California State Association of Counties®

July 14, 2020

To: CSAC Government Finance & Administration Committee

From: Geoff Neill, CSAC Legislative Representative
Ada Waelder, CSAC Legislative Analyst

Re: Proposition 19 – The Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disaster Act – ACTION ITEM

Recommendation

Staff does not have a recommended position on this measure. The Government Finance and Administration policy committee may recommend a position to the CSAC Executive Committee and Board of Directors of support, oppose, neutral, or it may recommend CSAC take no position.

Summary

The purpose of the Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disaster Act is to increase home sales by, first, allowing most homeowners to keep their accumulated tax benefit when purchasing a new home and, second, restricting the property tax benefit currently given to inheritors of real property.

Proposition 19 would also require the state to calculate the net benefit to the state's General Fund resulting from those changes, if any, and transfer a similar amount of funding mostly to local fire protection districts, with a portion of the remainder going to any local agencies that experience reduced revenue as a result of the measure's tax changes.

The fiscal effect for counties is highly uncertain, depending on how the law is interpreted and how it changes the behavior of property owners. On the high end, the Legislative Analyst's Office estimated that a similar measure might result in increased revenue in the tens of millions of dollars per year collectively for local agencies, but also tens of millions in new costs for county assessors. On the low end, the measure could reduce local agency revenues by tens of millions of dollars in addition to increased costs to assessors.

Background

Legislative History

Proposition 19 began as an initiative championed by the California Association of Realtors. After that initiative obtained the requisite number of signatures and qualified for the ballot an alternative measure was proposed in the Legislature, which eventually became ACA 11. As ACA 11 made its way through the legislative process, the Realtors withdrew their original measure.

ACA 11 has two key differences from the withdrawn initiative. A change to the rules for business property changes in ownership has been removed and a provision has been added to require the state to share any net benefit with fire districts and other local agencies.

Current Law
The California Constitution generally limits property taxes to 1 percent of the assessed value of real property, and limits annual assessment increases to 2 percent per year. Property is only assessed at its full value when property changes ownership or is newly constructed, at which point it is reassessed at fair market value. In the case of new construction, only the newly constructed part of the property is reassessed.

Since almost all property in California appreciates more than 2 percent per year, property owners accumulate a tax benefit that increases the longer they own their property. The tax benefit is most pronounced for property that was acquired earlier in life, has a higher value, or that rises in value more quickly.

Homeowners are allowed to take this tax benefit to a new home under a few conditions. First, the replacement property must become their primary residence and it must be worth no more than 10 percent more than their current home. Second, the new home must be located in the same county as the home they are moving from, or in one of ten counties that currently allow out-of-county home buyers to bring their tax benefit with them. Third, this portability is only allowed to be used once. Finally, the property owner must be at least 55 years old or severely disabled. (Those restrictions generally do not apply to taxpayers affected by disasters or contamination, or those whose property is acquired by a public entity.)

One exception to the rule that property be reassessed upon a change in ownership is for transfers from a parent to their child. Inherited property retains its accumulated tax benefit, as long as it stays in the family. Parents can transfer their primary residence and up to $1 million in value of other property, such as second homes or business properties, without reassessment. A grandparent may use these same provisions for transfer to their grandchild, but only if the parents of the grandchildren are deceased.

Changes under Ballot Measure
Proposition 19 would 1) significantly expand the tax benefit for existing homeowners wishing to move, but 2) restrict the benefit for transfers of family property. It would also 3) establish funds with the intent of providing increased funding to certain fire protection districts and local agencies.

1) Existing Homeowner Tax Portability
Proposition 19 would discard most of the restrictions on tax portability for homeowners who are over 55 or severely disabled. Their replacement home could be a home of any value anywhere in the state. In addition, they would be allowed to move with their accumulated tax benefit three times in their life, instead of the single occurrence allowed by current law. The measure would similarly ease restrictions for replacement homes for victims of wildfires and natural disasters.

If the replacement home is a greater value than the current home, the assessed value of the original home would apply to the value of the replacement house equivalent up to the fair market value of the old house. Any value the replacement home has in excess of the original, would be taxed fully.

For example, a certain 4-bedroom home in Saratoga (on Country Squire Lane) last sold in 1988 for $465,000 and is currently worth an estimated $2.25 million. Because assessed value is limited to increases of 2 percent per year, the owner currently pays property taxes on an assessed value of $782,225, for an ad valorem tax bill of just over $9,000 (instead of the roughly $26,500 they would pay without the tax benefit).

Assuming the homeowner is over 55, if they sold that house and bought a replacement home for $3 million elsewhere in the state, perhaps across Patchen Pass in Santa Cruz, they would pay about $9,000 in taxes on the first $2.25 million of value, then full freight (just under $9,000) on the remaining $750,000 of value, for a total tax bill of about $18,000. Without Proposition 19's changes, the new tax bill would instead be about $35,000, for a loss to Santa Cruz County of $17,000.

The home in Saratoga would either be taxed at full value when sold, or, if purchased as a replacement home someone else over 55, at the level dictated by their own accumulated tax benefit.

To take an example for below median-priced homes, a certain 3-bedroom house in Grass Valley (on Twin Star Lane) recently sold for $535,000. The previous owners had purchased the house in 2018 for $491,000 and were paying taxes on that amount (about $5,400). If the new owners, hypothetically, were moving from a certain house in Thousand Oaks (on Calle Jazmin), worth almost exactly the same amount, which they bought many years ago, instead of paying the around $491,000 in taxes, as the previous owners had, they would bring their advantageous tax assessment with them and pay only about $900 annually.

One question for county supervisors as they consider the fiscal effects of this measure, is how often transactions involving homeowners over 55 will occur. The LAO reports that around 80,000 homeowners over 55 move houses each year, most of whom end up paying higher property taxes than in their previous home. That represents about 20 percent of all home sales in the state, or one of every five. If the proponents of this measure are correct that qualifying homeowners currently move less often than they otherwise would because of the tax consequence, we can assume that number will rise.

Well over half of homeowners are 55 or older. The California real estate journal *first tuesday* anticipates that relocating Baby Boomers going into retirement will be the primary propelling force in both selling homes and buying replacements, even without this change in tax policy. This is due to several factors, including younger Californians being unable to save for a down payment due to high rents and student debts. If Baby Boomers will be the primary force in both selling and buying homes then, under this measure, there will be a stark increase in home sales that do not result in a reassessment at full market value.

While the magnitude is unknown, this provision of Proposition 19 would have a pronounced negative fiscal effect on counties, cities, and many special districts. However, to the extent it increases the volume of home sales, it would somewhat increase revenue from property transfer taxes.

Aside from county fiscal effects, county supervisors might consider the equity aspects of increasing this tax break for homeowners over 55. According to the Public Policy Institute of California, California's income inequality ranks sixth worst in the United States. Homeowners over 55 are overwhelmingly more likely to be wealthy and white compared to other Californians, partly because residential property is the most important factor in building generational wealth, and partly due to the persistent effects of widespread discriminatory real estate practices, such as redlining.

As a result of these and other factors, even though 54.4 percent of households in California own their homes, 63.5 percent of white, non-Hispanic householders own their home, while that number drops to 59.0 percent for Asian, 52.5 percent for Native, 46.8 percent for mixed race, 44.0 percent for Hispanic or Latino, and 34.4 percent for Black householders.

Single parents are similarly unlikely to own their home, with just 41.2 percent of single moms and 45.1 percent of single dads owning, compared to 68.0 percent of married couples.

Homeowners are, unsurprisingly, more likely to have higher income and higher net worth than renters. In California, homeowners have aggregate income of about $966 billion, compared to $438 billion for renters. The median household with people over 55, regardless of homeownership, has about double the net worth of a younger household, and far lower levels of debt, especially as a share of disposable income. And across the United States, the median net worth of homeowners is $231,400, while the median net worth of renters is just $5,000.

To the extent this portion of Proposition 19 further expands the tax break for homeowners over 55, it will increase these inequities and could result in a lower level of government services than would otherwise be provided due to reduced tax revenue.

2) Family Transfer Reassessments

Proposition 19 would state that the transfer of a family home from a parent (or grandparent) to a child (or grandchild) does not count as a change in ownership subject to reassessment, as long as the home continues as the family home. To continue as the family home, the transferee must claim the homeowner's tax exemption or the disabled veteran's exemption at the time of transfer or within one year.

The tax benefit can only be used on the home's taxable value plus $1 million, as determined at the time of the transfer. If the home's fair market value is higher than that, the excess value is taxed at the full rate. The $1 million limit would be adjusted annually by the state to account for inflation (so, for instance, for transfers occurring in five years the benefit could be used on the home's taxable value plus about $1.13 million).

Proposition 19 would extend the tax benefits enjoyed by family homes to family farms as well. However, the measure would eliminate the existing tax benefit for up to $1 million of other real property, such as other homes or business properties.

As the LAO reported in a 2018 study, family transfers are applied to tens of thousands of properties each year. Over the last decade 5 percent of all property transfers have applied the exclusion, for an annual revenue loss of $1.5 billion. While Proposition 19 would not make this change retroactive, to the extent new transferees choose not to apply the homeowner's tax exemption or disabled veteran's tax exemption, less revenue would be lost from future transfers.

Many transferees who do not live in the family home choose to rent out the properties, either as housing or as vacation rentals. To the extent that those who use them as vacation rentals instead sell them, this measure would modestly increase housing availability in California.

However, two issues with the new requirements are worth noting. First, as noted in the Senate analysis of the measure (attached), while, under Proposition 19, the homeowner's tax exemption is intended to be applied to the taxpayer's "true, fixed and permanent home," and while those facts are checked by county assessors before granting the exemption, once granted it is not revisited unless initiated by the taxpayer themselves.

Secondly, and potentially more troubling, the measure is not clear whether the property would be reassessed if a transferee moved their homeowner's exemption to a different property. It is clear that taking the exemption is necessary to receive the benefit, but, as noted above, reassessment can only occur upon a change in ownership or new construction. Nowhere in law is there a provision for reassessing property when a resident moves without the property changing hands. The Legislature could attempt to clarify this point through legislation, however, it is uncertain if the courts would agree they have the authority to.

Regardless, while the magnitude is unknown, this provision of Proposition 19 would have a pronounced positive fiscal effect on counties, cities, and many special districts. To the extent it increases the volume of home sales, it would also increase revenue from property transfer taxes.

Aside from county fiscal effects, county supervisors might consider equity aspects of restricting this tax break for family transfers of family homes and family farms. Owning residential property is the most important factor in building generational wealth. This measure would somewhat increase equity by limiting the ability for families to transfer not only the family home, but also another $1 million of real property without reassessment. Similarly, by removing, in at least some cases, the significant tax benefit of holding on to family homes, it frees up housing for other families to begin building wealth for themselves.

3) Funding Assistance for Fire Districts and Other Local Agencies

Proposition 19 would create two funds at the state level, the California Fire Response Fund and the County Revenue Protection Fund. The measure would require the Director of Finance to calculate increased revenues and net savings to the state resulting from the tax changes described above, if any. Of those increased revenues and net savings, 75 percent would be transferred to the California Fire Response Fund and 15 percent would be transferred to the County Revenue Protection Fund.

Any funds in the California Fire Response Fund would be distributed as follows:

- 20 percent to CAL FIRE for fire suppression staffing.
- 40 percent for districts that provide fire protection services, were formed after July 1, 1978 (post-Prop. 13), and employ full-time personnel who are immediately available to comprise at least 50 percent of an initial full alarm assignment.
- 20 percent for districts that perform fire protection services, were formed before July 1, 1978, are underfunded due to low shares of property taxes and increased service demands, and that employ full-time personnel as described above.
- 20 percent for districts that provide fire protection services and employee full-time personnel who are immediately available to comprise between 30 and 50 percent of an initial full alarm assignment.

Any funds in the County Revenue Protection Fund would be distributed to local agencies that experience an overall loss in revenue as a result of the measure's tax policy changes. The measure gives counties the responsibility of calculating whether the county itself, or any local agency in the county, has experienced a "negative gain." The calculation is made by adding together the two revenue changes made by the measure (tax portability, both outbound and inbound, and family transfers).

Any county, city, special district, or school district that experiences a net loss in revenue over a three-year period would be eligible for reimbursement from the County Revenue Protection Fund. If the fund does not have enough money to reimburse all agencies with a loss, funds would be distributed proportionately based on the size of their losses.

The fund balances would be based on the Director of Finance's calculation of increased revenues and net savings. The increased revenues would come as a result of capital gains related to home sales. Capital gains liability from the sale of a primary residence is affected by several factors. How much the home has increased in value is one factor, but the first $250,000 of gains for single taxpayers, or $500,000 for couples, are exempt in most cases. This is also true for the cost of any additions and improvements. Another major factor is the stepped-up basis upon the death of a spouse, which can reduce capital gains liability enormously.

The state's net savings are simpler to calculate, but also less certain to exist at all. Under Proposition 98, school districts are guaranteed a minimum amount of funding, which is provided by a combination of local property taxes and state funding. To take the metaphor of a bucket, property taxes fill the bucket as far as they can, then the state provides funding to finish filling the bucket. In this metaphor, if property taxes fill more of the bucket further (for instance, because the family transfer tax break has been limited), the state is obligated to provide less funding, resulting in net savings to the state.

However, over the years voters have modified Proposition 98 several times and have created three different "tests" to determine the statewide minimum funding level for schools. Depending on conditions, the funding level could be calculated by taking the previous year's funding and multiplying it by the statewide increase in personal income, or by inflation. But under what's called Test 1, the level is determined simply by a percent share of the state's General Fund revenues. In Test 1 years, the bucket metaphor does not apply because regardless of how much funding is provided by property taxes, the state's contribution level is the same.

California has been in Test 1 years for the past two fiscal years and analysts predict that it will remain that way for the foreseeable future. If that is the case, Proposition 19 will not result in net savings to the state's General Fund. Likewise, recent experience with Proposition 47 has shown that the Director of Finance is motivated to calculate increased revenues and net savings to be small when it is in the state's interest to do so.

Therefore, while the measure intends for the state to share 15 percent of any increased revenues and net savings with the counties, cities, special districts, and school districts that experience a "negative gain," the size of any additional funding is too uncertain to estimate.

Overall Fiscal Impact
As noted at the top of this memo, the fiscal effect for counties is highly uncertain, depending on how the law is interpreted and how it changes the behavior of homeowners. On the high end, the Legislative Analyst's Office estimated that a similar measure might result in increased revenue in the tens of millions of dollars per year collectively for local agencies, but also tens of millions in new costs for county assessors. On the low end, the measure could reduce local agency revenues by at least tens of millions of dollars as well as increased costs to assessors.

Policy Considerations
Existing CSAC Policy
The California County Platform, CSAC's adopted statement of the basic policies of concern and interest to California's counties, states the following:

Property Tax Revenue: Counties oppose erosion of the property tax base through unreimbursed exemptions to property taxes. The state should recognize that property tax revenues are a significant source of county discretionary funds. Any subventions to counties that are based upon property tax losses through state action should be adjusted for inflation annually. – Chapter 9 – Financing County Services

Due to this part of the County Platform, in 2018 CSAC, along with a broad coalition of labor and other stakeholders, strongly opposed Proposition 5, which was also written by the California Association of Realtors. That measure, like this one, expanded tax portability for homeowners over 55, but importantly did not also restrict the tax break for family transfers or require the state to calculate and share any net benefit with fire districts and other local entities.

In evaluating this measure, county supervisors will have to weigh whether the limitations on family transfers, and possible increases to funding from the state, are sufficient to overcome CSAC's previous opposition to the expanded tax benefit for established property owners, while also considering any effect on wealth inequality in the state.

Staff Contact
Please contact Geoff Neill at gneill@counties.org or Ada Waelder at awaelder@counties.org.

Resources
1) Full text of ballot measure
2) LAO Analysis of a fiscally similar measure withdrawn by proponents in favor of ACA 11
3) Senate analysis of ACA 11

RESOLUTION CHAPTER 31

Assembly Constitutional Amendment No. 11—A resolution to propose to the people of the State of California an amendment to the Constitution of the State, by adding Sections 2.1, 2.2, and 2.3 to Article XIII A thereof, relating to tax limitation.

LEGISLATIVE COUNSEL'S DIGEST

ACA 11, Mullin. The Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disasters Act.

The California Constitution limits the amount of ad valorem taxes on real property to 1% of the full cash value of that property, defined as the county assessor's valuation of real property as shown on the 1975–76 tax bill and, thereafter, the appraised value of the property when purchased, newly constructed, or a change in ownership occurs after the 1975 assessment, subject to an annual inflation adjustment not to exceed 2%. The California Constitution authorizes the Legislature to authorize a person over 55 years of age or any severely and permanently disabled person residing in property eligible for the homeowner's exemption to transfer the base year value of that property to a replacement dwelling of equal or lesser value located in the same county, or another county that has adopted an ordinance allowing base years value transfers from other counties, as provided. The California Constitution also provides that the purchase or transfer of the principal residence, and the first $1,000,000 of other real property, of a transferor in the case of a transfer between parents and their children, or between grandparents and their grandchildren if all the parents of those grandchildren are deceased, is not a "purchase" or "change in ownership" for purposes of determining the "full cash value" of property for taxation.

This measure, beginning on and after April 1, 2021, would authorize an owner of a primary residence who is over 55 years of age, severely disabled, or a victim of a wildfire or natural disaster, as defined, to transfer the taxable value, defined as the base year value plus inflation adjustments, of their primary residence to a replacement primary residence located anywhere in the state, regardless of the location or value of the replacement primary residence, that is purchased or newly constructed as that person's principal residence within 2 years of the sale of the original primary residence. The measure would limit a person who is over 55 years of age or severely disabled to 3 transfers under these provisions.

The measure, beginning on and after February 16, 2021, would exclude from the terms "purchase" and "change in ownership" for purposes of determining the "full cash value" of property the purchase or transfer of a family home or family farm, as those terms are defined, of the transferor in the case of a transfer between parents and their children, or between grandparents and their grandchildren if all the parents of those grandchildren are deceased. In the case of a transfer of a family home, the measure would require that the property continue as the family home of the transferee. The measure would require that the taxable value of the property be determined as provided. In the case of property tax benefits provided to a family home under these provisions, the bill would require the transferee to claim the homeowner's or disabled veteran's exemption within one year of the transfer. The measure would specify that the above-described provisions relating to transfers between parents or grandparents and children or grandchildren would apply to transfers occurring on or before February 15, 2021.

The measure would establish the California Fire Response Fund in the State Treasury. The measure would require the Controller to annually transfer a specified amount, based on calculations by the Director of Finance, of the additional revenues and savings that accrued to the state from the implementation of this measure's provisions from the General Fund to that fund. However, the measure would provide that, if the amount required to be transferred to the California Fire Response Fund exceeds the amount transferred for the previous fiscal year by more than 10%, that excess amount would not be transferred to the California Fire Response Fund. The measure would require the Legislature to appropriate moneys in the fund solely for the purpose of funding fire suppression staffing by the Department of Forestry and Fire Protection and underfunded special districts that provide fire protection services, as provided.

The measure would also establish the County Revenue Protection Fund and continuously appropriate moneys in that fund for the purpose of reimbursing eligible local agencies, as provided. The measure would require the Controller to annually transfer a specified amount, based on the above-described calculations by the Director of Finance, from the General Fund to that fund. The measure would require each county to annually determine the gain of the county and any local agency within the county resulting from the implementation of this measure and, if that amount of gain is negative, provide that specified eligible local agencies may receive a reimbursement from the County Revenue Protection Fund. The measure would require the California Department of Tax and Fee Administration to provide a reimbursement to each eligible local agency that has a negative gain, determined every 3 years based on the aggregate gain of the eligible local agency, as provided, and require the Controller to transfer any remaining balance in the County Revenue Protection Fund to the General Fund at the end of each 3-year period, to be available for appropriation for any purpose.

Resolved by the Assembly, the Senate concurring, That the Legislature of the State of California at its 2019–20 Regular Session commencing on the third day of December 2018, two-thirds of the membership of each house concurring, hereby proposes to the people of the State of California, that the Constitution of the State be amended as follows:

First—This measure shall be known, and may be cited, as the Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disasters Act.

Second—That Section 2.1 is added to Article XIII A thereof, to read:

SEC. 2.1. (a) Limitation on Property Tax Increases on Primary Residences for Seniors, the Severely Disabled, Wildfire and Natural Disaster Victims, and Families. It is the intent of the Legislature in proposing, and the people in adopting, this section to do both of the following:

(1) Limit property tax increases on primary residences by removing unfair location restrictions on homeowners who are severely disabled, victims of wildfires or other natural disasters, or seniors over 55 years of age that need to move closer to family

or medical care, downsize, find a home that better fits their needs, or replace a damaged home and limit damage from wildfires on homes through dedicated funding for fire protection and emergency response.

(2) Limit property tax increases on family homes used as a primary residence by protecting the right of parents and grandparents to pass on their family home to their children and grandchildren for continued use as a primary residence, while eliminating unfair tax loopholes used by East Coast investors, celebrities, wealthy non-California residents, and trust fund heirs to avoid paying a fair share of property taxes on vacation homes, income properties, and beachfront rentals they own in California.

(b) Property Tax Fairness for Seniors, the Severely Disabled, and Victims of Wildfire and Natural Disasters. Notwithstanding any other provision of this Constitution or any other law, beginning on and after April 1, 2021, the following shall apply:

(1) Subject to applicable procedures and definitions as provided by statute, an owner of a primary residence who is over 55 years of age, severely disabled, or a victim of a wildfire or natural disaster may transfer the taxable value of their primary residence to a replacement primary residence located anywhere in this state, regardless of the location or value of the replacement primary residence, that is purchased or newly constructed as that person's principal residence within two years of the sale of the original primary residence.

(2) For purposes of this subdivision:

(A) For any transfer of taxable value to a replacement primary residence of equal or lesser value than the original primary residence, the taxable value of the replacement primary residence shall be deemed to be the taxable value of the original primary residence.

(B) For any transfer of taxable value to a replacement primary residence of greater value than the original primary residence, the taxable value of the replacement primary residence shall be calculated by adding the difference between the full cash value of the original primary residence and the full cash value of the replacement primary residence to the taxable value of the original primary residence.

(3) An owner of a primary residence who is over 55 years of age or severely disabled shall not be allowed to transfer the taxable

value of a primary residence more than three times pursuant to this subdivision.

(4) Any person who seeks to transfer the taxable value of their primary residence pursuant to this subdivision shall file an application with the assessor of the county in which the replacement primary residence is located. The application shall, at minimum, include information comparable to that identified in paragraph (1) of subdivision (f) of Section 69.5 of the Revenue and Taxation Code, as that section read on January 1, 2020.

(c) Property Tax Fairness for Family Homes. Notwithstanding any other provision of this Constitution or any other law, beginning on and after February 16, 2021, the following shall apply:

(1) For purposes of subdivision (a) of Section 2, the terms "purchased" and "change in ownership" do not include the purchase or transfer of a family home of the transferor in the case of a transfer between parents and their children, as defined by the Legislature, if the property continues as the family home of the transferee. This subdivision shall apply to both voluntary transfers and transfers resulting from a court order or judicial decree. The new taxable value of the family home of the transferee shall be the sum of both of the following:

(A) The taxable value of the family home, subject to adjustment as authorized by subdivision (b) of Section 2, determined as of the date immediately prior to the date of the purchase by, or transfer to, the transferee.

(B) The applicable of the following amounts:

(i) If the assessed value of the family home upon purchase by, or transfer to, the transferee is less than the sum of the taxable value described in subparagraph (A) plus one million dollars ($1,000,000), then zero dollars ($0).

(ii) If the assessed value of the family home upon purchase by, or transfer to, the transferee is equal to or more than the sum of the taxable value described in subparagraph (A) plus one million dollars ($1,000,000), an amount equal to the assessed value of the family home upon purchase by, or transfer to, the transferee, minus the sum of the taxable value described in subparagraph (A) and one million dollars ($1,000,000).

(2) Paragraph (1) shall also apply to a purchase or transfer of the family home between grandparents and their grandchildren if all of the parents of those grandchildren, who qualify as children

of the grandparents, are deceased as of the date of the purchase or transfer.

(3) Paragraphs (1) and (2) shall also apply to the purchase or transfer of a family farm. For purposes of this paragraph, any reference to a "family home" in paragraph (1) or (2) shall be deemed to instead refer to a "family farm."

(4) Beginning on February 16, 2023, and every other February 16 thereafter, the State Board of Equalization shall adjust the one million dollar ($1,000,000) amount described in paragraph (1) for inflation to reflect the percentage change in the House Price Index for California for the prior calendar year, as determined by the Federal Housing Finance Agency. The State Board of Equalization shall calculate and publish the adjustments required by this paragraph.

(5) (A) Subject to subparagraph (B), in order to receive the property tax benefit provided by this section for the purchase or transfer of a family home, the transferee shall claim the homeowner's exemption or disabled veteran's exemption at the time of the purchase or transfer of the family home.

(B) A transferee who fails to claim the homeowner's exemption or disabled veteran's exemption at the time of the purchase or transfer of the family home may receive the property tax benefit provided by this section by claiming the homeowner's exemption or disabled veteran's exemption within one year of the purchase or transfer of the family home and shall be entitled to a refund of taxes previously owed or paid between the date of the transfer and the date the transferee claims the homeowner's exemption or disabled veteran's exemption.

(d) Subdivision (h) of Section 2 shall apply to any purchase or transfer that occurs on or before February 15, 2021, but shall not apply to any purchase or transfer occurring after that date. Subdivision (h) of Section 2 shall be inoperative as of February 16, 2021.

(e) For purposes of this section:

(1) "Disabled veteran's exemption" means the exemption authorized by subdivision (a) of Section 4 of Article XIII.

(2) "Family farm" means any real property which is under cultivation or which is being used for pasture or grazing, or that is used to produce any agricultural commodity, as that term is

defined in Section 51201 of the Government Code as that section read on January 1, 2020.

(3) "Family home" has the same meaning as "principal residence," as that term is used in subdivision (k) of Section 3 of Article XIII.

(4) "Full cash value" has the same meaning as defined in subdivision (a) of Section 2.

(5) "Homeowner's exemption" means the exemption provided by subdivision (k) of Section 3 of Article XIII.

(6) "Natural disaster" means the existence, as declared by the Governor, of conditions of disaster or extreme peril to the safety of persons or property within the affected area caused by conditions such as fire, flood, drought, storm, mudslide, earthquake, civil disorder, foreign invasion, or volcanic eruption.

(7) "Primary residence" means a residence eligible for either of the following:

(A) The homeowner's exemption.

(B) The disabled veteran's exemption.

(8) "Principal residence" as used in subdivision (b) has the same meaning as that term is used in subdivision (a) of Section 2.

(9) "Replacement primary residence" has the same meaning as "replacement dwelling," as that term is defined in subdivision (a) of Section 2.

(10) "Taxable value" means the base year value determined in accordance with subdivision (a) of Section 2 plus any adjustment authorized by subdivision (b) of Section 2.

(11) "Victim of a wildfire or natural disaster" means the owner of a primary residence that has been substantially damaged as a result of a wildfire or natural disaster that amounts to more than 50 percent of the improvement value of the primary residence immediately before the wildfire or natural disaster. For purposes of this paragraph, "damage" includes a diminution in the value of the primary residence as a result of restricted access caused by the wildfire or natural disaster.

(12) "Wildfire" has the same meaning as defined in subdivision (j) of Section 51177 of the Government Code, as that section read on January 1, 2020.

Third—That Section 2.2 is added to Article XIII A thereof, to read:

SEC. 2.2. (a) Protection of Fire Services, Emergency Response, and County Services. It is the intent of the Legislature in proposing, and the people in adopting, this section and Section 2.3 to do both of the following:

(1) Dedicate revenue for fire protection and emergency response, address inequities in underfunded fire districts, ensure all communities are protected from wildfires, and safeguard the lives of millions of Californians.

(2) Protect county revenues and other vital local services.

(b) (1) The California Fire Response Fund is hereby created within the State Treasury.

(2) The County Revenue Protection Fund is hereby created within the State Treasury. Moneys in the County Revenue Protection Fund are continuously appropriated, without regard to fiscal year, for the purpose of reimbursing eligible local agencies that incur a negative gain, and paying the administrative costs of the California Department of Tax and Fee Administration, in accordance with Section 2.3. Moneys in the fund shall only be expended as provided in Section 2.3.

(c) For purposes of the calculations required by Section 8 of Article XVI, moneys in the California Fire Response Fund and the County Revenue Protection Fund shall be deemed to be General Fund revenues which may be appropriated pursuant to Article XIII B.

(d) The Director of Finance shall do the following, as applicable:

(1) On or before September 1, 2022, and on or before each subsequent September 1 through September 1, 2027, calculate the additional revenues and savings that accrued to the state from the implementation of Section 2.1, including, but not limited to, any increase in state income tax revenues and net savings to the state arising from any reduction in the state's funding obligation under Section 8 of Article XVI, during the immediately preceding fiscal year ending on June 30. In making the calculation required by this paragraph, the Director of Finance shall use actual data or best available estimates where actual data is not available. The calculation shall be final and shall not be adjusted for any subsequent changes in the underlying data. The Director of Finance shall certify the results of the calculation to the Legislature and the Controller no later than September 1 of each year.

(2) On or before September 1, 2028, and each subsequent September 1 thereafter, calculate the additional revenues and savings that accrued to the state from the implementation of Section 2.1, including, but not limited to, any increase in state income tax revenues and net savings to the state arising from any reduction in the state's funding obligation under Section 8 of Article XVI during the immediately preceding fiscal year ending on June 30 by multiplying the amount from the immediately preceding fiscal year ending on June 30 by the rate of increase in property tax revenues allocated to local agencies in that fiscal year. In making the calculation required by this paragraph, the Director of Finance shall use actual data or best available estimates where actual data is not available. The calculation shall be final and shall not be adjusted for any subsequent changes in the underlying data. The Director of Finance shall certify the results of the calculation to the Legislature and the Controller no later than September 1 of each fiscal year.

(e) No later than September 15, 2022, and each subsequent September 15 thereafter, the Controller shall do both of the following:

(1) Transfer from the General Fund to the California Fire Response Fund an amount equal to 75 percent of the amount calculated by the Director of Finance pursuant to subdivision (d) for the applicable year.

(2) Transfer from the General Fund to the County Revenue Protection Fund an amount equal to 15 percent of the amount calculated by the Director of Finance pursuant to subdivision (d) for the applicable year. Moneys transferred to the County Revenue Protection Fund pursuant to this paragraph shall be used to reimburse eligible local agencies with a negative gain, as provided in Section 2.3.

(f) Moneys in the California Fire Response Fund shall be appropriated by the Legislature in each fiscal year exclusively for the purposes of this section and, except as otherwise provided in subdivision (g), shall not be appropriated for any other purpose. Moneys in the California Fire Response Fund may be used upon appropriation without regard to fiscal year and shall be used to expand fire suppression staffing, as set forth in paragraphs (1) to (4), inclusive, and not to supplant existing state or local funds utilized for those purposes.

(1) Twenty percent of the moneys in the California Fire Response Fund shall be appropriated to the Department of Forestry and Fire Protection to fund fire suppression staffing.

(2) Eighty percent of the moneys in the California Fire Response Fund shall be deposited in the Special District Fire Response Fund, which is hereby created as a subaccount within the California Fire Response Fund, and appropriated to special districts that provide fire protection services in accordance with the following criteria:

(A) Fifty percent of the amount described in this paragraph shall be used to fund fire suppression staffing in underfunded special districts that provide fire protection services, were formed after July 1, 1978, and employ full-time or full-time-equivalent station-based personnel who are immediately available to comprise at least 50 percent of an initial full alarm assignment.

(B) Twenty-five percent of the amount described in this paragraph shall be used to fund fire suppression staffing in special districts that provide fire protection services, were formed before July 1, 1978, are underfunded due to a disproportionately low share of property tax revenue and an increase in service level demands since July 1, 1978, and employ full-time or full-time-equivalent station-based personnel who are immediately available to comprise at least 50 percent of an initial full alarm assignment.

(C) Twenty-five percent of the amount described in this paragraph shall be used to fund fire suppression staffing in underfunded special districts that provide fire protection services and employ full-time or full-time-equivalent station-based personnel who are immediately available to comprise at least 30 percent but less than 50 percent of an initial full alarm assignment.

(3) In determining whether a special district that provides fire protection services is underfunded for purposes of paragraph (2), the Legislature shall take into account the following factors, in order of priority:

(A) The degree to which the special district's property tax revenue is insufficient to sustain adequate fire suppression, as measured against the population density, size of the service area, and number of taxpayers within the boundaries of the special district.

(B) Whether the special district, upon formation, received a property tax allocation in accordance with Chapter 282 of the Statutes of 1979.

(C) Geographic diversity.

(4) The allocation of moneys to a special district that qualifies pursuant to paragraph (2) shall be in the form of grants, with a term of not less than 10 years, in order to ensure that the special district can engage in responsible budgeting and sustain adequate fire suppression services over the long term.

(g) Notwithstanding subdivision (f), if in any fiscal year after the first fiscal year for which moneys are transferred from the General Fund to the California Fire Response Fund pursuant to this section the amount transferred exceeds the amount transferred in the previous fiscal year by more than 10 percent, the Controller shall not transfer the amount in excess of that 10 percent, which shall be available for appropriation from the General Fund for any purpose.

Fourth—That Section 2.3 is added to Article XIII A thereof, to read:

SEC. 2.3. (a) Each county shall annually, no later than the date specified by the California Department of Tax and Fee Administration by regulations adopted pursuant to this section, determine the gain for the county and for each local agency in the county resulting from implementation of Section 2.1 by adding the following amounts:

(1) The revenue increase resulting from the sale and reassessment of original primary residences for outbound intercounty transfers pursuant to subdivision (b) of Section 2.1.

(2) The revenue decrease, which shall be expressed as a negative number, resulting from the transfer of taxable values of original primary residences located in other counties to replacement primary residences located within the county for inbound intercounty transfers pursuant to subdivision (b) of Section 2.1.

(3) The revenue increase resulting from subdivision (c) of Section 2.1.

(b) A county or any local agency in the county that has a positive gain determined pursuant to subdivision (a) shall not be eligible to receive reimbursement from the County Revenue Protection Fund. A county or any local agency in the county that has a negative gain determined pursuant to subdivision (a) shall be deemed to be an eligible local agency entitled to a reimbursement from the County Revenue Protection Fund.

(c) The California Department of Tax and Fee Administration shall determine each eligible local agency's aggregate gain every three years, based on the amounts determined pursuant to subdivision (a) for each of those three years, and provide reimbursement to each eligible local agency with a negative gain from the moneys in the County Revenue Protection Fund equal to that amount. If there are insufficient moneys in that fund to cover the total amount of reimbursements under this section, the California Department of Tax and Fee Administration shall allocate a pro rata share of the moneys in the fund to each eligible local agency based on the amount of the eligible local agency's reimbursement relative to the total amount of reimbursements under this section.

(d) At the end of each three-year period described in subdivision (c), after the California Department of Tax and Fee Administration has reimbursed each eligible local agency that has experienced a negative gain during that three-year period, the Controller shall transfer the remaining balance, if any, in the County Revenue Protection Fund to the General Fund, to be available for appropriation for any purpose.

(e) The California Department of Tax and Fee Administration shall promulgate regulations to implement this section pursuant to the rulemaking provisions of the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code), as may be amended from time to time by the Legislature, or any successor to those provisions.

(f) For purposes of this section and Section 2.2, an "eligible local agency" is a county, a city, a city and county, a special district, or a school district as determined pursuant to subdivision (o) of Section 42238.02 of the Education Code as it read on January 8, 2020, that has a negative gain as determined pursuant to this section.

SENATE COMMITTEE ON
ELECTIONS AND CONSTITUTIONAL AMENDMENTS
Senator Thomas Umberg, Chair
2019 - 2020 Regular

Bill No:	ACA 11	**Hearing Date:**	6/23/20
Author:	Mullin		
Version:	6/20/20		
Urgency:		**Fiscal:**	Yes
Consultant:	Colin Grinnell		

Subject: The Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disasters Act

DIGEST

This measure, if approved by the voters, would enact the "Home Protection for Seniors, Severely Disabled, Families, Wildfire and Natural Disasters Act," which allows base year value transfers for replacement properties without regard to the replacement property's location or value; limits or repeals the parent-child, grandparent-grandchild exclusion from change in ownership; directs the Director of Finance to determine any net revenue gain resulting from these changes; and allocates any revenue gain for fire suppression and to reimburse local agencies for revenue losses.

ANALYSIS

Existing law:

1) Provides that all property is taxable unless explicitly exempted by the Constitution or federal law (Article XIII of the California Constitution).

2) Limits the maximum amount of any ad valorem tax on real property at 1% of full cash value, and directs assessors to set assessed values at 1975 market value levels and only reappraise property thereafter if there is new construction or a change in ownership (Article XIIIA of the Constitution; Proposition 13, 1978).

3) Establishes constitutional limits on assessed value inflationary growth of real property to 2% per year.

4) Generally sets a property's value as its sales price when purchased or, when there is no sales price, at its fair market value when ownership changes (base year value).

5) Requires an annual inflation adjustment to that value that does not exceed 2% (factored base year value), based upon the California Consumer Price Index for all items as calculated by the Department of Industrial Relations.

6) Permits qualified taxpayers to continue to pay property taxes at the factored base year value of his/her previous home (or other property types where the law allows) and not on the value of their newly purchased home, including:

a) Taxpayers affected by disasters, defined as damaged by a major misfortune or calamity, and located in an area declared to be in a state of disaster by the Governor.

b) Disabled taxpayers and those over the age of 55, so long as the replacement home is of equal or lesser value and within the same county, or to another county if the incoming county enacts an ordinance accepting base-year value transfers. State law limits taxpayers to one transfer per lifetime, with one exception.

c) Owners of contaminated property, or those displaced by eminent domain, acquisition by public entity, or inverse condemnation.

7) Excludes from change-in-ownership reassessment transfers from parents to children for:

a) Primary residences, regardless of value or number of transfers.

b) Up to $1 million in aggregate value of all other types of property, such as second homes or business properties.

8) Applies the parent-child exclusion from change-in-ownership to grandparents and grandchildren when all of the parents of that grandchild or those grandchildren, who qualify as the children of the grandparents, are deceased as of the date of the purchase or transfer.

This bill:

1) Enacts the "Home Protection for Seniors, Severely Disabled, Families, Wildfire and Natural Disasters Act."

2) Creates a new section of the California Constitution to allow base year value transfers for disabled taxpayers and those over the age of 55, as well as a victim of a wildfire or other natural disaster, regardless of the replacement property's value or location, so long as the replacement property is purchased or constructed within two years of the date the original property is sold. To implement these provisions, the measure:

a) Provides that if the replacement property is of equal or lesser value of the original property, its taxable value is equal to that of the original property.

b) Provides that if the replacement property is of equal or greater value of the original property, its taxable value is equal to that of the replacement property, plus the difference in value between the sales price of the original property and the sales price of the replacement property is subsequently added to the base year value. For example, if the original property has a base year value of $230,000 sells for $500,000, and the taxpayer purchases a $750,000 replacement property, its new base year value is $480,000 ($750,000 – 500,000 = $250,000 + $230,000 = $480,000).

c) Allows disabled taxpayers or those over 55 three transfers. Victims of wildfires and natural disasters default to the current one transfer limit.

d) Requires taxpayers to file an application with the assessor to claim a transfer with contents identical to the application for current transfers.

e) Applies beginning April 1, 2021.

3) Creates a new section of the California Constitution to limit the parent-child and grandparent-grandchild exclusion from change in ownership of a principal residence only if the property continues as the primary residence of the transferee. The new section further:

a) Provides that even if the property continues as the primary residence of the transferee, and the property has a current market value of more than $1 million, the exclusion can only reduce assessed value by $1 million. For example, a home with a taxable value of $500,000 that could be sold at the date of transfer for $2 million, would have a new assessed value of $1 million.

b) Applies these provisions to family farms, as defined.

c) Requires the transferee to claim the homeowners' or disabled veterans' at the time of transfer to apply the exclusion. However, a transferee can apply the exclusion up to one year after the purchase or transfer, and receive a refund of previous taxes paid or owed between the date of the transfer and the date they file the claim.

d) Directs the State Board of Equalization (BOE) to adjust the $1 million exclusion amount annually for inflation beginning on February 16, 2023.

e) Repeals the parent-child, grandparent-grandchild exclusion for up to $1 million in aggregate value of all other types of property that is not the principal residence, effective February 15, 2021.

f) Defines several terms.

4) Creates a new section of the California Constitution to allocate any additional revenues or savings to the state to the California Fire Response Fund and the County Revenue Protection Fund, and continuously appropriate moneys to those purposes, as specified. The new section implements these provisions by:

a) Deeming the moneys in the fund revenues General Fund Revenues for purposes of the state's appropriations limit.

b) Requiring the Director of Finance to calculate additional revenues and net savings to the state resulting from the measure during the preceding fiscal year each September 1st between 2022 and 2027 using the best data or available estimates if data is not available.

c) Deeming the Director of Finance's calculation final, and requiring the Director to certify the calculation no later than September 1 of each year.

d) Further requiring the Director of Finance to multiply the amount calculated in the previous fiscal year by the increase in property tax revenues allocated to local agencies in that fiscal year, commencing on September 1, 2028, and each September 1 thereafter.

e) Directing the Controller to transfer 75% of the amount certified by the Director of Finance for the applicable year to the California Fire Response Fund.

f) Directing the Controller to transfer 15% of the amount to the County Revenue Protection Fund to reimburse counties with "negative gain."

g) Specifying that funds in the California Fire Response Fund are subject to appropriation by the Legislature according to a specified methodology, which states funds must be used to expand fire suppression staffing in underfunded special districts that provide fire suppression staffing, and must not supplant existing state or local funds utilized for those purposes, and further:

   i. Allocates 20% to the Department of Forestry and Fire Protection to fund fire suppression staffing.

   ii. Sends 80% to the Special District Fire Response Fund, a subaccount, for districts that provide fire protection services in accordance with the following criteria:

      A. 50% for districts formed after July 1, 1978, and employ full-time or full-time-equivalent station-based personnel who are immediately available to comprise at least 50% of an initial full alarm assignment.

      B. 25%, for districts formed before July 1, 1978, are underfunded due to a disproportionately low share of property tax revenue and an increase in service level demands since July 1, 1978, and employ full-time or full-time-equivalent station-based personnel who are immediately available to comprise at least 50% of an initial full alarm assignment.

      C. 25% for districts that provide fire protection services and employ full-time or full-time-equivalent station-based personnel who are immediately available to comprise between 30% and 50% of an initial full alarm assignment.

   iii. Directs the Legislature to take into account the following factors, in order of priority, when determining whether a special district is "underfunded:"

      A. The degree to which the district's property tax revenue is insufficient to sustain adequate fire suppression, as measured against the population density, size of the service area, and number of taxpayers within the boundaries of the special district.

B. Whether the special district, upon formation, received a property tax allocation in accordance with Chapter 282 of the Statutes of 1979.

C. Geographic diversity.

iv. Funds be allocated in the form of grants with a term of not less than 10 years.

v. That in any fiscal year after the first fiscal year of transfer that the amount transferred from the General Fund to the California Fire Response Fund exceeds the amount transferred in the previous fiscal year by more than 10%, the Controller shall not transfer the amount in excess of 10%; instead, the amount remains in the General Fund.

5) Creates a new section of the California Constitution to:

a) Direct counties to annually determine the gain for each county and each local agency within the county by:

i) Adding the additional revenues from reassessments of original residents of outgoing transfers authorized by ACA 11, then

ii) Subtracting revenue decrease resulting from incoming transfers from other counties, and then

iii) Adding revenue resulting from ACA 11's changes to the parent-child and grandparent-grandchild exclusion from change in ownership.

b) State that counties with a positive gain cannot received funds from the County Revenue Protection Fund, but a county with a negative gain is eligible for those funds.

c) Require the California Department of Tax and Fee Administration (CDTFA) to determine each eligible local agency's aggregate gain every three years, based on the amounts determined by the counties, and provide reimbursements. However, if there are insufficient moneys in the fund, CDTFA allocates available funds based on each local agency's pro rata share based on that agency's reimbursement as a percentage of total reimbursements.

d) State at the end of the three-year period, CDTFA must transfer any remaining money from the County Revenue Protection Fund to the General Fund if each local agency that has a negative gain has been reimbursed.

e) Permit CDTFA to issue regulations pursuant to the Administrative Procedures Act to implement ACA 11.

6) Defines several terms.

7) Makes legislative findings and declarations supporting its purposes.

BACKGROUND

Base year value transfers. Proposition 13 provided property owners in California with substantial protections from higher property tax rates and annual reassessments. However, because the initiative generally set a property's taxable value at its purchase price plus growth of up to 2% per year, taxpayers who sold their homes and purchased new ones will likely pay higher property taxes, thereby levying a tax penalty on those seeking to acquire housing that more closely meet their demands. For example, a four-bedroom single family home may be more house than an empty-nest couple needs, but purchasing a two-bedroom condominium may lead to a tax increase, especially if the taxpayer's current home has appreciated in value significantly during the time they owned it. Proposition 60 and 90 removed that incentive and allowed persons over 55 and the disabled to move without the tax consequence, so long as the value of the replacement home met the definition of "equal or lesser value" in statute.

Base year value transfer benefits taxpayers according to (1) the amount of time they have lived in their current residences, which generally results in a difference between assessed value for tax purposes and market value that grows each year due Proposition 13's 2% cap on assessed valuation growth, and (2) the purchase price of the replacement. If the taxpayer's home has appreciated in value, the higher the price of the replacement property can be under the current 110% if 2 years % restriction and still be eligible for a transfer. For example, a taxpayer who purchased their residence for $100,000 in 1975 now has a base year value under Proposition 13 that cannot exceed $230,000 under the 2% cap, regardless of its current market value. If that taxpayer sold their residence for $400,000 and purchased a new one for $440,000, a base year value transfer allows them to continue to pay property taxes based on the $230,000 value, not $440,000, which at the 1% rate results in $2,100 in annual tax savings ($440,000 - $230,000 = $210,000 x 1% = $2,100).

In June 1986, voters amended the California Constitution to allow base year values transfers for certain disasters (Proposition 50, 1986). Revenue and Taxation Code (R&TC) §69 implements Proposition 50 to allow the transfer when:

- The damaged property sustains physical damages amounting to more than 50% of its full cash value immediately prior to the disaster;
- The replacement property is located in the same county as the damaged property and is acquired or newly constructed within five years after the disaster;
- The replacement property is comparable to the damaged property in size, utility, and function. For example, a residential property can be replacement property for a damaged residence, but not for a commercial, agricultural, or industrial property;
- The market value of the replacement property does not exceed 120% of the fair market value of the replaced property in its pre-damaged condition. Property owners can still receive the disaster relief in cases where the value of the replacement property exceeds the 120% limitation, but any amount over this threshold is assessed at full market value and added to the transferred base year value; and,

- The buyer of the replacement property was the owner of the damaged property at the time of damage.

Homes only. In November 1993, voters additionally allowed taxpayers to transfer base year values to other counties when their property is damaged by a major misfortune or calamity and located in an area declared to be in a state of disaster by the Governor (Proposition 171). However, Proposition 171 only allowed transfers to other counties for a taxpayer's principal place of residence, and solely when the board of supervisors in the county where the replacement property is located has adopted an ordinance making this benefit available. Additionally, replacement homes must be purchased within three years rather than five years. Eleven counties have such an ordinance: Contra Costa, Los Angeles, Modoc, Orange, San Diego, San Francisco, Santa Clara, Solano, Sonoma, Sutter, and Ventura. Revenue and Taxation Code §69.3 implements Proposition 171's provisions for base year value transfers for out-of-county replacement homes.

In November 1986, voters approved Proposition 60 to amend the Constitution to let a homeowner over the age of 55 transfer his/her base year value to a base year value to a replacement home of equal or lesser value within the same county under specified circumstances.

Two years later, in November 1988, voters expanded base year value transfer availability to allow transfers to counties that adopt ordinances allowing the transfer (intercounty transfers). In 2018, ten counties allowed these out-of-county transfers: Alameda, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo, Santa Clara, Tuolumne, and Ventura. (Proposition 90, 1988). In June 1990, voters approved Proposition 110 to allow disabled individuals regardless of age to transfer base year values to a purchased or newly constructed replacement property. (Proposition 110, 1990).

R&TC §69.5 provides further details to implement all three propositions for individuals over the age of 55 and disabled persons. Among the conditions, the property must be eligible for the homeowners' exemption, and the replacement property must be purchased or newly constructed within two years of the sale of the original property. This law limits base year value transfers to one per taxpayer; however, the Legislature added a sole exception to the one-time limit for a taxpayer who claims the benefit first as a person 55 years of age or older, and subsequently becomes disabled (SB 1692 (Petris), Chapter 897, Statutes of 1996). In that case, the taxpayer can transfer the base year value from the original home twice; however, the law does not similarly treat a taxpayer who initially claims the transfer a disabled person cannot then subsequently claim another benefit after they turn 55. The Legislature approved SB 246 (Bates of 2017), which would have allowed a second transfer for a disabled person after they turn 55; however, Governor Brown vetoed the measure.

Parent-Child Transfers. The Legislature enacted two change in ownership exclusions for transfers between parents and children, and then grandparents and grandchildren, which were then approved by voters. Proposition 58 (1986) exempted from change in ownership transfers of property from parents to children (ACA 2, Hanigan), which voters extended to grandchildren ten years later, so long as the grandparent is deceased (Proposition 193, 1996; ACA 17, Knowles).

In October, 2017, the Legislative Analyst's Office (LAO) published "the Property Tax Inheritance Exclusion," indicating that the Legislature may want to review the exclusion. LAO wrote:

> *"The decision to create an inherited property exclusion has been consequential. Hundreds of thousands of families have received tax relief under these rules. As a result, local government property tax collections have been reduced by a few billion dollars per year. Moreover, allowing children to inherit their parents' lower property tax bill has exacerbated inequities among owners of similar properties. It also appears to have encouraged the conversion of some homes from owner occupied primary residences to rentals and other uses. In light of these consequences, the Legislature may want to revisit the inheritance exclusion."*

In August, 2018, the Los Angeles Times identified several homes owned by prominent, wealthy individuals who were subsequently renting out homes after applying the exclusion on residences inherited from their parents. The article stated that in Los Angeles County, as many as 63% of homes subject to the exclusion were used as second residences or rental properties last year.

<u>COMMENTS</u>

1) <u>According to the author</u>: ACA 11 seeks to provide much needed housing relief for our state's most vulnerable populations, while also creating a stable revenue source for both Special Districts that provide fire protection and local governments to improve services to their communities.

   ACA 11 seeks to replace the ballot measure entitled "Changes Requirements for Transferring Property Tax Base to Replacement Property. Expands Business Property Reassessment. Initiative Constitutional Amendment," which became eligible for the November General Election April 2019.

   ACA 11 continues to protect seniors, persons with disabilities, families, and victims of wildfire by limiting property tax increases on primary residences, as originally intended under Propositions 60 and 90, and Propositions 58 and 193. SCA 2 also expands these protections to include wildfire victims and removes unfair location restrictions from Propositions 60 and 90. Removing these restrictions will allow our most vulnerable residents to move closer to family or medical care, to a senior or retirement community, or to replace a damaged home anywhere within California.

   ACA 11 also protects the Constitutional right of parents and grandparents to pass the family home to their children, ensuring that their heirs can afford to move into that home as their primary residence.

   Out-of-state investors, non-California residents, and trust fund heirs have used Propositions 58 and 193 on vacation homes, investment property, and beachfront rentals. By closing these unintended loopholes, the state will be able to generate hundreds of millions of dollars for local governments to fund fire protection, emergency services, and other critical local programs to support the homeless and provide mental health services or to help fund the development of new affordable housing projects throughout California.

California's persistent housing shortage, which places an upward pressure on housing costs, has created an unprecedented affordability crisis for California's working families. The state has the 49th lowest ratio of housing units per resident and our states vacancy rate in 2019 was just 4.4%. Home purchase prices and rents statewide continue to rise faster than wages, which results in housing costs making up a greater percentage of a family's monthly budget. SCA 2 will open up tens of thousands of new housing opportunities throughout California for renters and first-time homeowners. As a result of increased demand, SCA 2 will spur housing construction at all income levels to accommodate the demand for housing statewide.

2) Inequality. According the Pew Charitable Trust, the growth in income in recent decades has tilted to upper-income households. The Public Policy Institute of California's (PPIC's) "Just the Facts: Income Inequality" from January, 2020 reports that "while California's economy outperforms the nation's, its level of income inequality exceeds that of all but five states. Families at the top of the income distribution in California have 12.3 times the income of families at the bottom." PPIC adds that the wealth gap is correlated with race, as African American and Latino families make up 12% of those with incomes above the 90th percentile, despite comprising 43% of all families in California, due to the fact that African American and Latino adults are overrepresented in low-wage jobs and have higher unemployment rates, and African American adults are less likely to be in the labor force. A family's wealth is largely contingent on their home value; Deloitte's report "The Future of Wealth in the United States" states that residential property alone constitutes nearly 58% of nonfinancial assets on household balance sheets in the United States. In many parts of the United States, discriminatory housing policies such as redlining and predatory lending have significantly hindered the ability of African American and Latino families to own and acquire a home that will appreciate in value over time, thereby building wealth.

PPIC adds that wealth inequalities are worse than income inequalities:

> "In California, 20% of all net worth is concentrated in the 30 wealthiest zip codes, home to just 2% of Californians. African American and Latino families have much lower wealth levels compared white families; nationwide, the typical (median-wealth) white family has more than eight times the wealth of a typical African American or Latino family. While homeownership is an important component of wealth—and white and Asian families are more likely than others to own homes—other income-producing assets also play a major role in California's wealth gap."

Base year value transfers benefit existing homeowners by reducing the taxes they would have paid according to how long they have owned their current residence, and how much their home's market value has appreciated. Current law restricts base year value transfers to replacement properties of equal or lesser value, a restriction ACA 11 would constitutionally eliminate, therefore extending an already powerful tax benefit that primarily benefits those who have already accrued housing wealth. Additionally, ACA 11 does not set any restriction on a taxpayer's income or their housing value to apply its expanded benefits.

3) Old and young. Proposition 13's tax benefits grow the longer the taxpayer stays in their home, as an incumbent homeowner's assessed value can only grow by 2% per year. For example, taxpayer who purchased their residence for $100,000 in 1975 now has a base year value under Proposition 13 that cannot exceed $230,000 under the 2% cap in annual inflationary growth, when the median home price has almost doubled since 2012. Assuming a new homebuyer purchases a similar house next door to an incumbent neighbor, they may pay many times the annual amount of property tax despite being eligible for the same level of public services paid for by those taxes. Additionally, except for disabled individuals and victims of natural disasters, only taxpayers over the age of 55 can apply a base year value transfer. Homebuyers over 55 can incorporate the tax savings when bidding on a new home against younger homebuyers, who cannot, and also must often service student loan debt. ACA 11 would allow base year value transfers without regard to the location and value of the replacement property, further bolstering the purchasing power of those over 55, as well as increasing from one to three the number of transfers a taxpayer can make.

4) Good deal. The combination of the Proposition 13 method of property taxation and the grandparent-grandchild/parent-child exclusion can be highly beneficial, with benefits that grow the longer the same family owns the property. Most properties' assessed valuation is below its market value because of the 2% cap on inflationary property value growth, so a typical property in the state is about two-thirds of its market value, according to LAO. LAO adds that the exclusion that ACA 11 limits is applied to between 60,000 and 80,000 properties statewide each year, or about 10% of total property transfers. Additionally, LAO states that 5% of all property transfers in the state in the last decade apply the exclusion, the vast majority of which are single-family homes. LAO also states that the exclusion has a significant cost, estimating that exclusions reduced statewide property tax revenues by around $1.5 billion from what they would be in the absence of the exclusion in 2015-16. Additionally, the exclusion can be applied to the same property an infinite number of times, thereby providing a benefit that increases the more the value of the property grows and the longer the same family holds it.

5) Young and old. As mentioned above, older generations can transfer their principal residence and up to $1 million in other property to their lineal descendants without a reassessment, passing along the savings that have accrued under California's Proposition 13 method of property taxation. ACA 11 adds a key requirement for future transfers of principal residences: the descendants must live in that residence to enjoy the tax benefit. If the descendants do not, property taxes could increase significantly. As a result, many descendants who cannot or do not wish to relocate may have to sell the homes where their parents or grandparents raised them, or come up with other funds sufficient to pay the additional taxes. However, by ending a tax benefit for converting inherited properties into rental properties, ACA 11 could help ameliorate the state's affordable housing crisis by ending the significant incentive to hold these properties off the home sales market. ACA 11 would also repeal the parent-child, grandparent-grandchild exclusion from change in ownership for up to $1 million in property that is not the principal residence. As a result,

children or grandchildren inheriting a property that is used for a business, rental housing, or for investment purposes may be forced to sell it if they cannot pay property taxes based on current market values.

6) Enforceable? Under ACA 11, transferees could continue to apply the parent-child, grandparent-grandchild exclusion from change in ownership so long as they claim the homeowners' exemption, a $7,000 reduction in taxable value when the home is the principal place of residence of the owner on January 1st of the year the exemption is claimed. The property must be the taxpayer's true, fixed and permanent home, and principal establishment to which they intend to return if absent. Assessors use vehicle registration, voter registration, bank accounts, and state income tax filings to determine whether a property qualifies. Once granted, the exemption continues until the taxpayer notifies the assessor or ownership changes. However, ACA 11 does not specify whether the transfer still applies if the transferee stops using the property as their principal residence; they need only claim the exemption at the time of the transfer or the one-year period thereafter. SCA 3 (Hill) contained language that ACA 11 does not that would reverse the exclusion, and require the assessor to revalue the property:

   If the transferee subsequently ceases to use the residence as his or her principal residence, the exclusion provided for in this subdivision shall no longer apply, and the residence shall be assessed at its full cash value as of the date of the transfer from the parent or grandparent to the transferee, as adjusted in accordance with subdivision (b).

7) Crunching the numbers. ACA 11 requires the Director of Finance to calculate the state revenue benefit from its provisions, assuming that additional sales of homes will boost income taxes, and higher property taxes accruing from its expanded base year value transfers and changes to the parent-child, grandparent-grandchild exclusions from change in ownership. However, it will be difficult for the Director to do so. First, the first $250,000 (single)/$500,000 (joint) from the sale of the principal residence is currently excluded from income for state tax purposes. Realtors who sell more homes due to ACA 11 may earn more income, but it will be hard to determine what the baseline income they would have made but for the measure. Additionally, ACA 11 directs counties and CDTFA to determine its revenue effect for each of California's 58 counties, 482 cities, and 2,300 special districts, which will be cumbersome. The measure also only directs counties to calculate revenue loss from transfers incoming from other counties, not revenues gained or lost resulting from transfers within the same county where the replacement property is of greater value than the original property, a current constitutional requirement ACA 11 supersedes, which will likely affect revenue. Lastly, while taxpayers currently submit claims when applying the $1 million change in ownership exclusion for inherited property, they will not if ACA 11 eliminates the exclusion, so counties and CDTFA may lack the data needed to accurately calculate these gains.

8) Options. Taxpayers whose property is substantially damaged in a wildfire or other natural disaster currently have five years to transfer their base year value to a comparable property within the same county, so long as the replacement property's cost is within 120% of the value of their damage property. Taxpayers can also transfer the base year value from their home to another county so long as the

incoming county elects to participate, subject to the same restrictions. ACA 11 would allow these taxpayers to transfer base year values to replacement properties with a cost of more than 120% of their original property, but they would have only two years instead of five to do so.

9) CDTFA? ACA 11 requires the CDTFA to determine each eligible local agency's aggregate gain every three years, based on the amounts determined by the counties, and provide reimbursements. Formed by the Legislature in 2017 to assume the non-Constitutional functions of the BOE, CDTFA does not perform many property tax functions. As a result, CDTFA may lack the expertise or resources to determine ACA 11's revenue effects for all of California's local agencies.

10) Clarity. Several provisions of ACA 11 would benefit from further clarity.

a) Is the $1 million exclusion for the family farms in addition to the $1 million for principal residences, for a total of $2 million, or is the total exclusion $1 million for either or both?

b) What are the property tax revenues allocated to local agencies in Section 2.2 (b)(2)?

c) Is a ten-year grant for a special district allocated in equal amounts each year? If a special district does not obtain a grant in the first year, can it then only be awarded one out of the growth in amounts transferred by the Controller? Do grants continue at previously authorized levels if the Director of Finance calculates ACA 11 results in a loss or a lower amount of growth than the previous year?

d) Should CDTFA and county auditors determine the location of transfers by tax rate area when determining "gain" for cities, school and special districts?

e) Is CDTFA required to use a county's determination of gain for each local agency? Under what circumstances should it not?

f) Does every local agency need to be reimbursed for all of negative gains before CDTFA remits moneys from the County Revenue Protection Fund to the General Fund? The measure only states that the remittance occurs "if each local agency that has a negative gain has been reimbursed."

g) If a fire district receives a grant from the California Fire Response Fund, is it ineligible for a reimbursement from the County Revenue Protection fund if its grant exceeds its negative gain?

11) Argument in Support. In a letter supporting ACA 11, the California Professional Firefighters stated, in part, the following:

ACA 11 is a compromise measure to replace a measure qualified for the November ballot, ensuring that funding for fire protection and local government revenues are protected, and allowing for flexibility and reform in California's property tax formulas, while leaving the protections of Proposition

13 intact. This measure contains several provisions intended to increase the stock of available housing and provide protections to vulnerable Californians in the housing market, while creating protected funding for underfunded fire districts throughout the state and ensuring that counties and local governments receive equal and equitable funding through the provisions.

RELATED/PRIOR LEGISLATION

SCA 2 (Galgiani) of 2020, substantially identical to ACA 11. Currently pending in the Assembly Elections and Redistricting Committee.

SCA 3 (Hill) of 2019, provides that the parent-child and grandparent-grandchild exclusion only apply when only the transferee uses the residence as his or her principal residence. The measure is currently on the inactive file on the Senate Floor.

SCA 4 (Galgiani) of 2019, expands the Constitution's current base year value transfer authority, and limits the parent-child and grandparent-grandchild transfers in a similar but not identical way as this measure. The measure is currently pending in the Senate Committee on Governance and Finance.

PRIOR ACTION

Senate Budget and Fiscal Review:	18 - 0
Assembly Floor:	76 - 0
Assembly Budget Committee:	27 - 0

Note: Prior votes do not reflect the current version of this bill.

POSITIONS

Sponsor: California Professional Firefighters
California Association of Realtors

Support: None received

Oppose: None received

-- END --

August 22, 2019

Hon. Xavier Becerra
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Anabel Renteria
Initiative Coordinator

Dear Attorney General Becerra:

Pursuant to Elections Code Section 9005, we have reviewed the proposed constitutional initiative (A.G. File No. 19-0003) related to property tax assessment.

BACKGROUND

Local Governments Levy Taxes on Property Owners. California local governments—cities, counties, schools, and special districts—levy property taxes on property owners based on the value of their property. Property taxes are a major revenue source for local governments, raising over $60 billion per year.

Calculating a Property Owner's Tax Bill. Each property owner's annual property tax bill is equal to the taxable value of his or her property multiplied by the property tax rate. The typical property owner's property tax rate is 1.1 percent. In the year a property is purchased, its taxable value is its purchase price. Each year after that the property's taxable value is adjusted for inflation by up to 2 percent. This continues until the property is sold and again is taxed at its purchase price (this often is referred to as the property being "reassessed").

Ownership Changes Increase Property Taxes. The market value of most homes (what they could be sold for) grows faster than 2 percent annually. This means the taxable values of most properties are less than their market values. Property transfers, therefore, typically trigger an increase in a property's taxable value. This, in turn, leads to higher property tax collections. Because of this, movers often face increased property tax bills because the purchase price of the newly purchased home often exceeds the taxable value of the buyer's prior home (even when the homes have similar market values).

Special Rules for Some Homeowners. In some cases, special rules allow existing homeowners to move to a different home without paying higher property taxes. These special rules apply to homeowners who are over 55 or severely disabled or whose property has been impacted by a natural disaster or contamination. (We refer to these homeowners as "eligible homeowners.") When moving within the same county, an eligible homeowner can transfer the taxable value of his or her existing home to a different home if the market value of the new home is the same or less than the existing home. Also, a county government may allow eligible homeowners to transfer their taxable values to homes in the county from homes in different counties. Ten counties allow these transfers. Except in limited cases, homeowners who are over 55 or severely disabled can only transfer their taxable value once in their lifetime. The nearby box ("What Happens Under Current Law?") has an example of how these rules work.

What Happens Under Current Law?

A 55 year old couple purchased their home 30 years ago for $110,000. Their home's taxable value is now $200,000 ($110,000 increased by 2 percent each year for 30 years). Their yearly property tax bill is $2,200 (1.1 percent of the taxable value). Their home now could be sold for $600,000. The couple is considering moving to one of two different homes.

- ***More Expensive Home.*** The first option is to move to a home that costs $700,000. This move is not eligible for the special rules because the new home is more expensive than the existing home. If the couple made this move, the taxable value of their new home would be $700,000 (the home's purchase price). Their yearly property tax bill would increase to $7,700.
- ***Less Expensive Home.*** The second option is to move to a home that costs $450,000. In this case, the special rules would apply. Their new home's taxable value would be $200,000 (the same as their old home). Their yearly property tax bill would remain $2,200.

Special Rules for Inherited Properties. Special rules also exclude from reassessment certain property transfers between parents and children. These rules also apply to grandparents and grandchildren if the grandchildren's parents are deceased. (We refer to properties transferred between parents and children or grandparents and grandchildren as "inherited property." This includes properties transferred before and after the death of the parent or grandparent.) The rules apply to all types of property including primary residences, vacation homes, and business properties. There is, however, a cap of $1 million in aggregate taxable value of all inherited properties that were not used as the parent's primary residence.

Change in Ownership of a Business Property May Not Lead to Reassessment. Property can be owned by individuals or legal entities. Legal entities include sole proprietorships, partnerships, limited liability companies, and corporations. Properties owned by a legal entity are not necessarily reassessed when ownership of the legal entity changes. This is because while the owners of the legal entity change, the legal entity remains the owner of the property. Reassessment can occur, however, if any person or entity obtains more than 50 percent ownership of the legal entity, the legal entity's properties are reassessed. Reassessment also can occur in other limited circumstances.

Other Taxes on Property Sales. Cities and counties collect taxes on the transfer of homes and other real estate. Statewide, transfer taxes raise around $1 billion for cities and counties each year.

Counties Administer the Property Tax. County assessors determine the taxable value of property. Statewide, county spending for assessors' offices totals around $600 million each year.

California Taxes Personal Income. The state collects a personal income tax on income earned within the state. Taxable income can include profits from selling real estate. The personal income tax raises over $90 billion each year.

PROPOSAL

The measure amends the State Constitution to make various changes to the special rules for eligible homeowners and inherited properties, as well as the rules for taxation of properties held by legal entities.

Expands Special Rules for Eligible Homeowners. The measure expands the special rules that give property tax savings to eligible homeowners when they buy a different home. Specifically, effective July 1, 2021, the measure:

- ***Allows Moves Anywhere in the State.*** Eligible homeowners could transfer the taxable value of their existing home to another home anywhere in the state.
- ***Allows the Purchase of a More Expensive Home.*** Eligible homeowners could transfer the taxable value of their existing home (with some adjustment) to a more expensive home. The taxable value transferred from the existing home to the new home is adjusted upward. The new home's taxable value is greater than the prior home's taxable value but less than the new home's market value. An example is shown in the nearby box ("What Happens Under the Measure?").
- ***Increases the Number of Times a Homeowner Can Use the Special Rules.*** Eligible homeowners could transfer their taxable value up to three times in their lifetime.

To use the special rules, homeowners would need to file an application with their county assessor.

What Happens Under the Measure?

Using the same couple from the earlier example, their current home has a taxable value of $200,000 and a market value of $600,000. If they move, the taxable value of their new home would be:

- ***More Expensive Home.*** If the couple buys the home for $700,000, the new home's taxable value would be $300,000 (as shown below). Their yearly property tax bill would be $3,300. This is more than they paid at their prior home ($2,200) but much less than they would pay under current law ($7,700).

$300,000 [New home's taxable value] = **$200,000** [Prior home's taxable value] + **$100,000** [$700,000 New home's market value − $600,000 Prior home's market value]

- ***Less Expensive Home.*** The couple's property tax bill would be the same as under current law, discussed above.

Narrows the Special Rules for Inherited Properties. The measure narrows the special rules for inherited properties. Specifically, effective January 1, 2021, the measure:

- ***Eliminates Exclusion for Properties Not Used as Primary Residence.*** The inheritance exclusion would apply only to properties used as the inheritor's primary residence. Inherited property used for any other purpose than the inheritor's primary residence—such as rental homes or business properties—would be reassessed to market value.
- ***Caps Amount of the Tax Benefit for Primary Residences.*** The assessor would exclude only the first $1 million of value that would be added upon reassessment. For example, consider a home with a taxable value of $500,000 that could be sold for $2 million. Were the home reassessed to market value, its taxable value would increase by $1.5 million. Instead, under the measure, $1 million of this increase would be excluded. Upon inheritance, the home's taxable value would be $1 million—$500,000 (original taxable value) + $500,000 ($1.5 million [gap between original taxable value and market value] - $1 million [inheritance exclusion]).
- ***Increases the Annual Adjustment to an Inherited Property's Taxable Value.*** The taxable value of an inherited property would increase each year at the same rate as the price of a typical California home.

Broadens Scope of Legal Entity Ownership Changes. In addition to the existing circumstances defined in current law, the measure broadens the types of legal entity ownership changes that trigger reassessment. Specifically, effective January 1, 2021, the measure requires properties owned by a legal entity to be reassessed if 90 percent or more of the ownership of the legal entity is transferred, even if no single person or entity gains more than 50 percent ownership. The transfer of 90 percent of the ownership could occur in a single transaction or over time as part of multiple transactions. The sale of stock in a publicly traded company through an established stock market would not count as a change of ownership.

FISCAL EFFECT

Increased Property Tax Revenue From Inherited Property Rules. As the measure would narrow the inheritance reassessment exclusion, it would result in more properties being reassessed at the time of inheritance. Under current law, between 60,000 and 80,000 inherited properties statewide are excluded from reassessment each year. Somewhere around two-thirds of these properties are not used as primary residences. Further, it appears that roughly one-fifth of the tax benefit on inherited primary residences went to those who received a benefit greater than $1 million. Both of these types of inherited properties would see an increase in their taxable value under the measure. This suggests the measure could lead to increases in property tax payments for 40,000 to 60,000 properties each year. This, in turn, would increase property tax revenues for local governments. In the first few years, schools and other local governments each probably would gain over $100 million per year. Over time, these gains would grow resulting in schools and other local governments each gaining about $1 billion per year (in today's dollars).

Increased Property Tax Revenue From Legal Entity Ownership Change Rules. By expanding the scope of legal entities ownership changes that can result in reassessment, the measure would result in more legal entities' properties being reassessed each year. This, in turn, would increase property tax payments by legal entities. Very little information is available about ownership changes of legal entities throughout the state. Because of this, the magnitude of the potential increase in property taxes paid by legal entities is unclear.

Reduced Property Tax Revenues From Expanded Rules for Eligible Homeowners. The changes to the special rules for eligible homeowners could have multiple effects on property tax revenue:

- ***Reduced Taxes From People Who Would Have Moved Anyway.*** Right now, around 80,000 homeowners who are over 55 move to different houses each year without receiving a property tax break. Most of these movers end up paying higher property taxes. Under the measure, these movers could apply for a lower property tax bill. This would reduce property tax revenue. The size of the revenue reduction would depend on what share of eligible movers apply to use the special rules.
- ***Potentially Higher Taxes From Higher Home Prices and More Home Building.*** The measure would cause more people to sell their homes and buy different homes because it gives them a tax break to do so. The number of movers could increase by a few tens of thousands. More people being interested in buying and selling homes would have some effect on home prices and home building. Increases in home prices and home building would lead to more property tax revenue.

The revenue losses from people who would have moved anyway would be bigger than the gains from higher home prices and home building. This means this part of the measure would reduce property taxes for local governments. In the first few years, schools and other local governments each probably would lose tens of millions of dollars per year. Over time, these losses would grow, resulting in schools and other local governments each losing hundreds of million dollars per year (in today's dollars).

Net Change in Property Taxes for Local Governments. Some parts of the measure would decrease property tax revenues for local governments, while other parts would increase them. Overall, it is likely that revenue gains would exceed revenue losses. In the first few years, local governments collectively could gain tens of millions of dollars per year. These revenue gains would grow over time, eventually reaching a few hundred million dollars per year. Schools could receive similar property tax gains.

Change in State Funding for Schools. Should schools gain property tax revenues under the measure, state funding for schools may decrease by a similar amount in some years. In those years, most schools would receive the same amount of funding they would have received in the absence of the measure.

Increase in Property Transfer Tax Revenues. As the measure would increase home sales, it also would increase property transfer taxes collected by cities and counties. This revenue increase likely would be in the tens of millions of dollars per year.

Increase in Income Tax Revenues. Because the measure would increase the number of homes sold each year, it likely would increase the number of taxpayers required to pay income taxes on the profits from the sale of their homes. This probably would increase state income tax revenues by tens of millions of dollars per year.

Higher Administrative Costs for Counties. The measure would require county assessors to create and carry out a variety of new processes, which could necessitate increased staffing and information technology upgrades. This likely would increase annual costs for county assessors by tens of millions of dollars, with potentially higher one-time costs in the first few years.

Summary of Fiscal Effects. The measure would have the following major impacts on state and local governments:

- Local governments could gain tens of millions of dollars of property tax revenue per year, likely growing over time to a few hundred million dollars per year. Schools could receive similar property tax revenue gains.
- Other local and state revenues each could increase by tens of millions of dollars per year.
- County property tax administration costs likely would increase by tens of millions of dollars per year.

Sincerely,

____
Gabriel Petek
Legislative Analyst

____
Keely Martin Bosler
Director of Finance