Government Finance & Administration Policy Committee Meeting
Via Zoom
Thursday, July 16, 2020 | 1:00pm – 3:00pm

Chair: Bruce Gibson, San Luis Obispo County
Vice Chair: Diane Burgis, Contra Costa County
Vice Chair: Chuck Washington, Riverside County

Agenda

1:00 pm	**I.**	**Welcome and Introductions** Bruce Gibson, San Luis Obispo County
1:10 pm	**II.**	**Proposition 15 – *Schools & Communities First Act*** Staff Presentation Proponents Presentation Opponents Presentation Discussion Vote
2:00 pm	**III.**	**Proposition 19 – *Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disasters Act* (Formerly ACA 11)** Staff Presentation Proponents Presentation Opponents Presentation Discussion Vote
2:50 pm	**IV.**	**Wrap Up and Questions**
3:00 pm	**VI.**	**Adjourn**

ATTACHMENTS

Proposition 15– *Schools & Communities First Act*

Attachment One .... CSAC Memo: Proposition 15 Analysis

Attachment Two .... Proposition 15 Title and Summary

Attachment Three .... Proposition 15 Text

Attachment Four .... Legislative Analyst’s Office Proposition 15 Fiscal Analysis

Attachment Five .... California Assessors’ Association Letter and Report

Proposition 19 – *Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disasters Act* (Formerly ACA 11)

Attachment Six .... CSAC Memo: Proposition 19 Analysis

Attachment Seven .... Proposition 19 Text

Attachment Eight................................... ACA 11 Senate Analysis

Attachment Nine .... Legislative Analyst’s Office of the *Property Tax Fairness for the Severely Disabled, Victims of Disaster, and Seniors Act* (Precursor to ACA 11)

Attachment One

CSAC Memo: Proposition 15 Analysis

California State Association of Counties®

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July 14, 2020

To: CSAC Government Finance & Administration Committee

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

Re: Proposition 15 – Schools & Communities First – 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
Proposition 15, the Schools & Communities First Act, would tax most commercial and industrial property based on its fair market value, beginning in 2022-23. Because the measure would tax commercial and industrial property differently than residential and agricultural property, it's also known as "split roll." The measure is estimated to increase tax revenue from these properties by between $8 billion and $12 billion per year statewide.

The increased property tax revenue would be distributed to counties, schools, cities, and special districts, in essentially the same proportion as under current law. Before that, however, the increased revenue is required to cover costs incurred by counties to administer the program, as well as any losses to the state General Fund resulting from decreased corporate and personal income taxes.

Background
Current Law
Article XIII of the California Constitution, originally enacted by Proposition 13 (1978), does not distinguish commercial and industrial property from residential and agricultural property. It caps the ad valorem tax rate for all property at 1 percent and limits increases to the assessed value. Each year, the property's assessed value can increase by no more than 2 percent or the rate of inflation, whichever is lower. Property is only reassessed when there is a change in ownership or new construction, at which point it is reassessed at fair market value.

Statewide, about 46 percent of property tax revenue is allocated to local agencies counties (14 percent), cities (13 percent), and special districts (19 percent) hile the remaining 54 percent is allocated to schools and community colleges, although the allocation varies considerably among counties.

Changes under Ballot Initiative

This proposal seeks to tax most commercial and industrial real property, including some vacant land, based on current fair-market value, eliminating the limitation on increasing assessed value by no more than 2 percent per year for those properties. The measure would not apply to residential property, property owned or occupied by small businesses with a market value of less than $3 million, or farmland (though it would apply to a farm's buildings, such as processing and refrigeration facilities).

The $3 million threshold for small businesses will be adjusted for inflation every two years by the State Board of Equalization (BOE) beginning in 2025. The BOE will be tasked with calculating the inflation adjustment on a county by county basis, taking in to consideration the average market values of each.

The first $500,000 of a business's personal property (e.g., machinery, computers, and office equipment) will be exempt from taxation, and businesses with fewer than 50 employees will be exempt from taxation on all personal property. Aircraft and vessels are not included in the personal property exemptions.

Proposition 15 would require the Legislature to establish a Task Force on Property Tax Administration, made up of a county assessor, a member of the BOE, a proponent of Proposition 15, a taxpayer representative, and a member of the Legislature. The Task Force is instructed to make recommendations to the Legislature on certain aspects of implementing which the measure leaves to the Legislature to decide.

The measure's shift to market value assessment would be phased in over three fiscal years, beginning in 2022-23. After the initial reassessment, applicable commercial and industrial real property will be regularly reassessed at intervals determined by the Legislature, but no less frequently than every three years. There is an exception to this timeline for property where a majority of square footage is occupied by small businesses with 50 or fewer employees. These properties would not shift to market value taxation until 2025-26, unless a different date is set by the Legislature.

Before allocating funds raised by this measure to local governments and schools, the proposal requires a portion of the new revenues be allocated to 1) the state General Fund to compensate for any reductions in personal income and corporate tax revenue resulting from the measure, and 2) counties to cover their costs of administering the changes. Which county costs are eligible for reimbursement will be determined by the Legislature. However, the measure does state that "such costs shall at a minimum include the costs of assessment, assessment appeals, legal counsel, tax allocation and distribution, and auditing and enforcement" and that the intent is to "provide full adequate funding to counties to cover all costs associated with implementation of the Act."

Assessment Appeals

Proposition 15 also directs the Legislature to work with county assessors to develop a process for hearing appeals resulting from the required reassessments. The measure outlines several requirements for this process. Most notably, the appeals process would not automatically accept an applicant's opinion of value on the property. Under current law, County Boards of Equalization and Assessment Appeals Boards are required to render their decision on an appeal within two years. If they do not, the new value of the property will default to whatever the applicant's opinion of value is, even if that value is unrealistically or artificially low. In addition, Proposition 15 would require the applicant to shoulder the burden of proof that their property was not properly valued, as opposed to the assessor.

Fiscal Impact
Statewide, the Legislative Analyst's Office estimates that this measure would increase annual property tax revenue by $8 billion to $12.5 billion in most years. The amount of revenue will fluctuate year to year based on the state of real estate markets at the time.

The California Assessors' Association (CAA) estimates that the cost to implement the measure would be slightly more than $1 billion during the first three years. They also estimate an approximate 12-fold increase in the number of commercial and industrial properties that counties would have to reassess annually.

Impact on Small Counties
A survey by the CAA found that many small to mid-size counties have very few commercial or industrial properties with a value greater than the $3 million threshold. Those counties are likely to receive little, if any, increased revenue from reassessments. Meanwhile, businesses in these counties would still receive the tax exemptions for personal property, and would eliminate, or significantly reduce, their property tax obligation on equipment and machinery. Without increased revenue from high value reassessments to offset these exemptions, property tax revenue is likely to decline in these counties.

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, say the following:

> *In order to meet each community's unique needs, counties must be given greater financial independence from the state and federal budget processes, including the authority to collect revenues at a level sufficient to provide the degree of local services the community desires. Counties will seek a level of financial independence that provides for the conduct of governmental programs and services, especially discretionary programs and services, at an adequate level.. counties advocate for aligning revenue authority with service responsibility, and also support other measures that grant counties financial independence.* —Chapter 9 – Financing County Services

Proposition 15 would result in significant new revenues for most counties, schools, and other local agencies, providing a measure of financial independence from the state and allowing increased services in those communities. However, the measure is also likely to reduce revenue somewhat for some small counties. In deciding on a position, supervisors will have to weigh these impacts against each other.

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

Resources
1) Full text of Ballot Initiative
2) Title and Summary by Attorney General
3) Fiscal Analysis by Legislative Analyst's Office

Attachment Two

Proposition 15 Title and Summary

October 17, 2019
Initiative 19-0008 (Amdt. #1)

The Attorney General of California has prepared the following title and summary of the chief purpose and points of the proposed measure:

INCREASES FUNDING FOR PUBLIC SCHOOLS, COMMUNITY COLLEGES, AND LOCAL GOVERNMENT SERVICES BY CHANGING TAX ASSESSMENT OF COMMERCIAL AND INDUSTRIAL PROPERTY. INITIATIVE CONSTITUTIONAL AMENDMENT. Increases funding for K-12 public schools, community colleges, and local governments by requiring that commercial and industrial real property be taxed based on current market value. Exempts from this change: residential properties; agricultural properties; and owners of commercial and industrial properties with combined value of $3 million or less. Increased education funding will supplement existing school funding guarantees. Exempts small businesses from personal property tax; for other businesses, exempts $500,000 worth of personal property. Summary of estimate by Legislative Analyst and Director of Finance of fiscal impact on state and local governments: **Net increase in annual property tax revenues of $7.5 billion to $12 billion in most years, depending on the strength of real estate markets. After backfilling state income tax losses related to the measure and paying for county administrative costs, the remaining $6.5 billion to $11.5 billion would be allocated to schools (40 percent) and other local governments (60 percent).** (19-0008.)

Attachment Three

Proposition 15 Text

SECTION 1. Title

This measure shall be known as "The California Schools and Local Communities Funding Act of 2020."

SEC. 2. Findings

(a) California is the fifth largest economy in the world, but if we don't invest in our future, we'll fall behind. To grow our economy and provide a better quality of life now, and for future generations of Californians, we need to do a better job of investing in our schools, community colleges, and local communities, and do more to encourage small businesses and start-ups.

(b) Our competitiveness begins with making children and their education a priority. Decades of cuts and underfunding have undermined California schools. A recent national study ranked the performance of California schools in the bottom half of all states. The top ranked states spend thousands of dollars more per student than California.

(c) California's funding shortfall has direct consequences for our kids: we're dead last in the nation in teacher-to-student ratios, last in guidance counselor to student ratios, and last in librarian-to-student ratios.

(d) The quality of life in our local communities is also critical to our economic future. It depends on streets that are safe and clean, emergency services we can count on, parks and recreation programs that keep our youth off the streets, and roads that are well maintained. Our cities, counties and local agencies are on the front line facing the consequences of the lack of affordable housing and increasing homelessness as well as worsening risks from wildfires and other disasters.

(e) Property taxes on commercial and industrial properties are a principal source of funding for our schools and local communities. While virtually every other state assesses commercial and industrial property based on its fair market value, California allows commercial and industrial property taxes to go many years, even decades, without reassessment. This unusual system is prone to abusive tax avoidance schemes, diverts funds away from schools and local communities, contributes to the shortage of affordable housing, distorts business competition, and disadvantages business start-ups.

(f) California's under-assessment of commercial and industrial properties is a growing problem. Large investors and corporations, many of whom are from other states and countries, are using a variety of schemes to get around the law and buy and sell properties without being reassessed, costing our schools and local communities billions of dollars.

(g) A recent study by the University of Southern California has found that under-assessed commercial and industrial property allows owners to avoid over $11 billion in local property taxes each year that should be going to support our schools and local communities.

(h) California's unusual commercial and industrial property tax system contributes to California's affordable housing crisis. Studies by the Legislative Analyst Office and the University of California have demonstrated that California's property tax system incentivizes owners to hold idle vacant and under-utilized commercial and industrial property. A reformed system, that assesses all properties based on their fair market value, would create a powerful new incentive to build new housing.

(i) Every commercial and industrial property owner benefits from local schools and services like public safety and infrastructure. It is unfair and anti-competitive that the property tax system forces some businesses to pay higher property taxes to support our schools and local communities while their competitors pay much lower property taxes because their properties are assessed far below their fair market value.

(j) California's unusual property tax system not only distorts competition, it discourages business investments. Under the current system, businesses that invest in improving their properties trigger reassessment and higher property taxes. But businesses that don't invest in improving their properties continue to enjoy the low cost of under assessment.

(k) A study done at the University of California demonstrates that reassessing commercial property will have a net positive benefit on jobs and the California economy.

(l) If we reformed California's under-assessment problem on business properties, California would still rank among the lowest states for business property taxes in the nation because of the California Constitution's provisions related to the 1% limitation on property tax rates.

(m) Thriving small businesses and start-ups are essential to California's economy now and for our future. The property tax on equipment and fixtures discourages new start-ups, small businesses and larger businesses from making new productive investments. By requiring under-assessed large properties to be assessed at fair market value, small businesses can be fully exempted from the property tax on equipment and fixtures and the tax can be substantially reduced for other businesses, removing this disincentive without harm to funding for our schools and local communities.

(n) Reassessing under-assessed commercial and industrial property in California would primarily impact a small number of properties owned by the largest corporations and wealthiest investors. Almost 80% of the tax benefits of the under-assessment allowed by the current system go to just 8% of the properties.

(o) The benefits to our schools, local communities and economy resulting from ending the under-assessment of commercial and industrial property can be achieved while protecting small businesses through exemptions and deferrals of reassessment and at the same time encouraging small businesses by creating a more level playing field and by eliminating the property tax on business equipment and fixtures.

(p) Reforming commercial and industrial property assessments to fair market value will result in a fairer system for our schools, our local communities and our businesses. All businesses will compete on a level playing field, generating billions of dollars in additional support for our schools and local communities.

SEC. 3. Purpose and Intent.

It is the intent of the People of the State of California to do all of the following in this measure:

(a) Preserve in every way Proposition 13's protections for homeowners and for residential rental properties. This measure only affects the assessment of taxable commercial and industrial property.

(b) Provide for increased and stable revenues for schools, cities, counties and other local agencies by requiring under-assessed commercial and industrial properties to be assessed based on their fair market value.

(c) Distribute the new revenues resulting from this measure to schools and local communities, not to the State.

(d) Ensure that the portion of any new revenues going to local schools and community colleges as a result of this measure is treated as new revenues that are in addition to all other funding for schools and community colleges, including Proposition 98.

(e) Guarantee every school district and community college will receive additional funding from this measure and that funds going to schools and community colleges are allocated in a manner that is consistent with local control funding formulas intended to advance equity.

(f) Ensure that any new revenues going to cities, counties, and special districts as a result of this measure will be allocated in the same manner as other property tax revenues, consistent with prior ballot measures approved by voters, to improve the quality of life in local communities in all parts of California.

(g) Make certain there is complete public transparency by requiring schools, community colleges, cities, counties, and special districts to publicly disclose the new revenues they receive and how those revenues are spent in a manner that is widely available and easily understood.

(h) Be very clear that this measure only applies to taxable commercial and industrial real property by including provisions stating that:

1) All residential property is exempt so homeowners and renters will not be affected in any way by this measure.
2) This measure makes no change to existing laws affecting the taxation or preservation of agricultural land.

(i) Make no change to Proposition 13's constitutional provisions relating to the 1% limitation on property tax rates for all taxable real property so local property taxes on commercial and industrial property will continue to be among the lowest in the country after this measure is approved by voters.

(j) Ensure stability for owners of small business properties by providing an exclusion for small commercial and industrial real property owners. The intent of this provision is to provide an exclusion that applies only to the true owners of small businesses and that large property owners shall be prevented from using the exclusion for their own benefit.

(k) Defer reassessments for properties in which small businesses account for 50% or more of the occupied space until the 2025-2026 lien date to provide those small business tenants additional time to choose the leasing option that works for them, recognizing that the impact of this measure will be different for each property, depending on how close the current assessment is to the fair market value and whether or not it qualifies for the small property exclusion for properties with a fair market value of $3 million or less.

(l) Encourage new and existing businesses to make new investments by eliminating the business tangible personal property tax on equipment and fixtures for small businesses and providing a $500,000 per year exemption for all other businesses. The Legislature may not reduce this exemption, but it may increase it.

(m) Provide greater equity in the taxation of commercial and industrial properties by assessing all of them based on their actual fair market value just like start-ups and new commercial and industrial properties that already are being assessed based on their actual fair market value. The intent is for all businesses to compete on a more level playing field and make sure all businesses are paying their share to support the schools and local communities from which they benefit.

(n) Require the Legislature, after conferring with a Task Force on Property Tax Administration, to provide by statute for the phase-in of reassessments of under-assessed commercial and industrial real properties so that county assessors may effectively implement the new law. Such phase-in will begin with the lien date for the 2022-23 fiscal year and occur over several years. Affected owners shall only be obligated to pay the taxes based on the new assessed value beginning with the lien date for the fiscal year when the assessor has completed the reassessment.

(o) Require the Legislature to ensure that the phase-in provisions provide affected owners of under-assessed commercial and industrial real properties reasonable time to pay any increase in their tax obligations resulting from this measure.

(p) Provide for the recovery of actual direct administrative costs incurred by counties to effectively implement the new law.

(q) Ensure that the General Fund and other funds of the State are held harmless by reimbursing the State for reductions in tax revenue caused by the deductibility of the property tax.

(r) Maintain the Board of Equalization's oversight over the property tax system to assure the public that assessments of commercial and industrial real property in every county are equitable and uniform as required by this measure, and to further ensure that the Board of Equalization provides statewide assistance as necessary to support the efficient implementation of this measure within all 58 counties.

SEC. 4. Section 8.7 of Article XVI of the California Constitution is added to read:

SEC. 8.7. (a) The Local School and Community College Property Tax Fund is hereby created in the State Treasury, to be held in trust, and is continuously appropriated for the support of local education agencies as that term is defined in section 421 of the Education Code as that statute read on January 1, 2020, and for the support of community college districts. The moneys deposited in the Local School and Community College Property Tax Fund shall be held in trust for schools, and shall be distributed as follows:
(1) Eleven percent (11%) of the moneys shall be allocated by the Board of Governors of the California Community Colleges to community college districts in proportion to the funding calculated for each district pursuant to the distribution formulas operative in statute as of January 1, 2020, or any successor statute, provided that property tax revenues calculated pursuant to section 84751 of the Education Code, or any successor statute, that exceed the total funding calculated for a district pursuant to the then-operative distribution formulas shall be subtracted from that district's proportionate share of the Local School and Community College Property Tax Fund.
(2) Eighty-nine percent (89%) of the moneys shall be allocated by the Superintendent of Public Instruction to school districts, charter schools and county offices of education as follows:
(A) To school districts and charter schools, in proportion to each school district's or charter school's total funding calculated pursuant to subdivisions (a)-(i), inclusive, of section 42238.02 of the Education Code, as those provisions read on July 1, 2019. Any school district or charter school that qualifies as a "basic aid school district" or "excess tax entity" under subdivision (o) of that section shall have subtracted from its proportionate share of the Local School and Community College Property Tax Fund the amount by which the sum calculated in subdivision (j) of that section exceeds the amount calculated pursuant to subdivisions (a)-(i), inclusive, as each of those provisions read on July 1, 2019.
(B) To county offices of education, in proportion to each office's total funding calculated pursuant to section 2574 of the Education Code as that section read on July 1, 2019.
(3) Notwithstanding the above, no school district or charter school shall receive from the Local School and Community College Property Tax Fund less than $100 per unit of average daily attendance, adjusted annually upward or downward by the same percentage that the Local School and Community College Property Tax Fund grew or declined from the previous year, and no community college district shall receive from the Local School and Community College

Property Tax Fund less than $100 per enrolled full time equivalent student, adjusted annually upward or downward by the same percentage that the Local School and Community College Property Tax Fund grew or declined from the previous year.

(b) Except as provided in paragraph (2) of subdivision (d) of Section 8.6 of this Article, notwithstanding any other law, the moneys deposited in the Local School and Community College Property Tax Fund shall not be subject to appropriation, reversion, or transfer by the Legislature, the Governor, the Director of Finance, or the Controller for any purpose other than those specified in this section, nor shall these revenues be loaned to the General Fund or any other fund of the State or any local government fund.

(c) Moneys allocated to local education agencies, as that term is defined in section 421 of the Education Code as that statute read on January 1, 2020, and to community college districts from the Local School and Community College Property Tax Fund shall supplement, and shall not replace, other funding for education. Funds deposited into or allocated from the Local School and Community College Property Tax Fund shall not be part of "total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B and allocated local proceeds of taxes" for purposes of paragraphs (2) and (3) of subdivision (b) of Section 8 of this Article or for purposes of Section 21 of this Article. Except as provided in subdivision (c) of Section 8.6 of this Article, revenues generated by Section 2.5 of Article XIII A shall not be deemed to be General Fund revenues which may be appropriated pursuant to Article XIII B for purposes of paragraph (1) of subdivision (b) of Section 8 of this Article, nor shall they be considered in the determination of per capita General Fund revenues for purposes of subdivisions (b) and (e) of Section 8 of this Article.

(d) Except as provided in subdivision (c) of Section 8.6 of this Article, revenues generated by Section 2.5 of Article XIII A shall not be deemed to be General Fund proceeds of taxes that may be appropriated pursuant to Article XIII B for purposes of Section 20 or Section 21 of this Article.

SEC. 5. Section 8.6 of Article XVI of the California Constitution is added to read:

SEC. 8.6. (a) The Legislature shall provide by statute a methodology, based on historical experience, for determining the additional revenue generated in each county each fiscal year as a result of the application of the tax rate specified in subdivision (a) of Section 1 of Article XIII A and the application of Section 2.5 of Article XIII A. The determination as to the amount of additional revenue in each county shall be transmitted to the county auditor annually for use for the calculations required by this section.

(b) After transferring the necessary funds pursuant to subdivisions (c), (d) and (e) and subparagraph (B) of paragraph (1) of this subdivision, all additional revenue resulting from the application of the tax rate specified in subdivision (a) of Section 1 of Article XIII A and the

application of Section 2.5 of Article XIII A shall be allocated and transferred by the county auditor as follows:

(1) (A) First, to the Local School and Community College Property Tax Fund created pursuant to Section 8.7 of this Article, in an amount equal to the school entities' share of property taxes as determined pursuant to Chapter 6 (commencing with Section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code, as that chapter read on January 1, 2020.

(B) Prior to making the transfer pursuant to subparagraph (A) of this subdivision, the county auditor shall subtract an amount equal to the county's share of the increase in appropriations of State General Fund proceeds of taxes for the support of school districts and community college districts pursuant to Section 8 of Article XVI due to the revenue loss resulting from the exemptions provided by Section 3.1 of Article XIII, as determined by the Director of Finance. The county's share of additional State General Fund appropriations shall be transferred by the county auditor to the General Fund prior to the allocation specified in subparagraph (A) of this subdivision. The amount determined by the Director of Finance pursuant to this subparagraph shall for each fiscal year be apportioned by county in proportion to the revenue loss resulting from the exemptions provided by Section 3.1 of Article XIII.

(2) Second, among cities, counties, and special districts pursuant to Chapter 6 (commencing with Section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code, as that chapter read on January 1, 2020.

(c) The Franchise Tax Board shall determine the reduction to the General Fund and any other affected state fund of revenues derived from the taxes imposed by the Personal Income Tax Law (Part 10 (commencing with Section 17001) of Division 2 of the Revenue and Taxation Code) and the Corporation Tax Law (Part 11 (commencing with Section 23001) of Division 2 of the Revenue and Taxation Code), as those laws read on January 1, 2020, due to the deduction of any net increase in property taxes resulting from the implementation of Section 2.5 of Article XIII A and subdivision (a) of Section 3.1 of Article XIII. The amount of reduction as determined by the Franchise Tax Board shall be transferred by the county auditor to the General Fund and any other affected state fund prior to the allocation specified in subdivision (b). For purposes of making the determinations required by Section 8, 20 and 21 of this Article, the amount transferred to the General Fund pursuant to this subdivision shall be deemed to be General Fund revenues which may be appropriated pursuant to Article XIII B and General Fund proceeds of taxes appropriated pursuant to Article XIII B, and shall be included in the calculation of per capita General Fund revenues. The amount transferred pursuant to this subdivision shall for each fiscal year be apportioned among the counties in proportion to each county's contribution to the total additional revenue resulting from the application of the tax rate specified in subdivision (a) of Section 1 of Article XIII A and the application Section 2.5 of Article XIII A determined for all counties.

(d) (1) Each county or city and county shall be annually compensated for the actual direct administrative costs of implementing Section 2.5 of Article XIII A and Section 3.1 of Article XIII as identified by the board of supervisors of the county or city and county consistent with statutes identifying those costs. The Legislature shall determine by statute what constitutes actual direct administrative costs for purposes of this subdivision. Such costs shall at a minimum

include the costs of assessment, assessment appeals, legal counsel, tax allocation and distribution, and auditing and enforcement of the provisions of Section 3.1 of Article XIII and Section 2.5 of Article XIII A. It is the intent of this subdivision to provide full adequate funding to counties to cover all costs associated with implementation of the Act.

(2) The Legislature shall determine by statute the initial start-up costs necessary for each county or city and county and the Board of Equalization to implement the Act and shall appropriate State General Fund monies to pay for such startup costs until sufficient funds are available to pay for all ongoing costs to implement the Act, at which time the statute shall provide for the State General Fund to be reimbursed.

(e) Each county or city and county shall annually be reimbursed for actual refunds of property taxes paid in the prior fiscal year as a result of corrections to assessments made pursuant to Section 2.5 of Article XIII A. The amount reimbursed pursuant to this subdivision shall for each fiscal year be subtracted from each county's contribution to the total additional revenue resulting from the application of Section 2.5 of Article XIII A as a result of the application of the tax rate specified in subdivision (a) of Section 1 of Article XIII A.

(f) All local education agencies, community colleges, counties, cities and counties, cities, and special districts that receive funds from the revenues generated by Section 2.5 of Article XIII A shall publicly disclose for each fiscal year, including in their annual budgets, the amount of property tax revenues they received for that fiscal year as the result of Section 2.5 of Article XIII A and how those revenues were spent. Such disclosure shall be made so that it is widely available to the public and written so as to be easily understood.

SEC. 6. Section 2.5 of Article XIII A of the California Constitution is added to read:

SEC. 2.5. (a) (1) Notwithstanding Section 2 of this Article, for the lien date for the 2022-23 fiscal year and each lien date thereafter, the "full cash value" of commercial and industrial real property that is not otherwise exempt under the Constitution is the fair market value of such real property as of that date as determined by the county assessor of the county in which such real property is located, except as provided by the Legislature pursuant to subdivision (b).
(2) Paragraph (1) of this subdivision shall not apply to residential property as defined in this section, whether it is occupied by a homeowner or a renter. Residential property as defined in this section shall be assessed as required by Section 2 of this Article. Paragraph (1) of this subdivision shall also not apply to real property used for commercial agricultural production as defined in this section. Real property used for commercial agricultural production as defined in this section shall be assessed as required by Section 2 of this Article.

(b) The Legislature shall establish a Task Force on Property Tax Administration immediately after this section is enacted, including a county assessor or designee, a Board of Equalization member or designee, a proponent of this Act or designee, a taxpayer representative, and a member of the Legislature or designee. The Task Force shall publicly convene immediately upon its creation to examine and recommend to the Legislature all statutory and regulatory changes

necessary for the equitable implementation of this measure consistent with its purpose and intent. The Legislature, after conferring with the Task Force, shall provide by statute for the phase-in of the reassessment of commercial and industrial real property as required by paragraph (1) of subdivision (a). Any such phase-in shall provide for reassessment of a percentage of all commercial and industrial real properties within each county commencing with the lien date for the 2022-23 fiscal year and extending over two or more lien dates each fiscal year thereafter, in order to ensure a reasonable workload and implementation period for county assessors, including provision for processing and timing of assessment appeals. An owner shall first be obligated to pay the taxes based on the new assessed value beginning with the lien date for the fiscal year when the county assessor has completed the reassessment. The phase-in also shall provide taxpayers whose property has been reassessed a reasonable timeframe within which to pay any increase in taxes. After the initial reassessment of commercial and industrial real property pursuant to this subdivision, such commercial and industrial real property shall be periodically reassessed no less frequently than every three years as determined by the Legislature. Notwithstanding existing statutes, the Legislature shall, in consultation with county assessors, develop a process for hearing appeals resulting from the reassessment of properties pursuant to this section that is consistent with the following:

(1) The process shall not include automatic acceptance of the applicant's opinion of values within a given time-frame.

(2) The process shall impose on the taxpayer the burden of proof that the property was not properly valued.

(3) The process shall require the taxpayer to provide evidence relevant to any appeal in the initial application before the local assessment appeals board.

(4) The process shall ensure that decisions by local administrative hearing bodies such as assessment appeals boards, if subject to judicial review, are subject only to de novo judicial review on issues of law, while issues of fact, including valuation, shall be reviewed under the substantial evidence standard.

(c) For purposes of this section:

(1) "Commercial and industrial real property" means any real property that is used as commercial or industrial property, or is vacant land not zoned for residential use and not used for commercial agricultural production. For purposes of this paragraph, vacant land shall not include real property that is used or protected for open space, a park, or the equivalent designation for land essentially free of structures, natural in character to provide opportunities for recreation and education, and intended to preserve scenic, cultural, or historic values.

(2) "Mixed-use real property" means real property on which both residential and commercial or industrial uses are permitted.

(3) "Real property used for commercial agricultural production" means land that is used for producing commercial agricultural commodities.

(4)(A) "Residential property" shall include real property used as residential property, including both single-family and multi-unit structures, and the land on which those structures are constructed or placed.

(B) The Legislature shall provide by statute that any property zoned as commercial or industrial but used as long-term residential property shall be classified as residential for purposes of paragraph (2) of subdivision (a). For mixed-use real property, the Legislature shall ensure only that portion of the property that is used for commercial and industrial purposes shall be subject to reassessment as required by paragraph (1) of subdivision (a). The Legislature shall also define and provide by statute that limited commercial uses of residential property, such as home offices, home-based businesses or short-term rentals, shall be classified as residential for purposes of paragraph (2) of subdivision (a). The Legislature may provide for an exclusion from reassessment for the commercial share of mixed use property provided seventy-five percent (75%) or more of the property by square footage or value is residential.

(d) (1) Subject to paragraph (2) of this subdivision, upon reassessment pursuant to subdivisions (a) and (b) , each commercial and industrial real property with a fair market value of three million dollars ($3,000,000) or less shall not be subject to reassessment pursuant to paragraph (1) of subdivision (a) and shall be assessed as required by Section 2 of this Article. The amount specified in this paragraph shall be adjusted for inflation every two years commencing January 1, 2025, as determined by the State Board of Equalization. The State Board of Equalization shall calculate the adjustment separately for each county taking into consideration differences in average commercial and industrial market values among counties.
(2) Notwithstanding paragraph (1) of this subdivision, real property that would otherwise comply with the exclusion set forth in paragraph (1) of this subdivision shall be subject to reassessment pursuant to paragraph (1) of subdivision (a) if any of the direct or indirect beneficial owners of such real property own a direct or indirect beneficial ownership interest(s) in other commercial and/or industrial real property located in the State, which such real property in the aggregate (including the subject property) has a fair market value in excess of three million dollars ($3,000,000). The amount specified in this paragraph shall be adjusted for inflation every two years commencing January 1, 2025, as determined by the State Board of Equalization.
(3) All determinations of fair market value under this subdivision shall be determined by the county assessor of the county in which the property is located, and such determinations by the county assessor shall be conclusive and subject only to judicial review for abuse of discretion.
(4) In order to be eligible for the exclusion provided by paragraph (1) of this subdivision, the owner of the real property shall make a claim and certify annually to the county assessor under penalty of perjury that the conditions required by paragraphs (1) and (2) of this subdivision for exemption from reassessment have been met and shall be subject to audit by the county or the State as to that certification. The Board of Equalization shall have the authority to conduct any audits on behalf of the State.
(5) Any real property excluded from reassessment under paragraph (1) of this subdivision shall only be excluded from reassessment so long as it meets the conditions imposed by paragraphs (1) and (2) of this subdivision. If there is any change in the direct or indirect beneficial ownership of such real property, a new claim and certification must be made to the county assessor.

(6) Any appeals by taxpayers who are found not to be excluded from reassessment pursuant to paragraph (1) of this subdivision shall be subject to the process for hearing appeals as provided in subdivision (b).

(e) (1) Provided fifty percent (50%) or more of the occupied square footage of a commercial or industrial real property is occupied by a small business as defined in paragraph (4) of this subdivision, the provisions of paragraph (1) of subdivision (a) shall not take effect prior to the lien date for the 2025-26 fiscal year; provided, however, that if the Legislature establishes by statute pursuant to subdivision (b) that a real property qualified under this paragraph shall be reassessed on a lien date subsequent to the 2025-26 fiscal year, then such property shall be reassessed commencing on that subsequent lien date.

(2) In order to be eligible for the deferral provided by paragraph (1) of this subdivision, the owner of the property shall make a claim and certify annually to the county assessor under penalty of perjury that the conditions required by paragraph (1) of this subdivision for deferral from reassessment have been met and shall be subject to audit by the county or the Board of Equalization as to that certification.

(3) Any real property for which reassessment is deferred under paragraph (1) of this subdivision shall only be eligible for deferral so long as it meets the conditions imposed by paragraph (1) of this subdivision and if there is any change in the direct or indirect beneficial ownership of such real property, a new claim and certification must be made to the county assessor. Upon termination of the deferral, the property shall be subject to paragraph (1) of subdivision (a).

(4) For purposes of this subdivision, the term small business shall include only those businesses which meet all of the following conditions:

(A) The business has fewer than 50 annual full-time equivalent employees.

(B) The business is independently owned and operated such that the business ownership interests, management and operation are not subject to control, restriction, modification or limitation by an outside source, individual or another business.

(C) The business owns real property located in California.

(f) For purposes of this section the failure in any year to claim, in a manner required by the laws in effect at the time the claim is required to be made, an exclusion or classification which reduces or defers an assessment or reassessment shall be deemed a waiver of the exclusion or classification for that year.

(g) Using the methodology prescribed by the Legislature pursuant to subdivision (a) of Section 8.6 of Article XVI, the percentage change in gross taxable assessed valuation within a city, county, or a city and county used to calculate an entity's vehicle license fee adjustment amount pursuant to Section 97.70 of the Revenue and Taxation Code shall not include the additional assessed valuation that results from the application of this section.

(h) Notwithstanding Section 16 of Article XVI or any other law, the additional assessed valuation that results from the application of this section shall not be factored into to any division

of taxes or calculation of growth for treatment as tax increment and shall not be diverted in any manner whatsoever.

SEC. 7. Section 3.1 of Article XIII of the California Constitution is added to read:

SEC. 3.1. (a) (1) For each taxpayer paying the tax on tangible personal property, including business equipment and fixtures, used for business purposes, either of the following shall apply:
(A) (i) For a taxpayer that is a small business, as defined in paragraph (4) of subdivision (e) of Section 2.5 of Article XIII A, all tangible personal property owned and used for business purposes is exempt from taxation.
(ii) A taxpayer shall make a claim and certify annually to the county assessor under penalty of perjury that the condition required by this subparagraph for exemption has been met and such claim shall be subject to audit by the county or the state as to that certification.
(B) Except for a taxpayer subject to subparagraph (A) of paragraph (1) of this subdivision, an amount of up to five hundred thousand dollars ($500,000) of combined tangible personal property and fixtures, per taxpayer, is exempt from taxation.
(2) Aircraft and vessels shall not be subject to this exemption.
(3) The Legislature shall not lower the exemption amounts provided by this subdivision or change their application, but may increase the exemption amount specified in subparagraph (B) of paragraph (1) of this subdivision consistent with the authority enumerated in Section 2 of this Article.

(b) The Legislature shall provide by statute that all related entities, including but not limited to any subsidiaries, holding companies, or parent corporations, are considered one "taxpayer" for the purposes of this section.

SEC. 8. Section 16 of Article XIII B of the California Constitution is added to read:

SEC. 16. (a) For purposes of this article, "proceeds of taxes" shall not include the additional revenues generated by Section 2.5 of Article XIII A.

(b) For purposes of this article, appropriations subject to limitation of each entity of government shall not include appropriations of the additional revenues collected as a result of the implementation of Section 2.5 of Article XIII A.

SEC. 9. Effective Date.

This measure shall become operative on January 1, 2022, except that subdivision (a) of Section 3.1 of Article XIII shall become operative on January 1, 2024, and subdivision (d) of Section 8.6 of Article XVI and subdivision (b) of Section 2.5 of Article XIII A shall become operative immediately upon passage of this measure.

SEC. 10. Severability

The provisions of this Act are severable. If any portion, section, subdivision, paragraph, clause, sentence, phrase, word, or application of this Act is for any reason held to be invalid by a decision of any court of competent jurisdiction, that decision shall not affect the validity of the remaining portions of this Act. The People of the State of California hereby declare that they would have adopted this Act and each and every portion, section, subdivision, paragraph, clause, sentence, phrase, word, and application not declared invalid or unconstitutional without regard to whether any portion of this Act or application thereof would be subsequently declared invalid. Notwithstanding the foregoing, Section 7 of this Act is non-severable from Section 6 of this Act.

SEC. 11. Liberal Construction

This Act shall be liberally construed in order to effectuate it purposes as articulated in Section 3 of this Act.

Attachment Four

Legislative Analyst's Office Proposition 15 Fiscal Analysis

October 2, 2019

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

Attention: Ms. Anabel Renteria
Initiative Coordinator

RECEIVED
OCT 02 2019
INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE

Dear Attorney General Becerra:

Pursuant to Elections Code Section 9005, we have reviewed the proposed constitutional initiative (A.G. File No 19-0008, Amendment No. 1) related to taxation of commercial property.

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. Taxed properties include real property—land and buildings—and business personal property—machinery, computers, and office equipment. Property taxes raise around $65 billion annually for local governments, about $2 billion of which is attributable to business personal property. Statewide, about 60 percent of property tax revenue is allocated to cities, counties, and special districts, while the remaining 40 percent is allocated to schools and community colleges.

Counties Administer the Property Tax. County assessors determine the taxable value of property, county tax collectors bill property owners, and county auditors distribute the revenue among local governments. Statewide, county spending for property tax administration exceeds $600 million each year.

Property Taxes Are Based on a Property's Purchase Price. Each property owner's annual property tax bill is equal to the taxable value of their property multiplied by their property tax rate. Property tax rates are capped at 1 percent plus smaller voter-approved rates to finance local infrastructure. A property's taxable value generally is based on its purchase price. When a property is purchased, the county assessor assigns a value to the property—often its purchase price. Each year thereafter, the property's taxable value increases by 2 percent or the rate of inflation, whichever is lower. This process continues until the property is sold and again is taxed at its purchase price. In most years, the market value of most properties grows faster than 2 percent per year. As a result, under this system the taxable value of most properties is less than their market value.

Legislative Analyst's Office
California Legislature
Gabriel Petek, Legislative Analyst
925 L Street, Suite 1000, Sacramento, CA 95814
(916) 445-4656

California Taxes Individual Income and Corporate Profits. California levies a personal income tax (PIT) on the income of state residents, as well as the income of nonresidents derived from California sources. California also levies a corporation tax on the profits of corporations.

Property Owners Can Deduct Property Tax Payments From Taxable Income. State law allows property owners to deduct property tax payments from their taxable income for the purposes of calculating PIT and corporation tax payments. This reduces their tax bills.

State Constitution Governs State Spending on Schools and Community Colleges. The State Constitution requires the state to provide a minimum amount of annual funding for schools and community colleges, known as the "minimum guarantee." The minimum guarantee tends to grow with the economy and number of students.

Proposal

Assess Commercial and Industrial Property at Market Value. The measure requires commercial and industrial properties, as well as vacant land not intended for housing, commercial agriculture, or protected open space to be taxed based on their market value, as opposed to their purchase price. A property's market value is what it could be sold for today. The measure's shift to market value assessment is phased in over a number of years beginning in 2022-23. For properties in which the majority of space is occupied by small businesses—defined as businesses that own California property and have 50 or fewer employees—the shift to market value taxation would not begin until 2025-26 or a later date set by the Legislature.

Properties owned by individuals or businesses whose property holdings in the state total less than $3 million (adjusted for inflation biannually beginning in 2025) are exempt from market value taxation. These properties would continue to be taxed based on purchase price. Similarly, residential properties would continue to be taxed based on purchase price.

Exempt Lower Value Business Personal Property. The measure exempts from taxation the first $500,000 in value of a business's personal property. Additionally, the measure exempts from taxation all personal property of small businesses—as defined above.

Allocate New Revenues to Local Governments and Schools. The measure allocates most new revenue resulting from the measure to cities, counties, special districts, and schools. Before allocating funds to local governments, the measure requires a portion of the new revenues be allocated to (1) the state general fund to compensate for any reductions in PIT and corporation tax revenue resulting from the measure (as discussed below) and (2) counties to cover their costs of administering the measure. Of the remaining funds, roughly 60 percent is allocated to cities, counties, and special district, with each entity receiving an amount proportional to the share of property tax revenues in their county that they receive under existing law. The remaining roughly 40 percent would be allocated to schools and community colleges generally according to the same per-pupil formulas the state uses to distribute most other funding for these entities. This allocation would supplement the existing funds schools and community colleges receive under the state's constitutional minimum funding requirement.

Fiscal Effect

Market Assessment Would Increase Property Tax Revenues. Upon full implementation, the measure's shift of most commercial and industrial properties to market value assessment would increase annual property taxes paid for these properties by $8 billion to $12.5 billion in most

years. The amount of revenue raised in a given year would depend heavily on the strength of the state's real estate markets in that year. As a result, this new revenue stream would fluctuate more from year to year than property tax revenues have historically.

Business Personal Property Exemption Would Decrease Property Tax Revenues. The measure's new business personal property exemptions likely would reduce property tax revenues by several hundred million dollars per year.

Allocation of Net Increase in Property Tax Revenues. On net, the measure would increase statewide property tax revenue by $7.5 billion to $12 billion annually in most years. From this revenue, the measure first allocates funding to cover:

- ***Decreased Income Tax Revenues.*** By increasing property tax payments for commercial and industrial properties, the measure would decrease taxable personal and corporate income and, in turn, decrease state PIT and corporate tax revenues. This decrease in PIT and corporate tax revenues could be as much as several hundred million dollars annually.
- ***Increased County Costs for Property Tax Administration.*** The measure creates significant new administrative responsibilities for counties, particularly county assessors. These new responsibilities could increase county property tax administration costs by hundreds of millions of dollars per year ongoing.

Of the remaining $6.5 billion to $11.5 billion, roughly 60 percent would be allocated to cities, counties, and special districts and roughly 40 percent to schools and community colleges.

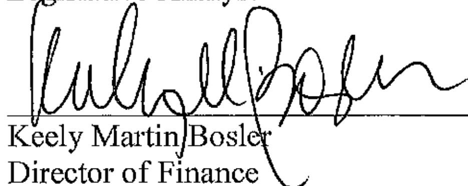
Short-Term General Fund Costs. Counties likely will incur administrative costs related to the measure before new revenue is available to cover their costs. The measure requires the state to provide loans to counties to cover these initial costs—possibly in the hundreds of millions of dollars—until new revenue is available, at which time the state loans would be repaid.

Summary of Fiscal Effects.

- Net increase in annual property tax revenues of $7.5 billion to $12 billion in most years, depending on the strength of real estate markets. After backfilling state income tax losses related to the measure and paying for county administrative costs, the remaining $6.5 billion to $11.5 billion would be allocated to schools (40 percent) and other local governments (60 percent).

Sincerely,

Gabriel Petek
Legislative Analyst



Keely Martin Bosler
Director of Finance

Attachment Five

California Assessors' Association Letter and Report

CALIFORNIA ASSESSORS' ASSOCIATION
EXECUTIVE COMMITTEE

President
DON H. GAEKLE
Stanislaus County
gaekled@stancounty.com

Immediate Past President
LESLIE K. DAVIS
Calaveras County
ldavis@co.calaveras.ca.us

President-Elect
ERNEST J. DRONENBURG
San Diego County
ernest.dronenburg@sdcounty.ca.gov

Vice President
CARMEN CHU
San Francisco City & County
Carmen.Chu@sfgov.org

Treasurer
KRISTINE LEE
Kings County
kristine.lee@co.kings.ca.us

Presidential Appointments

***CHARLES LEONHARDT**
Plumas County
cleonhardt@countyofplumas.com

JEFFREY PRANG
Los Angeles County
jprang@assessor.lacounty.gov

***MARC TONNESEN**
Solano County
mctonnesen@solanocounty.com

***LARRY STONE**
Santa Clara County
lstone96@hotmail.com

JIM ROONEY
Amador County
jrooney@amadorgov.org

Regional Representatives
CHRISTINA WYNN
Sacramento County
wynnc@saccounty.net
PETER ALDANA
Riverside County
paldana@asrclkrec.com
KARL WEILAND
El Dorado County
karl.weiland@edcgov.us

Ex-Officio/Secretary
LESLIE MORGAN
Shasta County
1450 Court Street, Ste 208
Redding, CA 96001
Phone (530) 225-3600

Committee Chairs
Standards
JON LIFQUIST
Kern County
Legislative
JESSE SALINAS
Yolo County
Education
CHRISTINA WYNN
Sacramento County

*********FOR IMMEDIATE RELEASE*********

June 3, 2020

CAA Opposes 2020 Split Roll Initiative

After careful consideration the California Assessors' Association must oppose The California Schools and Local Communities Funding Act of 2020 (initiative No. 19-0008-Amendment 1).

Since 2017 The California Assessors' Association (CAA) has monitored and analyzed the administrative complexities and the estimated costs of implementing two proposed initiatives commonly referred to as "split roll initiatives." These initiatives generally would require regular reassessment of Commercial and Industrial property at current market value, and would eliminate Proposition 13 protections for significant numbers of those properties. "The California Schools and Local Communities Funding Act of 2020", the most recent version of "Split Roll" has now qualified for the November 3, 2020 ballot.

The implementation costs and administrative issues raised by our analysis have only become more problematic due to pending budget cuts and hiring freezes which are being implemented by counties across the State. Current local budgetary realities will make implementation of the initiative extremely difficult.

The CAA, through our Split-Roll Ad Hoc Committee, has surveyed the various California Assessor's Offices to obtain projected costs of the substantial staff increases and technology costs necessary to implement this initiative, if it is passed by the voters. To obtain the most accurate projection of costs, the CAA commissioned an in-depth analysis of the data by Capitol Matrix Consulting. The CAA undertook this project to provide information to our members, to policy makers and to the public for use in their overall evaluation of the Split Roll initiative.

The "Policy Briefing Paper on Split Roll Initiative" prepared by the CAA and the "Split Roll Implementation – Estimated Costs to County Assessors" provided by Capitol Matrix Consulting are the result of CAA research and analysis. Both reports are attached to this statement.

The major discussion points below are discussed in detail in the attached documents.

- Cost to implement is projected at $1.01 Billion during the three-year phase in period
- Implementation would require a trained workforce that is not available today and would not be available for many years.
- Exclusions with complicated rules to review and approve requiring coordination with all counties
- Disparate impacts on the States Counties and likelihood that the initiative would trigger negative roll growth in small and rural counties due to exemptions and exclusions

The Assessors' of California are committed to fair and impartial implementation of the of the Constitution and the laws of the State of California and, as always, Assessors will faithfully implement the will of the people.

However, given the immense anticipated Statewide implementation costs and complexities, the limited resources of Assessors and the disparate impacts to the various California counties we are compelled to oppose this initiative.

The California Assessors' Association advises a no vote on The California Schools and Local Communities Funding Act of 2020 (initiative No. 19-0008-Amendment 1) on the November 3, 2020 ballot.

Sincerely,

Don H. Gaekle, President
California Assessors' Association

Attachments:

Policy Briefing Paper on Split Roll Initiative (CAA)
Split Roll Implementation – Estimated Costs to County Assessors (Capitol Matrix Consulting)

CALIFORNIA ASSESSORS' ASSOCIATION

Policy Briefing Paper on Split Roll Initiative

(Initiative No.19-0008-Amendment 1)

Objective

The purpose of this paper is to inform policy makers, community leaders, and the public of the significant administrative and budgetary implications of "The California Schools and Local Communities Funding Act of 2020 (Initiative).[1]

The analysis is not intended to justify or refute the policy merits of a split assessment roll, but rather to analyze the potential impacts on personnel and infrastructure which a split roll would create for California County Assessors.

Executive Summary

Commonly referred to as a split roll, this initiative seeks to assess non-residential, commercial and industrial properties (excluding multi-family and agricultural land only) at market value no less than every three years for the purposes of increasing. If enacted, the assessed value of all commercial and industrial properties would increase from approximately $1.3 trillion (2018-19) to $2.5 trillion in 2022. In addition, the initiative would create multiple layers of new administrative burdens for assessors, some for the purpose of delaying or mitigating the financial impacts of a split roll on the owners of small businesses. A detailed chart is attached describing the major components of the initiative in relationship to existing law.

As county assessors are responsible for the administration of the assessment roll, the initiative similarly mandates assessors with the accurate and equitable administration of the split roll.

Major Takeaways

- ✓ *Assessors cannot add $1.2 Trillion in assessed value by 2022*
- ✓ *The cost to implement is projected at $1.01 billion during the 3-year phase in*
- ✓ *Initiative will trigger negative roll growth in small and rural counties*

For assessors to implement the initiative, a number of factors will be required, including adequate funding for additional and adequate staff, a reasonable preparation and implementation period, and careful attention to laws or regulations that may be enacted to clarify how a split roll could be administered.

Without an unprecedented increase in resources, including new technology, valuation accuracy and customer service levels for all taxpayers, principally homeowners, will decline dramatically.

The California Assessors' Association (CAA) commissioned a non-partisan and independent analysis by Capitol Matrix, which is available upon request. According to Capitol Matrix's analysis, the estimated cost to implement the initiative over the course of the proposed three-year phase-in, is just over $1 billion statewide ($360 million a year). Projected cost increases do not

[1] Initiative No.19-0008-Amendment 1, pending Secretary of State approval

For more Information: david.ginsborg@asr.sccgov.org

include the commensurate increase in costs for County Controllers, Tax Collectors, Assessment Appeal Boards or County Counsels.

What are the Impacts of a Split Roll on the Administration of the Property Tax System?
Without sufficient resources—including substantial increases in appraisal staffing, training, and technology—implementation during the first five to ten years of a Split Roll system could have a devastating impact on the operations of California assessors and their ability to deliver quality customer service to taxpayers. A change in the law of such magnitude poses significant administrative problems for assessors and their local government partners in property tax administration, in addition to enormous start-up expenditures. There will also be additional compliance costs for taxpayers.

Statewide, based upon the "BOE 2016-17 Budget Workload Report", there are 642,502 commercial and industrial properties that would require periodic reassessment. Currently, Santa Clara County reassesses approximately 2,000 commercial and industrial properties annually, for changes of ownership or new construction. Under a split roll, that number would increase an estimated 12-fold. It is expected that similar increases would result in all counties.

A split roll would also trigger significant downstream impacts for Tax Collectors, Clerks of the Assessment Appeals Board, and County Counsels. Homeowners would probably experience declines in service levels, as assessors reallocate staff resources to focus on new commercial valuation and assessment appeal responsibilities triggered by a split roll.

Projected Costs to Administer Split Roll
The California Assessors' Association retained the services of Capitol Matrix Consulting to independently review the results of two comprehensive surveys of California assessors. The first survey exclusively focused on the cost to reassess all commercial and industrial property to market value. The second survey focused exclusively on the cost to administer new administrative requirements specific to the split roll. The counties that participated represented about three quarters of total commercial parcels and 83 percent of the commercial assessed value in California. The detailed surveys sought information on the costs of administering a property tax system requiring annual reassessment of commercial properties to market value.

Predicated upon the reassessment of one-third of all commercial properties annually, the Capitol Matrix's analysis projects one-time costs of $24 million, and ongoing annual increases of between $356 million and $446 million, which equates over a billion dollars in assessor only costs during the first three years. However, it is anticipated costs will be significantly higher due to the practical expectation that most commercial property owners will file assessment appeals requiring revaluation more than once every three years. In addition, the cost estimate does not account for an increase in staff salary expenses necessary to recruit and retain hundreds of new senior appraisers.

Projected costs do not include other costs which would be incurred by related agencies who will experience similar increases in workload. Capitol Matrix's estimates apply only to county assessors. In Santa Clara County, it was estimated that the financial impact of a split roll on the County Finance Agency, County Counsel, and Clerk of the Assessment Appeals Board, would increase by 36 percent. The Santa Clara County Counsel, for example, stated that the County would need to add at least four trial attorneys, and two Assessment Appeals Board counsel lawyers and support staff dedicated to property tax assessment appeals.

In Santa Clara County, the Assessor, County Executive, Finance Director (Tax Collector, Controller, etc.), County Counsel and the Clerk of the AAB issued a detailed memo in 2019, outlining the dire impacts on county administration, concluding that the Board of Supervisors should oppose the split roll initiative.

Major Staff Challenges to Administering Split Roll Tax Increase

According to Capitol Matrix, hundreds of new positions would need to be created statewide to manage the increase in workload. Practical administrative challenges would make it all but impossible to annually reassess to market value the overwhelming number of commercial properties without significant and sustained investment in the county appraisal workforce. The most significant impact would be the enormous amount of new staffing and training necessary to develop an appraisal workforce that is proficient in property appraisal. Training new appraisers and auditors to assess complex commercial and business properties typically requires up to five years of on the job experience.

According to California Employment Occupational Department, the number of openings for appraisers is just 130 jobs per year, statewide. The number of new positions needed by county assessors would simply overwhelm the system. It would take many years for counties to fill these positions.

To properly defend assessed values created by the increase in assessment appeals, assessors would be competing against a large demand from the private sector appellants. For example, Calaveras County's attempt to recruit a single, advanced level appraiser capable of appraising complex income properties has resulted in no qualified candidates.

Assessment Appeals will increase dramatically

Capitol Matrix also stated in their first report, "Beyond the need for additional appraisal staff, counties would need to create new or expanded assessment appeals boards, along with staff to manage the significant increase in cases. The number and complexity of appeals submitted will likely result in a major backlog requiring multiple years to resolve."

Catch-22: Small and Rural Counties

Many assessors in small and rural California counties are predicting that a split roll will trigger, paradoxically, a potential net decline in assessed added value. They anticipate very few commercial properties will be subject to split roll valuation, negating the promised increase in property taxes. A survey of assessors representing small to mid-sized counties[2] indicate that less than 10 percent of the commercial properties will be subject to split roll re-assessment as most properties do not have a market value in excess of the $3 million exclusion. For example, Plumas County has 2,000 commercial parcels, just 16 currently have assessed value in excess of $2.5 million. Of those, three are subject to welfare exemptions, three are already valued annually and four are subject to annual Prop 8 review, as their assessed values remain below their inflation adjusted purchase price. Most of the remaining properties have transferred recently, or are otherwise close to their market values. Commercial properties that do exceed $3 million are not anticipated to increase significantly beyond the $3 million exclusion.

[2] Fifteen Counties from the Central and Sacramento Valleys, the foothills, Sierra Nevada Mountains, Warner Mountains and the North Coast participated. There are 30 counties with Assessed Values less than $26 Billion in Assessed Value

In contrast, most of the businesses in small counties, such as farms and small independent businesses, have assessed values below the $500,000 threshold necessary for the assessment of business property. Many of these businesses will be able to take advantage of opportunities in the split roll initiative to eliminate or reduce their property tax obligation on equipment and machinery. The Plumas Assessor estimates an assessment reduction in excess of $90 million. Cumulatively, the loss in assessed value will exceed the gain from the split roll assessment of commercial properties. Eighty-seven percent of small counties reported that the value exemption on business equipment would not be offset by properties with market values in excess of $3 million.

Property tax revenue is anticipated to decline in many small counties, without the means to recover costs to administer a split roll. Small counties project workload increases ranging from 20% to 50%. Reimbursements for increased administrative costs are predicated upon assessment roll growth.

County Supervisors in many small counties are not expected to fund the positions necessary to implement the split roll due to actual loss in property tax revenue. Counties would be reluctant to borrow money from the state for implementation without new revenue to repay the loans.

The Split Roll Initiative did not consider that the funding of additional property tax administrators would actually result in a net loss for many small counties.

Conclusion:
County assessors are essential to the successful implementation of a new split roll system in California. Success depends on the proper financial resources for assessors to complete their constitutionally mandated responsibilities, including but not limited to:

- Adequate funding for a significant increase in workload and staff. Analysis suggests a one-time cost of $24 million and ongoing annual cost increases of between $356 million and $446 million.
- Adequate multi-year phase in period.
- Financial support for recruitment, hiring and training qualified appraisal staff and support professionals, including funds for competitive compensation for senior appraisers.
- Commensurate increase in training programs, including new resources to the Board of Equalization for certified training programs.
- Continuous and open dialogue with policymakers to expeditiously codify laws that provide assessors with tools to effectively implement a split roll.
- Robust access to market data for commercial and industrial properties.

	Proposition 13—current law (Passed June 1978)	California Schools and Local Communities Funding Act of 2020 Initiative 19-0008, amdt 1
Official Ballot Title per Attorney General	• Limits ad valorem taxes on real property to 1% of value except to pay indebtedness previously approved by voters. • Establishes 1975-76 assessed valuation base for property tax purposes. Limits annual increases in value. • Provides for reassessment after sale, transfer, or construction. Requires 2/3 vote of Legislature to enact any change in state taxes designed to increase revenues. • Prohibits imposition by state of new ad valorem, sales, or transaction taxes on real property. Authorizes imposition of special taxes by local government (except on real property) by 2/3 vote of qualified electors.	• Increases funding for public schools, community colleges, and local government services by changing tax assessment of commercial and industrial property.
Financial Impact (direct excerpt from Attorney General ballot summary)	Commencing with fiscal year beginning July 1, 1978, would result in annual losses of local government property tax revenues (approximately $7 billion in 1978-79 fiscal year), reduction in annual state costs (approximately $600 million in 1978-79 fiscal year), and restriction on future ability of local governments to finance capital construction by sale of general obligation bonds.	Net increase in annual property tax revenues of $7.5 billion to $12 billion in most years, depending on the strength of real estate markets. After backfilling state income tax losses related to the measure and paying for county administrative costs, the remaining $6.5 billion to $11.5 billion would be allocated to schools (40 percent) and other local governments (60 percent). Proponents have noted that the allocation is a statewide average which varies by county
Property Category: Vacant or Improved Residential and Multi Family (apt) with less than 25% C&I. Agricultural Real Property (Excluding C&I structures)	• Reassessment to market value upon change in ownership/control and new construction • Annual Reassessment of 2% or statewide California CPI whichever is lower • Limits general property tax rate on assessed value to 1%	• No change • No change • No change
Property Category: Small Business Real Property Exclusion from Split Roll and remain protected by Proposition 13	• Reassessment to market value upon change in ownership/control and new construction • Annual Reassessment of 2% or statewide California Consumer Price Index whichever is lower • Limits general property tax rate on assessed value to 1%	• Commercial and industrial property (improved and land) OR Improvements on excluded agricultural land such as processing facilities where none of the entity's owners have a cumulative fair market value in excess of $3 million adjusted every 2 years, starting in 2025, by a floating inflation factor to be set by elected board of equalization at county level and based upon average commercial and industrial market values in those counties ______________________________ • Temporary deferral until 2025 of new assessment provisions for commercial and industrial real property where 50% or more of the occupied square footage is occupied by "small business" as defined below ______________________________ • Land used for producing commercial agricultural commodities • Residential property, vacant land zoned for residential use
Property Category: All other properties, primarily Commercial and Industrial (C&I) vacant or improved. C&I Structures and other improvements to commercial agricultural real property.	• Reassessment to market value upon change in ownership/control and new construction • Limits general property tax rate on assessed value to 1%	• Reassesses at least every three years to fair market value.
Assessment Methodology	• Fair Market Value (fee simple) based upon property use	• Fair Market Value (fee simple) based upon property use

	Proposition 13—current law (Passed June 1978)	California Schools and Local Communities Funding Act of 2020 Initiative 19-0008, amdt 1
Small Business Exemption of fixtures, machinery and equipment (personal property). Generally, business property equipment is valued annually on original cost, property classification and type of business (and depreciated). Annual Application	• Upon County approval the assessor excludes business personal property assessed at $10,000 or less. (Taxpayer not defined)	• Exempts First $500,000 of business personal property for a single taxpayer. Single taxpayers to be defined by the legislature as related entities, including but not limited to any subsidiaries, holding companies, or parent corporations. • Exempts all business personal property owned by a "small business" as defined*
Small Business Definition	N/A	• 50 or fewer annual full-time employees • The business is independently owned and operated such that the business ownership interests, management and operation are not subject to control, restriction, modification or limitation by an outside source, individual or another business." • The business owns real property located in California.
Phase-In		• Reassessment of qualifying properties effective January 1, 2022, phased-in over two or more years by statute passed by the Legislature • Taxpayers afforded a "reasonable timeframe" to pay increased taxes as determined by the Legislature • Reassessment deferred until 2025 for commercial and industrial property occupied by small businesses
Assessment Appeals	• Disputes adjudicated by independent assessment appeals board (AAB) of property tax professionals appoint by County Supervisors • AAB must make decision generally within 2 years unless applicant extends deadline otherwise Applicant's opinion of value enrolled • Burden of proof on non-residential property taxpayer in most circumstances • All AAB Valuation decisions are final and not subject to appeal to superior court	For properties subject to split roll, calls on legislature to: • Develop a targeted, new process for hearing appeals • require taxpayer to provide evidence relevant to any appeal in the initial application to AAB • Increase burden of proof threshold • Create expedited process for hearing appeals • Eliminate mandatory enrollment of applicant's opinion of value if not adjudicated within current deadlines (generally two year unless extended by taxpayer)
Effective Date	July 1, 1978	January 1, 2021
Implementation date	January 1, 1979	• January 1, 2022. then phased-in over two or more years TBD in consultation with Task Force, by the Legislature • After the initial reassessment properties shall be periodically reassessed no less frequently than every three years as determined by the Legislature. • Exemptions for business personal property effective January 1, 2024 • Taxpayers obligated to pay the taxes resulting from split roll and afforded an undefined "reasonable timeframe" to pay increased taxes as determined by the Legislature • Reassessment deferred until 2025 for commercial and industrial property occupied by "small businesses" as defined

Split Roll Implementation — Estimated Costs to County Assessors

May 2020

Prepared for:

California Assessors' Association

Ad Hoc Committee on Split Roll

Prepared by:

Michael C. Genest, Founder and Chairman

Capitol Matrix Consulting

Brad Williams, Chief Economist

About the Authors

The authors are partners with Capitol Matrix Consulting (CMC), a firm that provides consulting services on a wide range of economic, taxation, and state-and-local government budget issues. Together, they have over 80 years of combined experience in economic and public policy analysis.

Mike Genest founded Capitol Matrix Consulting (originally Genest Consulting) in 2010 after concluding a 32-year career in state government, which culminated as Director of the California Department of Finance (DOF) under Governor Arnold Schwarzenegger. Prior to his four-year stint as the Governor's chief fiscal policy advisor, Mr. Genest held top analytical and leadership positions in both the executive and legislative branches of government. These included Undersecretary of the Health and Human Services Agency, Staff Director of the Senate Republican Fiscal Office, Chief of Administration of the California Department of Corrections and Rehabilitation, and Director of the Social Services section of California's Legislative Analyst's Office.

Brad Williams joined Capitol Matrix Consulting in 2011, after having served in various positions in state government for 33 years. Mr. Williams served for over a decade as the chief economist for the Legislative Analyst's Office, where he was considered one of the state's top experts on the tax system, the California economy, and government revenues. He was recognized by the Wall Street Journal as the most accurate state economic forecaster in the 1990s, and has authored numerous studies related to taxation and the economic impacts of policy proposals. Immediately prior to joining CMC, Mr. Williams served as a consultant to the Assembly Appropriations Committee, where he advised leadership of the majority party on proposed legislation relating to taxation, local government, labor and banking.

Summary

This report presents our analysis and statewide cost estimates associated with the our previous analysis of of a survey conducted by the California Assessors Association and an update based on our review of their second survey. The previous analysis focused on the direct costs to perform appraisals, while this second analysis and survey focuses on the *administrative costs* of implementing the provisions of "The California Schools and Local Communities Funding Act of 2020" ("Initiative"). These costs - which are related to hiring, training, and setting up new systems to track properties and handle exemption requests - are *in addition* to those identified in the initial survey, which focused on the *direct* "front-line" expenditures for assessment and appeals. Our key findings are:

- Taking into account both (1) our updated estimate of assessment and appeals costs identified in the first survey, and (2) the administrative costs identified in the second survey, we estimate that combined costs to implement the Initiative would be $1.2 billion over the first three fiscal years following voter approval. This consists of:
    - $360 million *per year in ongoing costs* - representing a roughly 50-percent increase in the statewide combined annual budget totals for county assessor's offices in California.
    - $74 million in *one-time costs* for IT, training and other start up activities.
- As a point of comparison regarding annual costs, our firm had previously developed an in-depth estimate of costs to San Bernardino County of administering the split roll. Applying the San Bernardino result to all 58 counties would imply a cost increase of $686 million in 2022-23 (and more if salary increases are included). All counties are unique; thus, extrapolation of one-county's experience statewide may result in an over- or underestimate of statewide costs. Notwithstanding this limitation, the results from the in-depth San Bernardino County estimate *may* suggest that when a specific implementation plan is modeled and all overhead and salary-related considerations are accounted for, statewide costs could exceed those identified in our two surveys
- Numerous issues arose during our review and follow-up interviews regarding the second survey. These included challenges relating to hiring and training staff in a short period of time, tracking combined property holdings and employees across the state, and dealing with appeals and refunds.

Introduction

Capitol Matrix Consulting has been commissioned by the California Assessors Association (CAA) to develop an estimate of the statewide costs to county assessors of implementing the "split roll" as proposed by "The California Schools and Local Communities Funding Act of 2020" (Initiative 19-0008, Amendment 1).[1]. The Act would amend Proposition 13 by creating a different basis for property taxation for certain commercial and industrial (C&I) properties.

Currently (under Proposition 13), real property (land and buildings) is assessed based on its market value (in most cases, the purchase price), as adjusted for inflation, limited to 2 percent per year. The property is reassessed at market value only when subsequently transferred[2], although additions to the property are assessed at the market value (i.e. construction).[3] As a result, many have an assessed value many years out of date.

Proposal

The California Schools and Local Communities Funding Act of 2020 would require C&I properties, including vacant land, to be taxed based on their assessed "full cash value," i.e., their market value. The measure exempts vacant land intended for residential or agricultural use and properties assessed at a market value of less than $3,000,000. However the exemption would not apply to properties in any specific county if the owner's total C&I properties statewide were valued at greater than $3,000,000[4]. The measure also delays the taxation of the portion of a C&I property occupied by certain small businesses until 2025-26, and it provides an exemption for personal property (e.g. machinery,

Phase-In Language

Section 2.5 of Article XIII A of the California Constitution (b):

(b) The Legislature shall establish a Task Force on Property Tax Administration immediately after this section is enacted…after conferring with the Task Force, shall provide by statute for the phase-in of the reassessment of commercial and industrial real property…Any such phase-in shall provide for reassessment of a percentage of all commercial and industrial real properties within each county commencing with the lien date for the 2022-23 fiscal year and extending over two or more lien dates each fiscal year thereafter, in order to ensure a reasonable workload and implementation period for county assessors, including provision for processing and timing of assessment appeals… After the initial reassessment…such commercial and industrial real property shall be periodically reassessed no less frequently than every three years as determined by the Legislature.

[1] The proponents have already qualified an earlier version of this proposal for the November 2020 ballot. The version currently qualified for the ballot was drafted in 2017 and it includes implementation deadlines that are no longer feasible. While we have had no direct communication with the proponents, it is generally understood that they will qualify the alternative version and withdraw the version currently qualified. Given this understanding, the committee has asked us to analyze the updated, but not yet qualified version of the proposal.

[2] For purposes of reassessment, a transfer may include a sale, but may also include a gift, inheritance or other conveyance of ownership, with or without compensation.

[3] The California Revenue and Tax Code contains a special look-through rule: If the ownership interest in a legal entity that owns California real estate is transferred, the transfer of the business interest is treated as a change in ownership of the property if (1) there is a change in control of the entity (more than 50 percent of the voting stock of a corporation or more than 50 percent of the ownership interest of a partnership or LLC); or (2) When more than 50 percent of the interests of the original business owners (measured cumulatively) are transferred.

[4] There is currently no statewide data base that assessors could use to determine the assessed value of properties in counties other than their own. As noted below, some assessors assume that a statewide data base consisting of data provided by each of the 58 county assessors will be developed as a resource for them to access in determining whether an owner is qualified for this exemption. However, the measure contains no requirement for the state to create such a data base.

computers, other equipment) for these small businesses. Other qualifying business entities would receive an exemption for first $500,000 of qualifying personal property aggregated statewide.

The measure directs the Legislature to confer with county assessors, then provide for the phase-in of the reassessment of C&I property that starts with the lien date of January 1, 2022 for the fiscal year 2022-23 and extends over two more fiscal years, after which each property affected would be reassessed no less frequently than every three years (see the nearby text box for the specific phase-in language).

We note that the measure provides that some of the additional property tax revenues would be used to reimburse counties for their costs to implement it. Thus, some or all of the county costs identified below might be offset by revenues, although the exact amount of any offset will depend on cost-reimbursement regulations not yet drafted. It will therefore be important for the counties to work with the state on the development of such regulations.

CMC Estimate of Assessment and Appeals Costs for a Generic Split Roll Proposal

Capitol Matrix Consulting was commissioned by the CAA to review the results of a survey of its members conducted in 2015 (when the concept of a split roll initiative was under active consideration by the proponents). The survey sought information on the budget costs of administering a property tax system requiring annual reassessment of commercial and industrial (C&I) properties at market value (a "split roll" system), with no phase-in. We estimated that county assessors' would face one-time costs of $24 million and ongoing annual cost increases of between $356 million and $446 million in the first 5 to 10 years following implementation of market-based annual reassessments of all C&I properties.

We were also asked to evaluate the fiscal impacts of the previous version of the current initiative - submitted in January 2018 - which permitted the Legislature to authorize a phase-in of a split roll system, and required reassessment of each property no less than every three years thereafter. We indicated that, relative to to our estimates for a split roll requiring annual reassessment, the 2018 initiative could be somewhat less expensive to administer; however we did not believe its provisions allowing for a phase-in and multiple year assessment cycle would translate into a proportionate cost reduction for several reasons.

We noted, for example, that the Legislature would be under enormous pressure to maximize revenues by, for example, requiring initial appraisals to focus on long-held, high-value properties for which reassessment would yield the largest revenue increases. These businesses would require the most complex and time-consuming appraisals. Once receiving the reassessment, these same businesses would also have the largest incentive to appeal, and the appeals would likely be lengthy and complex. The result would be a buildup of a major appeals backlog that would require considerable time and staffing to resolve. In addition, businesses will seek annual re-appraisals during periods in which the economy is declining. Given these factors, assessors would likely be required to appraise far more than one-third of the C&I properties each year.

We concluded that, under the best of circumstances, we would expect county assessors' annual administrative costs under the 2018 version of the current initiative to be in the low hundreds of millions of dollars per year for an extended period following implementation of the program. Taking into account growth in county wages, benefits, and pension costs since 2018, we believe ongoing assessment and appeals costs resulting from the 2018 measure would be over $300 million per year in today's dollars.

2020 Survey

The 2020 Survey is designed to measure administrative costs in The California Schools and Local Communities Funding Act of 2020 that were not explicitly covered in the first survey. The 2020 survey specifically addresses costs in four areas:

- **C&I property identification.** This includes costs associated with updating systems to improve identification of commercial and industrial properties. Specific examples include updating existing systems to identify and track mixed-use properties and agricultural properties (which are exempt from reassessment). This category also includes costs for additional staff to manage appeals related to property classifications.
- **Exclusions, exemptions, and deferrals.** This includes costs associated with processing, verifying, and tracking property holdings, and handling appeals associated with the less-than $3 million exemption claims, and the deferral of reassessment for properties with small business occupants.
- **Business personal property.** This includes costs associated with processing and auditing the business personal property exemption for small businesses, and exempting the first $500,000 for others that qualify.
- **Other administration.** This includes costs for public service personnel to respond to taxpayer inquiries; human resources for activities related to hiring and retaining split roll appraisers and associated staff; additional office space; information technology upgrades and software programs; and county counsel/city attorney support of assessor's appeals caseloads and compliance with new legislation.

Twenty counties responded fully or partially to the second survey. The responding counties represent about three quarters of total C&I *parcels* and 83 percent of the C&I *assessed value* in California.[5] We received responses from four counties in the Bay Area; five counties in Southern California (including coastal counties and the inland empire); three counties in the Central Coast; eight counties in the Central Valley; and one northern California rural county. Aside from geographic variation, the sample included rural and urban counties and counties with a variety of types of C&I properties, in terms of size and complexity.

Most of the counties provided responses to all of the survey's categories. However, a few provided us with combined data for the full cost of implementing the split roll, without the breakout needed to distinguish between appraisal and appeal costs (covered in the first survey) and administrative costs (covered in the second survey). These responses were helpful in terms of identifying overall county costs (discussed below). However, we were not able to use them for the purpose of developing specific estimates of administrative costs that are separate from the assessment- and appeals-related costs identified in the first survey.

Our Process. For the remaining counties, we compiled the responses into summary tables which showed, for each county, total costs in each of the four categories noted above. To facilitate meaningful comparisons between varying sized counties, we converted the data to a per C&I-parcel basis. We then developed summary data, including the mean and median responses, along with estimates of variation around the central responses. We then conducted follow-up interviews with about two-thirds of the respondents, focusing on the assumptions and methodologies used to arrive at the estimates, and on areas where a particular county's response was significantly higher or lower than average (on a per-parcel basis).

During our review and interview process, we encountered several anomalies that required revisions to the initial survey responses. One of the main issues was a misunderstanding about what should be included in the C&I property identification category. Several counties included appraiser costs in this category that should have been attributed to the first survey. After adjusting for these and related issues, we arrived at estimates of administrative costs that were non-duplicative with those identified in the first survey. After summing up the revised responses from the surveyed counties, we expanded our results to cover the counties not included in the survey to arrive at a statewide total. The expansion factor was the average of

[5] Responding counties include Alameda, Los Angeles, Madera, Modoc, Monterey, Orange, Placer, Riverside, Sacramento, San Bernardino, San Diego, San Francisco, San Luis Obispo, Santa Clara, Stanislaus, Tehama, Ventura, Yolo, and Yuba.

the percentage of statewide C&I *parcels* and the the percentage of C&I *assessed valuation* in the excluded counties.

Figure 1
One-time Costs by Categories Covered in Second Survey
($ Millions)

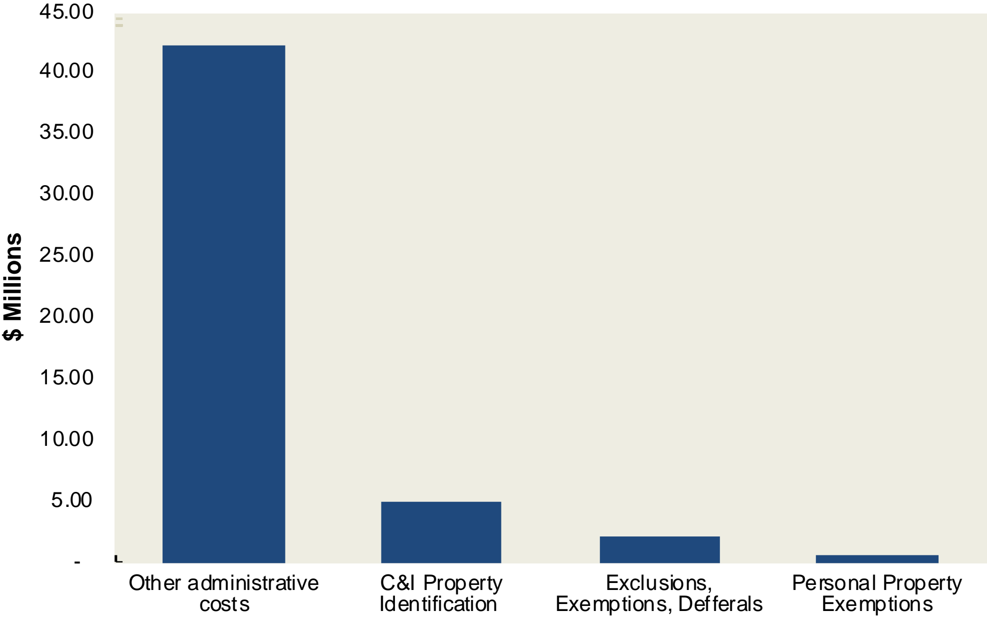
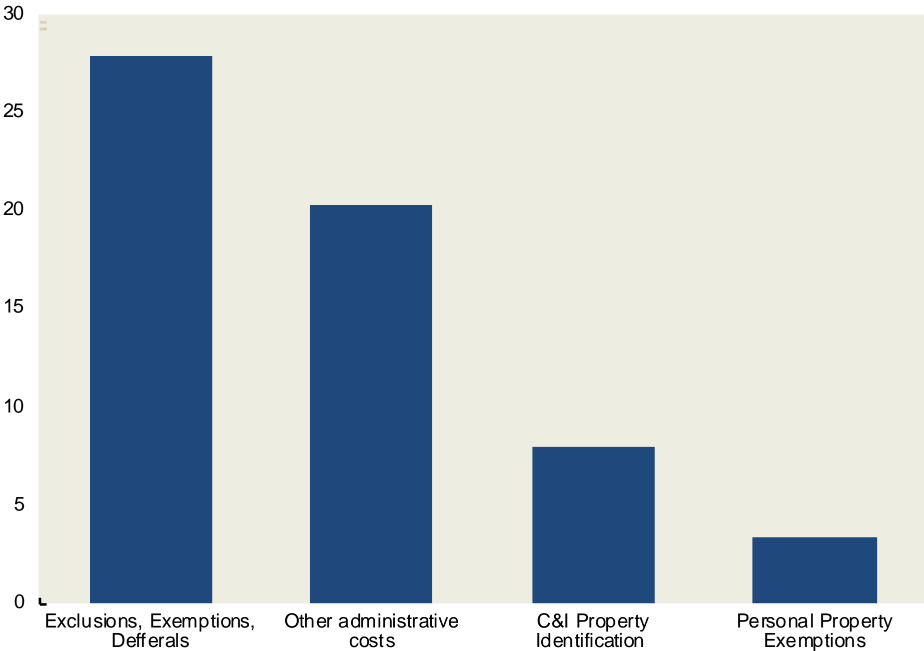


Figure 2
Ongoing Costs by Categories Covered in Second Survey
($ Million)



Results. We estimate that the California Schools and Local Communities Funding Act of 2020 would result in $50 million in one-time and $60 million in ongoing costs statewide in the four cost areas identified in the second survey. Figure 1 shows that most of the one-time costs are related to "other administration," mainly for IT systems enhancements. Figure 2 indicates that nearly one-half of the ongoing costs are related to addressing exclusions, exemptions, and deferrals included in the initiative, with smaller amounts for "other administration" (mostly IT costs), C&I property identification, and administering the business/personal property provisions.

Combined Costs To County Assessors

As noted above, our estimate (based on the first survey) of ongoing assessment and appeals costs for implementing the current initiative would be at least $300 million per year. We also noted one-time costs of $24 million. When combined with the results of the second survey, the full costs to county assessor's offices of implementing the California Schools and Local Communities Funding Act of 2020 would be one-time costs of $74 million and ongoing costs of at least $360 million annually. The ongoing amount implies annual budget increases between just-under 50 percent for county assessors' offices. They do not include significant costs for other county agencies, including auditors, controllers, and county counsel.

Figure 3

Combined County Assessor Costs For Administering "The California Schools and Local Communities Funding Act of 2020

Type of Cost	Annual Amount
One Time	$74 Million
Ongoing	$360 Million

Our combined survey-based results are similar to the results we received from the counties that provided combined costs in the second survey for assessment, appeals, and administration. They are also consistent with public data showing estimated impacts of the split roll on assessor budgets for a few of the larger California counties. They are, however, lower than the more detailed estimates we developed for San Bernardino County, discussed below.

Comparative Estimate - San Bernardino Projections

Because the estimate we prepared for the CAA relies on surveys of several counties, we could not review the detailed estimates prepared internally by many counties. It is therefore helpful to compare it with a detailed estimate that we conducted for the San Bernardino Assessor Recorder Clerk's Office (ARC). The ARC estimate was based on a workload and cost methodology developed in conjunction with ARC staff. It assumed an even, three-year phase-in and modeled a specific set of implementation details that ARC projected would be needed to fully implement the initiative in San Bernardino County. Specifically, the methodology consisted of the following:

- ARC staff divided the county's C&I properties subject to reassessment into 3 categories, reflecting the complexity of assessment.
- For each of these categories, ARC management surveyed staff to develop workload standards in terms of the amount of appraiser, clerical and first-line supervisor time needed to complete each appraisal, in each category. The estimate also assumes a 25-percent increase in efficiency over the three-year phase-in provided in the initiative.

- The resulting hours per C&I property allowed us to compute the total numbers of additional first-line staff needed each year, and the costs of the salaries and benefits for the additional staff.
- The overhead costs for these additional staff was based on the ARC's annual overhead study, adjusted to account for fixed versus variable costs.
- Special items of expense not accounted for in the overhead study were then added based on input from ARC budget staff.
- Finally, ARC advised that its appraiser pay scale is substantially below what surrounding counties pay. Given the need that the initiative would create for additional appraisers statewide and the expected competition for trained appraisers to work in the private sector, ARC estimated that it would have to provide a 20-percent pay raise to existing and new appraiser staff, which the estimate accounts for separately. While many assessors we interviewed agreed that some salary adjustment might well be necessary to recruit so many new appraisers in such a tight market, none actually included such costs in their responses to either survey.

Figure 4 displays our estimate of the cost to the ARC to implement the 2020 version of a split roll. It shows that, with the proposed salary increase, the ARC budget would more than double by 2022-23 and without it, the budget would still increase by 94 percent that same year.

	2020-21	2021-22	2022-23	2023-24
San Bernardino costs in millions	$1	$21	$26	$25
Percent increase - with salary increase	3%	89%	104%	96%
Percent increase - without salary increase	3%	80%	94%	87%
Implied statewide costs - with salary increase	$21.9	$649.7	$759.2	$700.8
Implied statewide costs - without salary increase	$21.9	$584.0	$686.2	$635.1

Figure 4
San Bernardino County ARC Costs To Implement Split Roll

We estimate that the combined annual budgets of all 58 California county assessors is approximately $730 million per year. Applying the percentage budget increases for San Bernardino to this total yields a range of the estimated statewide assessors' costs to implement a split roll from $686 million (without a salary increase) to $760 million in 2022-23 (with salary increases).

Caveats to the Estimates

The estimate based on the CAA survey encompasses a wide range of counties, large and small, urban and rural, north and south, coastal and inland. However, it lacks a specific implementation plan and does not include the budgeting and administrative detail available to us in estimating the ARC costs in San Bernardino. On the other hand, the estimate based on our San Bernardino study, while detailed and comprehensive, relies on data and assumptions for a single county. Each estimate is thus subject to potential error. However, they are close enough in magnitude to suggest with some confidence that the costs statewide should fall somewhere in the range of $430 million to $760 million per year during the first three years of implementation, probably declining somewhat thereafter. However, we also note the following caveats to this estimate:

Overhead. The estimate based on the CAA survey did not systematically account for overhead costs. Some of the counties surveyed identified some specific costs such as IT and work space, while some did not and when queried, acknowledged that as an oversight. None of the counties surveyed explicitly addressed costs such as additional management and support (e.g., personnel, accounting, training, etc.). These oversights may be enough to explain much of the difference between the two estimates.

No- and Low-Cost Outliers. One of the counties surveyed identified costs near the average, but asserted that it could implement split roll at little or no additional costs by resorting to computer-assisted appraisals that would not property specific. The assessors we surveyed all agreed, however, that the use of mass appraisals would result in under-valuing properties and would probably violate California's Constitution. The associated property tax revenue losses could easily be much larger than any assessment cost-savings. Moreover, some owners would still appeal such assessments and developing a defensible, specific appraisal for the appeals process could result in net higher costs in the long run.

One of the counties we surveyed was a medium-sized county with a unique history during the 2008 recession, in which it performed Proposition 8 reappraisals on virtually all of its C&I properties. From that time, the county has automated annual collection of detailed information from all of its C&I properties, sufficient in the assessor's view to perform a valid, detailed assessment for every C&I property in the county without the need to hire any additional appraisers. This one county was unique and can not be used as a model for the rest of the state.

County Variability. Each county is unique. We found substantial variations among the counties we surveyed with regard to the degree of automation and the mix of types of C&I properties. In addition, geography differences could drive implementation cost differences, such as longer distances between offices and the properties to be assessed[6].

Another important difference could be the ability of county governments to fund the costs of reassessments in advance. While the initiative allows counties to recoup their costs of assessments from the additional property tax revenues they collect, this requires counties to provide funding up front. While many counties would see a positive return from up-front funding in the form of higher property tax revenues, some may not, or may not have the ability to finance the first few years even if they expect up-front funding to yield a net gain at some point in the future. We also note that the measure's methodology for funding property tax administrators, such as assessors, is predicated upon the initiative generating a net revenue increase in revenue. As noted below, several small and rural counties have reported that the initiatives' exemption for businesses personal property will result in a net negative change in assessed value and therefore these counties may not see any benefit in advance funding their assessors.

Outstanding Issues

Non-property Specific Appraisals and Refunds. Our interviews found a range of opinions regarding the degree to which assessors would, at least initially, rely on non-property specific appraisal techniques. While reliance on such appraisals would drive costs down initially, it could result in higher costs over time due to the need to bring individualized appraisals to appeals boards. Counties resorting to these could have unfunded liabilities against future property tax revenues, especially if appeals become backlogged over multiple years. The measure provides no mechanism for setting aside revenues to cover refunds. We recommend that the state develop a mechanism for handling refunds.

Impact of Business Personal Property Exemption. Some smaller counties reported that the revenue loss from $500,000 exemption for personal property would be larger than the revenue gain from the reassessment of real property to market value for certain C&I parcels. The measure provides a mechanism to reimburse the state General Fund for reduced personal income tax revenues resulting from

[6] We note, for example, that San Bernardino is geographically the largest county in the US.

businesses writing off the higher property tax costs that would, in most cases, result from reassessments. We recommend that CAA work with the state to develop a similar offset, using state General Fund revenues, to cover any net loss of property tax revenues in smaller counties due to the personal property exemptions.

Cost Reimbursement. As noted above, the measure allows counties to withhold some portion of any net additional revenues resulting from the measure to cover their costs of implementation. These costs would include the county assessor costs estimated in this analysis and also costs to other elements of county government, not included in our estimate (e.g., county counsel, appeals boards, auditor and treasurers, etc.). Clearly, other jurisdictions inside each county and the state will have a vested interest in minimizing the amount of additional property tax revenues that go to cover county implementation costs[7]. We therefore recommend that CAA work with the County Supervisors Association of California (CSAC) and the state to ensure that any guidelines for reimbursement of county implementation costs are comprehensive, accurate and fair.

[7] Increasing property tax revenues reduces the state's share of the costs of K-14 schools. Cities and special districts also receive a share of property tax revenues collected in their counties.

Attachment Six

CSAC Memo: Proposition 19 Analysis

OFFICERS

President
Lisa A. Bartlett
Orange County

1st Vice President
James Gore
Sonoma County

2nd Vice President
Ed Valenzuela
Siskiyou County

Past President
Virginia Bass
Humboldt County

EXECUTIVE DIRECTOR
Graham Knaus

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

Attachment Seven

Proposition 19 Text

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.

Attachment Eight

ACA 11 Senate Analysis

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.

COMMENTS

1) According to the author: 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 --

Attachment Nine

CSAC Memo: Proposition 19 Analysis

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 = **$200,000** + **$100,000**

[New home's taxable value] = [Prior home's taxable value] + [$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,

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Gabriel Petek
Legislative Analyst

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Keely Martin Bosler
Director of Finance