest number of mortgage default notices during the first quarter of 2008 - more than 11,000 homes according to DataQuick Information Systems - she argues that the county's real estate market needs all the help it can get.

Palm Springs agent Fears echoes her sentiment, "Anything any government entity can do to activate the real estate market in any form is good."

It certainly helped the Ostens of Manhattan Beach. Thanks to Proposition 60, John Osten said, "I went home."
