STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	**03/24/10**	Bill No:	**SB 1430**
Tax:	**Property**	Author:	**Walters**
Related Bills:			

BILL SUMMARY

Among other things, this bill provides an increased homeowners' property tax exemption for senior citizens, age 62 and older, from $7,000 to $27,000 of assessed value, and annually thereafter provides for automatic increases in the exemption, as specified.

ANALYSIS

CURRENT LAW

Article XIII, Section 3(k) of the California Constitution exempts from property taxation the first $7,000 of assessed value of an owner occupied principal place of residence. This exemption is called the "homeowners' exemption." Section 25 of Article XIII requires the state to reimburse local government for the resulting property tax revenue loss.

Existing law, pursuant to Section 3(k) of Article XIII, authorizes the Legislature to increase the amount of the homeowners' exemption if:

- local governments are reimbursed for the revenue loss; and,
- benefits to renters, currently provided via the renters' income tax credit, are increased by a comparable amount.

Section 218 of the Revenue and Taxation Code specifies eligibility for the exemption and sets the exemption at $7,000.

PROPOSED LAW

Homeowners' Exemption. This bill would amend Revenue and Taxation Code Section 218 to increase the amount of the homeowners' exemption to $27,000 for persons who are age 62 years or older. Additionally, every year thereafter, it would automatically increase the exemption amount to provide a cost of living adjustment based on the year-to-year change in the House Price Index for California for the first three quarters of the prior calendar year as determined by the Federal Housing Finance Agency.

Legislative Findings and Declarations. The bill includes the following uncodified statements:

(1) Since September 1968, the property tax exemption for all California homeowners has been seven thousand dollars ($7,000), with no adjustments for inflation over the past 40 years.

(2) Seniors are particularly impacted by this failure to increase the homeowners' property tax exemption, since many seniors live on a reduced income.

Renters' Credit. In addition, it would increase the amount of the income tax credit provided to qualified renters that are over the age of 62 as specified. The Franchise Tax Board administers the renters' credit and this analysis does not address this provision of the bill. Therefore, the associated revenue impact of this provision is not reflected in the Board revenue estimate.

BACKGROUND

Prior to the enactment of Proposition 13 in 1978, various property tax reform proposals were advocated in the 1960's and 1970's because at that time property taxes were based on a property's actual market value. Consequently, property was reassessed to its current market value on a cyclical basis and these periodic reassessments resulted in substantial property tax increases due to rapidly escalating real estate values, similar to the real estate market in recent years. To provide some measure of property tax relief to homeowners, the "homeowners' exemption" was created in 1968 via a constitutional amendment. (Proposition 1-A; SCA 1 and SB 8, Stats. 1968). The exemption was equivalent to $3,000[1] of assessed value. In 1972, legislation was passed to increase the exemption to its current equivalent level of $7,000 beginning in 1974.[2] (SB 90, Stats.1972)

Numerous bills were introduced in the Legislature between 1972 and 1978 to increase the amount of the exemption. Apparently, these bills were rejected, in part, because some viewed the use of a homeowners' exemption as a temporary means of providing property tax relief, the benefits of which would erode over time due to inflation. Some argued instead that a fundamental change to the property tax system was needed to contain rapidly increasing property taxes.

Ultimately, the property tax reform proposal adopted was Proposition 13 (Article XIIIA of the California Constitution). Approved by the voters in June 1978, it rolled back real property values to 1975 market value levels and limited future annual increases in assessed values to the rate of inflation, not to exceed 2%, as long as the property remained under the same ownership. Proposition 13 also limits the basic property tax rate to 1%. Previously, each taxing agency could determine and levy its own rate and the statewide average tax rate was about 2.67%.

Under Proposition 13, property is reassessed to its current market value only after a change in ownership. Generally, the sales price of a property is used to set the property's assessed value and annual increases to that value are limited to the rate of inflation, not to exceed 2%. Thus, Proposition 13 established a new assessment value standard that requires property to be assessed based upon the market value of the property at the time it is acquired by the taxpayer, rather than the value it has in the current real estate market. For property owners, especially homeowners, the primary benefits of this system are that future property tax liability is determinable and annual increases are modest.

Related Bills. Since Proposition 13, numerous bills have proposed increasing the exemption as summarized below. A variety of methods have been considered including:

- increasing the exemption by a flat amount,

[1] The actual amount was $750 of assessed value; however, at that time, property was assessed at 25%, rather than 100%, of value.
[2] The actual amount was $1,750 of assessed value.

- varying the exemption according to the year of purchase,
- indexing the exemption for inflation, and
- increasing the exemption for certain classes of persons.

In 2002, the initiative process was used for the first time in an attempt to increase the amount of the exemption and the renters' credit via a direct vote of the people, but not enough signatures were obtained to place the measure on the ballot.

Previous measures to increase the homeowners' exemption are summarized in the following table. Those related to persons over the age of 62 are highlighted.

Bill Number	Legislative Session	Author	Type
AB 293	2007-08	Strickland	Increase to $22,000, plus index for inflation
AB 351	**2007-08**	**Symth**	**Increase to $27,000 for over 62**
AB 388	2007-08	Gaines	Increase to $25,000
AB 968	2007-08	Walters	25% exemption for 1st time homebuyers
AB 972	2007-08	Walters	25% exemption
AB 457	**2007-08**	**Tran**	**Increase to $25,000 for over 62, plus index for inflation**
AB 1922	2005-06	Walters	25% exemption, no assessed value cap
AB 2738	**2005-06**	**Wyland**	**Increase to $27,000 for over 62**
AB 185	**2005-06**	**Plescia**	**Increase to $15,000 for over 62**
AB 62	2005-06	Strickland	Increase to 25% for 1st time homebuyers
AB 2357	**2003-04**	**Plescia**	**Increase to $10,000 for over 62**
AB 211	**2003-04**	**Maze**	**Increase to $17,000 for over 62, disabled, blind**
AB 82	2003-04	Dutton	Increase to $32,000, plus index for inflation
Initiative	Signature drive ended 11/6/02 – Not Pursued	Howard-Jarvis Taxpayers Assoc. & Bill Simon	Increase to $32,000, plus index for inflation
AB 1844	**2001-2002**	**Mountjoy**	**Increase to $17,000 for over 62, disabled, blind**
SB 48	2001-2002	McClintock	Index for inflation by California CPI
SB 48	2001-2002	McClintock	Increase to $25,000, plus index for inflation
AB 218	2000-2001	Dutra	Increase for 1st time homebuyers
AB 2288	1999-2000	Dutra	Increase for 1st time homebuyers
AB 2158	**1999-2000**	**Strickland**	**Increase to $8,750 for persons over 62**
SCA 8	1999-2000	Johannessen	Increase to $20,000; delete renters' credit parity
AB 2060	1997-1998	Granlund	Increase to $20,000
ACA 43	1997-1998	Granlund	Increase to $20,000
ACA 5	1991-1992	Elder	Variable, according to assessed value
ACA 31	1991-1992	Frizzelle	Index for inflation by California CPI
ACA 47	1991-1992	Jones	25% exemption; no assessed value cap
ACA 3	1989-1990	Elder	Variable, depending on year acquired
ACA 9	1989-1990	D. Brown	25% exemption; $250,000 assessed value cap
ACA 31	1989-1990	Hannigan	15% exemption; $150,000 assessed value cap
ACA 55	1989-1990	Wright	Increase to $48,000
ACA 1	1987-1988	Elder	Increased to $25,000, plus index for inflation
ACA 25	1987-1988	D. Brown	25% exemption; $250,000 assessed value cap
AB 2141	1985-1986	Klehs	20% exemption; $50,000 exemption cap
AB 2496	1985-1986	Cortese	Increase in years with General Fund Reserves
AB 3086	1985-1986	Elder	Variable, depending on year acquired
AB 3982	1985-1986	La Follette	Increase for 1st time home buyers
ACA 49	1985-1986	Elder	Variable, depending on year acquired

COMMENTS

1. **Sponsor and Purpose.** The author is sponsoring this measure to provide property tax savings to seniors.

2. **Exemption Amount Unchanged Since the Enactment of Proposition 13.** The homeowners' exemption was enacted in 1968 and increased to its current level in 1974. Despite numerous attempts, the exemption has not been increased in more than 30 years. Arguments against increasing the exemption generally follow the line of reasoning that California property tax law, via Proposition 13, provides sufficient property tax relief and protections for homeowners. Opponents of increasing the exemption have also expressed concern with the fiscal impact of increasing the exemption, given limited resources and other competing needs, since the state would be required to fully reimburse local governments for the revenue loss as well as provide a comparable increase in benefits to renters via the renters' state income tax credit.

3. **The Constitution Specifies the Minimum Amount of the Exemption.** The $7,000 amount specified in the Constitution is the *minimum* amount of the exemption. The Constitution provides that the homeowners' exemption can be statutorily increased, as long as there is an equivalent increase in the amount of the renters' credit and local governments are reimbursed for the property tax revenue loss. This bill provides an increased renters' credit for seniors and existing law, Section 25 of Article XIII of the Constitution, already requires the state to reimburse local government for any property tax revenue loss associated with the homeowners' exemption.

4. **How would a negative change in the housing price index affect the exemption amount?** Would the exemption be reduced in those years? The proposed exemption of 27,000 would have been reduced by $4,000 ($27,000 x -15%) in FY 2010-11 had the new exemption been effective as of January 1, 2009.

5. **Two Programs Provide Persons Age 62 or Older, or Blind or Disabled with Property Tax Relief and/or Assistance (However, Both These Programs Are Currently Suspended).** Both of the following programs have income restrictions limiting participation:

   - The **Property Tax Postponement Program,** administered by the State Controller, permits persons to delay all or part of their property taxes until after their deaths. For most taxpayers, total household income can not exceed $24,000 to participate in this program.
   - The **Property Tax Assistance Program**, administered by the Franchise Tax Board, rebates 4% to 96% of property taxes paid. The percentage rebated is determined according to a sliding income scale. The rebate ranges from $19.72 to a maximum of $473. For the 2006 claim year, persons must have had a total household income of $40,811 or less to qualify.

6. **Other Property Tax Benefits Provided to Seniors.** In addition to the cited programs, persons over the age of 55 are permitted to transfer their Proposition 13 assessment if they purchase a new home of equal or lesser value that is located in the same county. Additionally, eight counties (Alameda, El Dorado, Los Angeles, Orange, San Diego, San Mateo, Santa Clara, and Ventura) permit persons to transfer values from a home located in another county. This once-in-a-lifetime

benefit allows seniors to pay the same level of taxes if they choose to move and continue to enjoy relatively low property taxes by avoiding the reassessment provisions of Proposition 13 when purchasing a qualifying new home.

7. **Senior Homeowners Will Need to Take Action to Receive the Higher Exemption Amount.** This bill would likely require a mass refiling by seniors eligible to claim the higher exemption amount since homeowners' exemption claim forms do not indicate the age of the homeowner and the assessors' offices do not maintain any information as to a homeowner's age. Currently, persons file a claim for the homeowners' exemption only once. Those persons eligible for the $27,000 exemption will need to refile with their county assessor's office and provide any necessary documentation for eligibility. Additionally, as other persons reach the age of 62, they also would need to modify their claims with their county assessor's office to receive the proposed higher exemption amount.

8. **The State Subvenes Property Tax Revenue Loss from the Homeowners' Exemption.** The homeowners' exemption is the only property tax exemption for which the state fully reimburses local governments. The state also makes subvention payments to offset property tax reductions for open space and agricultural property that receives preferential assessment treatment under the Williamson Act at the rate of $1 per acre for non-prime land and $5 per acre for prime land.

9. **Suggested Amendment.** For clarity for taxpayers and administrators, it would be preferable to clearly state that the age of a person on the lien date (January 1) determines the exemption amount provided for the upcoming fiscal year, which runs from the following July 1 to June 30. Additionally, to ensure statewide uniformity in the amount of the exemption in case of any inadvertent error it would be preferable for the Board to calculate the new exemption amount as it does for similar items requiring an annual adjustment, and subsequently publish that amount via an annual letter to assessors.

> (a)(2)(A) Beginning on the lien date for the 2011–12 fiscal year, if the assessee for a dwelling <u>that is eligible for the homeowners' exemption</u> is 62 years of age or older <u>on or before the lien date</u>, the exemption is in the amount of twenty-seven thousand dollars ($27,000) of the full value of the dwelling.
>
> (B) Beginning on the lien date for the 2012–13 fiscal year and for each fiscal year thereafter, if the assessee is 62 years of age or older, ~~the assessor shall adjust~~ the exemption amount of the prior fiscal year <u>shall be adjusted</u> by the percentage change, rounded to the nearest one-thousandth of 1 percent, in the House Price Index for California for the first three quarters of the prior calendar year, as determined by the Federal Housing Finance Agency.

COST ESTIMATE

The homeowners' exemption is administered at the local level, and as such counties would incur costs to modify their systems to reflect a separate homeowners' exemption for seniors. The Board would incur some minor absorbable costs in informing and advising county assessors, the public, and staff of the law changes and addressing ongoing implementation issues and questions. These costs are estimated to be under $10,000. However, if the Board is required to modify its homeowners' exemption tracking system in order to separately track those persons qualifying for the senior's exemption, then additional costs will be incurred.

REVENUE ESTIMATE

BACKGROUND, METHODOLOGY, AND ASSUMPTIONS

Existing property tax law provides for a homeowners' exemption in the amount of $7,000 of the full value of a "dwelling," as specified. The state is required to pay subventions to counties for the homeowners' exemptions to offset the resulting local property tax loss. The state reimbursement to the counties for 2008-09 totaled $433,386,000 on 5.5 million claims.

The total exempt value on these properties was $38,704,140,000. Therefore, the average tax rate for properties receiving the homeowners' exemption is:

$433,386,000 / $38,704,140,000, or 1.12%.

Under this bill, the homeowners' exemption for claimants who are 62 years of age or older would increase initially by $20,000, from $7,000 to $27,000 for a full exemption. The average increase in reimbursement, for claimants age 62 years and older, is then:

$20,000 x 1.12%, or $224

Based on information from the 2000 U.S. Census, staff estimates that there are 1.9 million claimants age 62 and older claiming the homeowners' exemption. The estimated initial increase in the homeowners' exemption reimbursement is then:

1.9 million x $224 = $425.6 million

The California Housing Price Index (CHPI) has averaged approximately 6% for each quarter during the last decade. However, since the 4th quarter of 2006 the average has been -14% for each quarter, thus, the CHPI inflation factor over time could change significantly during the occasional volatile housing market cycles. For example, in the first three quarters of 2009 the CHPI averaged -15%, the last quarter of 2009 was down only -0.44%. The proposed exemption of 27,000 would have been reduced by $4,000 ($27,000 x -15%) in FY 2010-11 had the new exemption been effective as of January 1, 2009. Nonetheless, if we assume moderate inflation adjustments in the 1 to 6 percent range going forward, future exemption amounts can be estimated to grow moderately over time, beginning with the January 1, 2011 lien date.

REVENUE SUMMARY

This bill would increase the state reimbursement for the homeowners' exemption approximately $425.6 million annually.

This amount will grow over time as the number of qualified claimants increases due to the aging population.

Qualifying Remarks. This revenue estimate does not address the renters' tax credit provisions of this bill which are administered by the Franchise Tax Board.

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This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.