Senator Jeff Stone

28th Senate District

Fact Sheet
SB 364

What is the origin of the proposal?

This bill idea originated from listening to veterans across Riverside County.

What is the background of this proposal?

An issue that is currently plaguing California is the issue of veterans who are homeless. Veterans have sacrificed much for their country, and in return, local, state and federal governments need to do everything in their power to help them succeed.

According to the National Coalition for Homeless Veterans, homeless veterans are younger on average than the total veteran population. Approximately 9% are between the ages of 18 and 30, and 41% are between the ages of 31 and 50. On top of that, about 1.4 million other veterans are considered at risk of homelessness.

What deficiency in current law does this bill seek to remedy?

There is no single solution that will solve this crisis. Reasons for the large number of homeless veterans are complex and numerous. Two of the biggest factors are the extreme shortage of affordable housing and livable income.

What specifically will this bill do?

SB 364 is a small attempt to help all veterans who have sacrificed the most receive tax relief from the state in order to stay in their homes.

This bill caps the property taxes on any primary residence of an honorably discharged veteran over the age of 65.

Which code sections does this bill affect?

SB 364 amends Sections 51 and 205.5 of the Revenue and Taxation Code, relating to taxation.

Who are the proponents of this legislation?

SB 364 is authored sponsored.

Who is the main contact for this bill?

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AMENDED IN SENATE MAY 17, 2019

SENATE BILL No. 364

Introduced by Senator Stone

February 20, 2019

An act to amend Sections ~~51, 205.5,~~ *51* and 5813 of the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL'S DIGEST

SB 364, as amended, Stone. Property taxation: senior and disabled veterans.

(1) The California Constitution generally limits ad valorem taxes on real property to 1% of the full cash value, as defined, of that property, and provides that the full cash value base may be adjusted each year by the inflationary rate not to exceed 2% for any given year.

Existing property tax law implementing this constitutional authority provides that the taxable value of real property is the lesser of its base year value compounded annually by an inflation factor not to exceed 2%, as provided, or its full cash value. Existing property tax law also provides that the taxable value of a manufactured home is the lesser of its base year value compounded annually by an inflation factor not to exceed 2% or its full cash value.

This bill, for any assessment year commencing on or after January 1, 2020, would provide that the inflation factor shall not apply to the principal place of residence, including a manufactured home, of a qualified veteran, as defined, who is 65 years of age or older on the lien date, was honorably discharged from military service, and meets specified requirements.

By changing the manner in which local tax officials calculate the taxable value of real property owned by senior veterans, this bill would impose a state-mandated local program.

~~(2) Existing property tax law provides, pursuant to the authorization of the California Constitution, a disabled veteran's property tax exemption for the principal place of residence of a veteran or a veteran's spouse, including an unmarried surviving spouse, if the veteran, because of injury incurred in military service, is blind in both eyes, has lost the use of 2 or more limbs, or is totally disabled, as those terms are defined, or if the veteran has, as a result of a service-connected injury or disease, died while on active duty in military service. Existing law exempts that part of the full value of the residence that does not exceed $100,000, or $150,000, if the veteran's household income does not exceed $40,000, adjusted for inflation, as specified.~~

~~This bill, commencing with the lien date for the 2020–21 fiscal year and for each fiscal year thereafter, would instead exempt the full value of the principal place of residence of a veteran or veteran's spouse. The bill would also make technical and conforming changes to the disabled veteran's property tax exemption.~~

~~By changing the manner in which local tax officials administer the disabled veteran's property tax exemption, this bill would impose a state-mandated local program.~~

(3)

(2) Existing law requires the state to reimburse local agencies annually for certain property tax revenues lost as a result of any exemption or classification of property for purposes of ad valorem property taxation.

This bill would provide that, notwithstanding those provisions, no appropriation is made and the state shall not reimburse local agencies for property tax revenues lost by them pursuant to the bill.

~~(4)~~

(3) The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that, if the Commission on State Mandates determines that the bill contains costs mandated by the state, reimbursement for those costs shall be made pursuant to the statutory provisions noted above.

~~(5)~~

(4) This bill would take effect immediately as a tax levy.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: yes.

The people of the State of California do enact as follows:

SECTION 1. Section 51 of the Revenue and Taxation Code is amended to read:

51. (a) For purposes of subdivision (b) of Section 2 of Article XIII A of the California Constitution, for each lien date after the lien date in which the base year value is determined pursuant to Section 110.1, the taxable value of real property shall, except as otherwise provided in subdivision (b) or (c), be the lesser of:

(1) Its base year value, compounded annually since the base year by an inflation factor, which shall be determined as follows:

(A) For any assessment year commencing prior to January 1, 1985, the inflation factor shall be the percentage change in the cost of living, as defined in Section 2212.

(B) For any assessment year commencing after January 1, 1985, and prior to January 1, 1998, the inflation factor shall be the percentage change, rounded to the nearest one-thousandth of 1 percent, from December of the prior fiscal year to December of the current fiscal year in the California Consumer Price Index for all items, as determined by the Department of Industrial Relations.

(C) For any assessment year commencing on or after January 1, 1998, the inflation factor shall be the percentage change, rounded to the nearest one-thousandth of 1 percent, from October of the prior fiscal year to October of the current fiscal year in the California Consumer Price Index for all items, as determined by the Department of Industrial Relations.

(D) The percentage increase for an assessment year determined pursuant to subparagraph (A), (B), or (C) shall not exceed 2 percent of the prior year's value.

(E) (i) Notwithstanding any other law, for any assessment year commencing on or after January 1, 2020, the percentage increase for an assessment year determined pursuant to subparagraph (A), (B), or (C) shall not apply to the principal place of residence, including so much of the land surrounding it as is reasonably necessary for use of the dwelling as a home, of a qualified veteran who is 65 years of age or older on the lien date and was honorably discharged from military service.

(ii) For the purpose of this subparagraph, "qualified veteran" means a person who meets the following criteria:

(I) The person meets the criteria specified in subdivision (o) of Section 3 of Article XIII of the California Constitution, except for the limitation on the value of property owned by the veteran or the veteran's spouse.

(II) If the qualified veteran is single, the qualified veteran's annual income, as defined in Section 20503, is less than fifty thousand dollars ($50,000).

(III) If the qualified veteran is married, the qualified veteran's annual household income, as defined in Section 20504, is less than one hundred thousand dollars ($100,000).

(iii) When claiming the benefit provided by this subparagraph, the claimant shall provide all information required by, and answer all questions contained in, an affidavit furnished by the assessor to determine that the claimant is a qualified veteran. The assessor may require additional proof of the information or answers provided in the affidavit before allowing the benefit provided by this subparagraph.

(2) Its full cash value, as defined in Section 110, as of the lien date, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property, or other factors causing a decline in value.

(b) If the real property was damaged or destroyed by disaster, misfortune, or calamity and the board of supervisors of the county in which the real property is located has not adopted an ordinance pursuant to Section 170, or any portion of the real property has been removed by voluntary action by the taxpayer, the taxable value of the property shall be the sum of the following:

(1) The lesser of its base year value of land determined under paragraph (1) of subdivision (a) or full cash value of land determined pursuant to paragraph (2) of subdivision (a).

(2) The lesser of its base year value of improvements determined pursuant to paragraph (1) of subdivision (a) or the full cash value of improvements determined pursuant to paragraph (2) of subdivision (a).

In applying this subdivision, the base year value of the subject real property does not include that portion of the previous base year value of that property that was attributable to any portion of the property that has been destroyed or removed. The sum determined under this subdivision shall then become the base year value of the real property until that property is restored, repaired, or reconstructed or other provisions of law require establishment of a new base year value.

(c) If the real property was damaged or destroyed by disaster, misfortune, or calamity and the board of supervisors in the county in which the real property is located has adopted an ordinance pursuant to Section 170, the taxable value of the real property shall be its assessed value as computed pursuant to Section 170.

(d) For purposes of this section, "real property" means that appraisal unit that persons in the marketplace commonly buy and sell as a unit, or that is normally valued separately.

(e) Nothing in this section shall be construed to require the assessor to make an annual reappraisal of all assessable property. However, for each lien date after the first lien date for which the taxable value of property is reduced pursuant to paragraph (2) of subdivision (a), the value of that property shall be annually reappraised at its full cash value as defined in Section 110 until that value exceeds the value determined pursuant to paragraph (1) of subdivision (a). In no event shall the assessor condition the implementation of the preceding sentence in any year upon the filing of an assessment appeal.

~~SEC. 2. Section 205.5 of the Revenue and Taxation Code is amended to read:~~

~~205.5. (a) Property that constitutes the principal place of residence of a veteran, that is owned by the veteran, the veteran's spouse, or the veteran and the veteran's spouse jointly, is exempted from taxation if the veteran is blind in both eyes, has lost the use of two or more limbs, or if the veteran is totally disabled as a result of injury or disease incurred in military service.~~

~~(b) (1) For purposes of this section, "veteran" means either of the following:~~

~~(A) A person who is serving in or has served in and has been discharged under other than dishonorable conditions from service in the United States Army, Navy, Air Force, Marine Corps, or Coast Guard, and served either in time of war or in time of peace in a campaign or expedition for which a medal has been issued by Congress, or in time of peace and because of a service-connected disability was released from active duty, and who has been~~

~~determined by the United States Department of Veterans Affairs to be eligible for federal veterans' health and medical benefits.~~

~~(B) Any person who would qualify as a veteran pursuant to subparagraph (A) except that the person has, as a result of a service-connected injury or disease, as determined by the United States Department of Veterans Affairs, died while on active duty in military service.~~

~~(2) For purposes of this section, property is deemed to be the principal place of residence of a veteran, disabled as described in subdivision (a), who is confined to a hospital or other care facility, if that property would be that veteran's principal place of residence were it not for the veteran's confinement to a hospital or other care facility, provided that the residence is not rented or leased to a third party. For purposes of this paragraph, a family member who resides at the residence is not a third party.~~

~~(c) (1) Property that is owned by, and that constitutes the principal place of residence of, the unmarried surviving spouse of a deceased veteran is exempt from taxation if the deceased veteran was blind in both eyes, had lost the use of two or more limbs, or was totally disabled, provided that either of the following conditions is met:~~

~~(A) The deceased veteran during their lifetime qualified for the exemption pursuant to subdivision (a), or would have qualified for the exemption under the laws effective on January 1, 1977, except that the veteran died prior to January 1, 1977.~~

~~(B) The veteran died from a disease that was service-connected, as determined by the United States Department of Veterans Affairs.~~

~~(2) Property that is owned by, and that constitutes the principal place of residence of, the unmarried surviving spouse of a veteran described in subparagraph (B) of paragraph (1) of subdivision (b) is exempt from taxation.~~

~~(3) Property is deemed to be the principal place of residence of the unmarried surviving spouse of a deceased veteran, who is confined to a hospital or other care facility, if that property would be the unmarried surviving spouse's principal place of residence were it not for their confinement to a hospital or other care facility, provided that the residence is not rented or leased to a third party. For purposes of this paragraph, a family member who resides at the residence is not a third party.~~

~~(d) As used in this section, “property that is owned by a veteran” or “property that is owned by the veteran’s unmarried surviving spouse” includes all of the following:~~

~~(1) Property owned by the veteran with the veteran’s spouse as a joint tenancy, tenancy in common, or as community property.~~

~~(2) Property owned by the veteran or the veteran’s spouse as separate property.~~

~~(3) Property owned with one or more other persons to the extent of the interest owned by the veteran, the veteran’s spouse, or both the veteran and the veteran’s spouse.~~

~~(4) Property owned by the veteran’s unmarried surviving spouse with one or more other persons to the extent of the interest owned by the veteran’s unmarried surviving spouse.~~

~~(5) That portion of the property of a corporation that constitutes the principal place of residence of a veteran or a veteran’s unmarried surviving spouse when the veteran, the veteran’s spouse, or the veteran’s unmarried surviving spouse is a shareholder of the corporation and the rights of shareholding entitle one to the possession of property, legal title to which is owned by the corporation. The exemption provided by this paragraph shall be shown on the local roll and shall reduce the full value of the corporate property. Notwithstanding any law or articles of incorporation or bylaws of a corporation described in this paragraph, any reduction of property taxes paid by the corporation shall reflect an equal reduction in any charges by the corporation to the person who, by reason of qualifying for the exemption, made possible the reduction for the corporation.~~

~~(e) For purposes of this section, the following definitions shall apply:~~

~~(1) “Being blind in both eyes” means having a visual acuity of 5/200 or less, or concentric contraction of the visual field to five degrees or less.~~

~~(2) “Lost the use of two or more limbs” means that the limb has been amputated or its use has been lost by reason of ankylosis, progressive muscular dystrophies, or paralysis.~~

~~(3) “Totally disabled” means that the United States Department of Veterans Affairs or the military service from which the veteran was discharged has rated the disability at 100 percent or has rated the disability compensation at 100 percent by reason of being unable to secure or follow a substantially gainful occupation.~~

~~(f) An exemption granted to a claimant pursuant to this section shall be in lieu of the veteran's exemption provided by subdivisions (o), (p), (q), and (r) of Section 3 of Article XIII of the California Constitution and any other real property tax exemption to which the claimant may be entitled. No other real property tax exemption may be granted to any other person with respect to the same residence for which an exemption has been granted pursuant to this section; provided, that if two or more veterans qualified pursuant to this section coown a property in which they reside, each is entitled to the exemption to the extent of their interest.~~

~~(g) The amendments made to this section by Chapter 871 of the Statutes of 2016 shall apply for property tax lien dates for the 2017–18 fiscal year and for each fiscal year thereafter.~~

~~(h) The amendments made to this section by the act adding this subdivision shall apply for property tax lien dates for the 2020–21 fiscal year and for each fiscal year thereafter.~~

~~SEC. 3.~~

SEC. 2. Section 5813 of the Revenue and Taxation Code is amended to read:

5813. (a) For each lien date after the lien date for which the base year value is determined, the taxable value of a manufactured home shall be the lesser of:

(1) Its base year value, compounded annually since the base year by an inflation factor, which shall be the percentage change in the cost of living, as defined in Section 51, provided, that any percentage increase shall not exceed 2 percent of the prior year's value.

(2) Its full cash value, as defined in Section 5803, as of the lien date, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, or other factors causing a decline in value.

(3) If the manufactured home is damaged or destroyed by disaster, misfortune, or calamity, its value determined pursuant to paragraph (2) shall be its base year value until the manufactured home is restored, repaired or reconstructed or other provisions of law require establishment of a new base year value.

(b) (1) Notwithstanding any other law, for any assessment year commencing on or after January 1, 2020, the percentage increase for an assessment year determined pursuant to paragraph (1) of subdivision (a) shall not apply to the principal place of residence of a qualified veteran who owns a manufactured home as their principal place of residence and who is 65 years of age or older on the lien date and was honorably discharged from military service.

(2) For the purpose of this subdivision, “qualified veteran” means a person who meets the following criteria:

(A) The person meets the criteria specified in subdivision (o) of Section 3 of Article XIII of the California Constitution, except for the limitation on the value of property owned by the veteran or the veteran’s spouse.

(B) If the qualified veteran is single, the qualified veteran’s annual income, as defined in Section 20503, is fifty thousand dollars ($50,000) or less.

(C) If the qualified veteran is married, the qualified veteran’s household income, as defined in Section 20504, is one hundred thousand dollars ($100,000) or less.

(3) When claiming the benefit provided by this subdivision, the claimant shall provide all information required by, and answer all questions contained in, an affidavit furnished by the assessor to determine that the claimant is a qualified veteran. The assessor may require additional proof of the information or answers provided in the affidavit before allowing the benefit provided by this subdivision.

~~SEC. 4.~~

SEC. 3. Notwithstanding Section 2229 of the Revenue and Taxation Code, no appropriation is made by this act and the state shall not reimburse any local agency for any property tax revenues lost by it pursuant to this act.

~~SEC. 5.~~

SEC. 4. If the Commission on State Mandates determines that this act contains costs mandated by the state, reimbursement to local agencies and school districts for those costs shall be made pursuant to Part 7 (commencing with Section 17500) of Division 4 of Title 2 of the Government Code.

~~SEC. 6.~~

SEC. 5. This act provides for a tax levy within the meaning of Article IV of the California Constitution and shall go into immediate effect.

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Senate Bill 364 (Stone)
Date: May 17,2019 (Amended)
Program: Property Taxes
Sponsor: Author
Revenue and Taxation Code Sections 51 and 5813
Effective: Upon chaptering, but operative for January 1, 2020 lien date

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Summary: This bill eliminates the annual inflation factor-related assessed value increases on homes and manufactured homes owned by income-qualifying veterans 65 years and older.

Summary of Amendments: Since our last analysis, this bill was amended to eliminate the expansion of the disabled veterans' exemption to a 100 percent exemption.

Fiscal Impact Summary: By eliminating the inflation factor applied to a qualifying veteran's home, this bill would result in a potential annual revenue loss of $27.2 million.

Existing Law: The California Constitution[1] provides that all property is taxable unless explicitly exempted by either the Constitution or federal law. The California Constitution provides a *veterans' exemption* that applies to any property owned by a person who serves or has served in the military. However, this exemption has become effectively obsolete because for any veteran who owns a home, the homeowners' exemption provides greater tax savings.[2] Veterans who do not own homes, but own other taxable property (i.e., a boat or business personal property) are disqualified from the veterans' exemption if they own property worth more than $5,000 (if single) or $10,000 (if married). For purposes of this exemption, all property owned is cumulated to meet the asset limitation.[3] Thus, only one veteran in California currently qualifies under this exemption.

The Constitution also (1) limits the maximum amount of any ad valorem tax on real property at one percent of full cash value, plus any locally-authorized bonded indebtedness, and (2) provides that assessors can only reappraise property whenever it is purchased, newly constructed, or when ownership changes (Proposition 13, 1978).[4] Proposition 13 also places limits on the inflationary growth of real property value to two percent per year.

The law requires the assessor to establish a "base year value" for real property at its 1975 market value and thereafter reset the value to current market value every time the property changes ownership or new construction is completed.[5] The base year value must be compounded annually by an inflation factor not to exceed 2 percent.[6] The inflation-adjusted value is called the "factored base year value." Generally, every year the law requires a property's assessed value to be based on its factored base year value or its current market value, whichever is lower.[7]

[1] California Constitution article XIII, section 1.
[2] The veterans' exemption is $4,000, and the homeowners' exemption is $7,000. A homeowner may receive one exemption, not both.
[3] See Property Tax Rule 464 and Property Tax Annotation 865.0010.
[4] Article XIII A.
[5] Revenue and Taxation Code (RTC) section 110.1(a) and (b).
[6] RTC section 110.1(f) and section 51.
[7] RTC section 51(a)(1).

Manufactured homes that are not licensed and not placed on permanent foundations are considered personal property and assessed under the Manufactured Home Property Tax Law.[8] However, for property tax assessment purposes, manufactured homes are treated similar to real property in that existing law provides that for each lien date, the taxable value of a manufactured home is the lesser of (1) its factored base year value, or (2) its current market value.[9]

Relevant to this bill, the California Constitution[10] specifies that a property's base year value *may* reflect from year to year the inflationary rate not to exceed 2 percent for any given year.

Proposed Law: Beginning January 1, 2020, this bill eliminates future inflation factor increases for qualified veteran homeowners. To qualify, all of the following must apply:

- **Honorable Discharge.** The veteran must have been honorably discharged from military service.
- **Principal place of residence.** The inflation factor limitation only applies to a veteran's principal place of residence, including so much of the land surrounding it as is reasonably necessary for use of the dwelling as a home.
- **Age.** The veteran must be 65 on the lien date (January 1).
- **Income Qualifications.** The veteran must have an income, as specified, of less than $50,000 if single or $100,000 if married.

Filing. This bill requires a claimant to provide information and answer all questions contained in an affidavit furnished by the assessor to determine that the claimant is a qualified veteran.

Effective Date. As a tax levy, this bill is effective immediately upon enactment. However, the bill provides that this inflation factoring exception first applies for any assessment year commencing on or after January 1, 2020. Generally, property taxes for the 2020-21 fiscal year are based on the assessed value set for the January 1, 2020 lien date.

In General: **Property Tax System.** Voters changed California's property tax system through Proposition 13, which replaced a current market value-based system with an acquisition value-based system. Specifically, under Proposition 13, real property assessed values were rolled back to 1975 market value levels and future assessed value increases were limited to the inflation rate, not to exceed 2 percent, for as long as the property's ownership remains unchanged and the property is not substantially improved (i.e., new construction). Thus, regardless of future real estate value increases, the 2 percent maximum inflation adjustment ensures limited assessed value increases.

Base Year Values. The "base year value" of real property is the Proposition 13 protected value of a property. Under existing law, once the base year value of real property is established, it subsequently must be annually adjusted by an inflation factor of no more than 2 percent, based on the annual percentage change in the October California Consumer Price Index.

Specifically, RTC section 110.1 provides that the "full cash value" of real property means its fair market value as of the date on which a purchase or change in ownership occurs or new construction is completed. RTC section 110.1(b) provides that this value is to be known as the "base year value," while

[8] RTC sections 5800 through 5842.
[9] RTC section 5813.
[10] Article XIII A, section 2(b).

section 110.1(f) requires that the base year value annually be adjusted by an inflation factor, as specified in RTC section 51(a).

Background:

Veterans' Exemption. At its peak, from 1956 through 1962, over one million persons received the veterans' exemption. Currently, only one person receives the exemption. This table reflects the number of persons who have been granted the veterans' exemption in the past six years.

ROLL YEAR	REGULAR VETERANS' EXEMPTION
2013-14	6
2014-15	4
2015-16	2
2016-17	6
2017-18	0
2018-19	1

Usage of the veterans' exemption declined for two reasons. First, in 1974, home-owning veterans transitioned to the homeowners' exemption when that exemption amount increased and provided greater tax savings. Second, the strict wealth limitations fixed in the California Constitution ($5,000 if single and $10,000 if married) make most veterans ineligible. For purposes of this limitation, all property owned is counted. [11]

Service Discharge. There are five different types of discharges from active duty: Honorable, General (under honorable conditions), Other Than Honorable conditions (OTH), Bad Conduct, or Dishonorable. Generally, to receive disability compensation benefits from the USDVA requires an Honorable or a General (under honorable conditions) discharge. But, it is possible for a person with an OTH and Bad Conduct discharge to receive disability compensation if, after an investigation by the USDVA, which administers veteran benefits, the USDVA finds that the OTH or Bad Conduct discharge was not "under conditions other than dishonorable" and authorizes disability compensation benefits.

SB 1458 (Stats. 2016, ch. 871) expanded the disabled veterans' exemption[12] to include persons who were discharged from military service under "other than dishonorable" conditions. The Senate Committee on Veterans Affairs legislative analysis for SB 1458 explains these issues in detail, a portion of which is excerpted below:

> **Types of Military Discharges.** The military separates its personnel from active service by formally discharging them. Discharges may be either administrative or punitive. Each of the five different discharge statuses is determined by the characterization of an individual's service. The character of service slides along a scale with "honorable" at the high end and "dishonorable" at the low end.
>
> The types of discharges fall under one of two categories: "administrative" or "punitive." Punitive discharges are reserved for the most negative cases and imposed only by special and general courts martial. Administrative separations cannot be awarded by a court-martial and are not punitive in

[11] See Property Tax Rule 464 and Property Tax Annotation 865.0010.
[12] RTC section 205.5.

nature. Enlisted personnel may be administratively separated with a characterization of service or a description of separation. Administrative discharges include:

1) *Honorable.* This is the most common discharge status. It presumes creditable service and good behavior. All service members will earn an Honorable Discharge unless they experience significant problems and receive a lower type of discharge.
2) *General (under honorable conditions).* Sometimes referred to as a "General Discharge," it is granted if an individual's commander determines that the service has been generally honest and faithful, even if the person ran into some trouble. General Discharges are given for a variety of reasons, including failure to progress in training; failure to maintain military standards in appearance, weight, or fitness; or for disciplinary infractions, including drug or alcohol abuse.
3) *Other than Honorable.* An "OTH" discharge usually is given when an individual's service represents a broader pattern of departure from the conduct and performance expected of all military members. It can result from notable drug or alcohol problems, but also can be based on other misconduct, such as abuse of authority, fraternization, or a pattern of continue misconduct. OTH discharges bar the individual from reenlisting into any component of the armed forces, including the military reserves and National Guard.

Punitive discharges are authorized punishments of courts-martial and can only be imposed as an approved court-martial sentence following an individual's conviction for violating the Uniform Code of Military Justice. There are two types of punitive discharges:

1) *Bad Conduct Discharge.* This can be imposed by both special and general courts-martial. This discharge is usually given for convictions of crimes such as absent without leave, drunk on duty, driving while under the influence, adultery, writing bad checks, and disorderly conduct.
2) *Dishonorable Discharge.* This is the worst type of military discharge a service member can receive, and can be imposed only by a general court-martial. In most cases, a Dishonorable Discharge also involves being sentenced to serve time in a military prison.

Legislative History. Proposals to modify the veterans' exemption have included:

YEAR	BILL	DESCRIPTION
2017	SB 404 (Stone)	CPI-elimination for Income Qualified Senior Veterans. Held in Senate Appropriations Committee. (Identical to this bill)
2016	SB 690 (Stone)	CPI-elimination for Income Qualified Senior Veterans. Held in Assembly Appropriations Committee. (Identical to this bill)
2016	SB 1104 (Stone)	CPI-elimination for Income Qualified Senior Veterans. Held in Senate Appropriations Committee. (Identical to this bill)
2005	SCA 14 (Morrow)	Create a Military and Veterans homeowners' exemption that is 10% greater than the homeowners' exemption for active military and veterans. Held in Senate Revenue and Taxation Committee.
1997	ACA 9/AB 551 (Morrissey and House)	Increase the Veterans' Exemption to $7,700 and eliminate the wealth cap. Held in Assembly Appropriations.
1996	ACA 39/AB 2790 (Morrissey)	Increase the Veterans' Exemption to $7,700 and eliminate the wealth cap. Failed in the Senate.

Senior Provisions. Various age-based property tax benefits are available generally. This includes base year value transfers for persons at least age 55 that buy a qualifying home and a state program that allows income-qualified persons at least age 62 to postpone property taxes with interest.

Commentary:

1. **Author's Statement.** Many veterans who are, or will soon become, senior citizens served America during the Vietnam and Korean wars, a time when our nation often did not show these men and women the respect they deserved. As these men and women become senior citizens, the least we can do is offer them the financial stability to allow them to stay in their homes that this legislation provides.

2. **Summary of Amendments.** The May 17, 2019 amendment eliminated the expansion of the disabled veterans' exemption to a 100 percent exemption.

3. **Provides financial relief to income and age qualifying home-owning veterans.** According to the author, capping the property tax assessment of veterans age 65 or older will help lower income veterans afford to stay in their own home and avoid homelessness. The author notes that homelessness is a significant issue for veterans.

4. **Freezes assessed values for income qualifying veterans at least age 65.** This bill freezes the assessed values for income and age qualifying veterans at the home's factored base year value for the 2020-21 fiscal year, which is the factored base year value for the January 1, 2020 lien date. In addition, as other qualified veterans reach the age of 65, their home's assessed value will also be frozen.

5. **Historically, the inflation factor has applied equally to all property types and all property owners.** The Constitutional provision specific to "full cash value base" inflation adjustments does not appear to prohibit the Legislature from enacting a law that makes the inflation factor optional to a certain class of taxpayer. The Constitution is silent on differential application of the inflation factor to the "full cash value base." Section 2(b) of article XIII A of the Constitution reads:

   > The full cash value base *may reflect* from year to year the inflationary rate not to exceed 2 percent for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced to reflect substantial damage, destruction or other factors causing a decline in value.

   Section 1 of article XIII of the Constitution provides that:

   > All property . . . shall be assessed at the same percentage of fair market value. When a value standard other than fair market value is prescribed by this Constitution or by statute authorized by this Constitution, the same percentage shall be applied to determine the assessed value. The value to which the percentage is applied, whether it is to be the fair market value or not, shall be known for property tax purposes as the full value.

   Article XIII, section 1 uses the terms "assessed value" and "full value." It is unclear if the amendment to section 51 prohibiting the application of an inflation adjustment to a limited class of properties could be interpreted to run counter to section 1's requirement that all property be assessed at the same percentage.

6. **Assessment uniformity.** Assessed values lack uniformity under California's acquisition value-based system. However, the acquisition value-based standard is authorized by the Constitution and has been upheld by the courts. Adding an income-based element expands non-uniform assessment and complicates administration of the tax. This bill contains three qualifications (military service, age, and income) that the Constitution does not expressly authorize.

7. **The property tax is an ad valorem tax based on a property's assessed value.** Historically, the imposition of the property tax has not varied based on income. Property tax law does provide certain constitutionally-authorized exemptions to be applied to a property's assessed value (disabled veterans' exemption and welfare exemption low income rental housing) and age-based exclusions from the definition of change in ownership (Propositions 60 and 90 base year value transfers).

8. **Annual income requirement.** One of the requirements for the inflation factoring freeze is that the veteran must have an income, as specified, of less than $50,000 if single or $100,000 if married. Unlike the disabled veterans' exemption, which provides for annual inflationary adjustment of the income limit, this bill does not provide for any inflationary adjustments.

9. **Honorable discharge requirement.** One of the requirements for this factoring freeze is that the veteran be honorably discharged. This is unlike the disabled veterans' exemption for which "other than dishonorable" veterans are eligible. The disabled veterans' exemption requirement for the character of discharge from military service was changed in 2016 from "honorable" conditions to a lower threshold of "other than dishonorable" conditions.[13]

10. **Annual income verification.** Should it become common to enact property tax laws that base assessed values on the property owner's income, independent verification of income eligibility would become increasingly important. Thus, assessors would need to delve into taxpayers' private financial matters unrelated to property value. Assessors will need to establish a procedure to verify continued income eligibility specific to this bill's provisions. To this end, the bill allows the assessor to request additional proof of eligibility.

11. **Qualifying veterans will need to take action.** Assessors do not have information about homeowners' veteran status, age, or income. The bill specifies a basic claim-filing requirement to request this tax benefit.

12. **Excess land.** This bill expressly provides that the inflation factor limitation does not apply to land in excess of what is reasonably necessary for use of the property as a home. This is consistent with other property tax law provisions in which a "residential dwelling" means a dwelling occupied by the claimant as the principal place of residence, and so much of the land surrounding it as is reasonably necessary for use of the dwelling as a home. For example, for a home located on a parcel of land that is a large farm, the inflation factoring limitation would be limited to the home and the home site.

[13] Senate Bill 1458 (Stats. 2016, ch. 871).

13. **Related Legislation.** Senate Bill 562 (Morrell) proposes to increase the existing exemption limits for disabled veterans.

Costs: BOE would incur absorbable costs to create forms and modify publications and website materials.

Revenue Impact: **Background, Methodology, and Assumptions.** Generally, a property's sale price is the assessed value (called the base year value), and annual increases to that value are limited to the rate of inflation, not to exceed 2 percent (called the factored base year value). This bill eliminates the annual inflation factor increase applied to the base year value of an age and income qualified veteran's home.

Age. According to U.S. Census data, California veterans 65 and older account for 15 percent of all Californians 65 and over. Among this age group, there are roughly 2.2 million owner-occupied homes in the state. While specific data does not exist, we can estimate the number of homes owned by veterans 65 and older as follows:

2.2 million homes x 15% = 330,000 homes

Income. Based on a review of available data, we estimate that about 80 percent of veteran-owned homes will qualify given the income limits of $50,000, if single, and $100,000, if married.

330,000 homes x 80% = 264,000 homes

For fiscal year 2018-19, the average assessed value of homes receiving the homeowners' exemption was $412,000. Eliminating the inflation factor for qualified veterans 65 and older results in annual revenue loss at the basic 1 percent property tax rate calculated as follows:

Average Home Assessed Value	Inflation Factor	Assessed Value Increase Avoided	Tax Rate	Tax Savings Per Home	Income Qualifying Veteran 65+ Homes	Revenue Loss
$412,000	2%	$8,240	1%	$82.40	330,000	$27.2 Million

Revenue Summary. By eliminating the inflation factor applied to a qualifying veteran's home, this bill would result in a potential annual revenue loss of $27.2 million.

Qualifying Remarks. This estimate assumes (1) a similar rate of homeownership for veterans 65 and over as for all Californians 65 and over; and (2) a similar level of income for veterans 65 and over as for all Californians 65 and over. This revenue estimate does not account for any changes in economic activity that may or may not result from enactment of the proposed law.

SENATE RULES COMMITTEE SB 364

Office of Senate Floor Analyses
(916) 651-1520 Fax: (916) 327-4478

THIRD READING

Bill No: SB 364
Author: Stone (R)
Amended: 5/17/19
Vote: 21

SENATE GOVERNANCE & FIN. COMMITTEE: 7-0, 3/27/19
AYES: McGuire, Moorlach, Beall, Hertzberg, Hurtado, Nielsen, Wiener

SENATE VETERANS AFFAIRS COMMITTEE: 7-0, 4/23/19
AYES: Archuleta, Grove, Hurtado, Nielsen, Roth, Umberg, Wilk

SENATE APPROPRIATIONS COMMITTEE: 6-0, 5/16/19
AYES: Portantino, Bates, Bradford, Hill, Jones, Wieckowski

SUBJECT: Property taxation: senior and disabled veterans

SOURCE: Author

DIGEST: This bill eliminates the inflation adjustment for the principal place of residence of an income-eligible veteran taxpayer over the age of 65.

ANALYSIS:

Existing law:

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

2) Limits the maximum amount of any ad valorem tax on real property at 1% of full cash value, and directs assessors to only reappraise property when newly constructed, or when ownership changes (California Constitution, Article XIIIA, as added by Proposition 13, 1978).

3) Restricts assessed value inflationary growth of real property to 2% per year.

4) Sets a property's value for tax purposes as its price when purchased or when ownership changed, plus an annual inflation factor, calculated by the Department of Industrial Relations using the California Consumer Price Index for all items. For example, a home purchased in 2012 for $300,000, has a maximum taxable base year value of $306,000 in 2013, $312,200 in 2014, $318,440 in 2015, $325,808 in 2016, and $332,324 in 2017. This base year value is then multiplied by the appropriate rate (generally 1%, but can be more if voters approved local general obligation bonds) to determine tax due.

This bill:

1) Disconnects the inflation factor for the principal place of residence of income-eligible taxpayers over the age of 65 who were honorably discharged from military service for any assessment year on or after either January 1, 2020, or the taxpayer's 65th birthday, whichever is later.

2) Allows the benefit solely for veterans with household combined annual income of less than $100,000, or if single, annual income of less than $50,000 using the definitions for income in the Senior Citizens and Disabled Citizens Property Tax Postponement Law.

3) Requires the veteran taxpayer to complete an affidavit furnished by the assessor providing all information required and answering any questions to determine qualification to claim the benefit.

4) Allows the assessor to require additional proof of the information or answers in the affidavit before allowing the benefit.

5) Limits the benefit to the residence any land necessary for the use of the property as a home – any additional land would continue to grow in taxable value pursuant to current law.

6) Applies its provisions to taxpayers owning manufactured homes.

7) Makes technical and conforming changes.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: Yes

According to the Senate Appropriations Committee, the Board of Equalization (BOE) estimates that this bill's two proposed changes to property tax law would result in annual revenue losses of $22 million. Reductions in local property tax revenues, in turn, increase General Fund Proposition 98 spending by up to roughly 50 percent (the exact amount depends on the specific amount of the annual

Proposition 98 guarantee, which in turns depends upon a variety of economic, demographic and budgetary factors). Additionally, this bill could result in unknown, but likely minor, costs to reimburse local governments related to changes in property tax administration. Costs to BOE would be minor and absorbable.

SUPPORT: (Verified 5/17/19)

American GI Forum of California
AMVETS-Department of California
California Association of County Veterans Service Officers
California State Commanders Veterans Council
Retired Public Employees Association
National Guard Association of California
13 individuals

OPPOSITION: (Verified 5/17/19)

California Assessors Association

ARGUMENTS IN SUPPORT: According to the author, "An issue that is currently plaguing California is the issue of veterans who are homeless. Veterans have sacrificed much for their country, and in return, local, state and federal governments need to do everything in their power to help them succeed. According to the National Coalition for Homeless Veterans, homeless veterans are younger on average than the total veteran population. Approximately 9% are between the ages of 18 and 30, and 41% are between the ages of 31 and 50. On top of that, about 1.4 million other veterans are considered at risk of homelessness. There is no single solution that will solve this crisis. Reasons for the large number of homeless veterans are complex and numerous. Two of the biggest factors are the extreme shortage of affordable housing and livable income. SB 364 attempts to address the affordable housing issue for veterans by capping the property taxes on any primary residence of an honorably discharged veteran over the age of 65, and exempting the property tax of all disabled veterans living in their primary residence. By making these two changes, it will go a long way to helping veterans stay in their homes by making their living situation more affordable."

ARGUMENTS IN OPPOSITION: According to the California Assessors Association, "SB 364 creates a new program that attempts to fashion itself as an exemption but is, in fact, different treatment of real property for property tax purposes as required by the Constitution. In short, SB 364 takes the current Veterans' Exemption and twists it into a different way to assess property owned by certain qualified veterans. With most exemptions, the assessed value is enrolled then an exemption is applies. In this proposal, the inflation factor required in Article XIIIA is waived for qualified veterans who are not disabled. This will require Assessors to monitor all properties owned by veterans and track their age and annual income. Then, we will be required to treat those properties differently than all other real property not subject to statutory restrictions. The added administrative burden is significant. There is no doubt that new reporting forms and recordkeeping standards will be required to begin the tracking effort. Additionally, computer programming will be required so that assessed values of property owned by a qualified veteran is not inflated consistent with state law. In California, there are 31 counties using the same property tax system. The remaining 27 counties use individualized system. If this bill passes, with an effective date of the 2020 lien date, it will need an immediate change to those property tax systems. Disabled and aging veterans have the support and respect of California's County Assessors. However, the practical application of this legislation is problematic."

Prepared by: Colin Grinnell / GOV. & F. / (916) 651-4119
5/20/19 10:19:57

****** END ******

SB-364 Property taxation: senior and disabled veterans. (2019-2020)

Date	Result	Location	Ayes	Noes	NVR	Motion
05/23/19	(PASS)	Senate Floor	38	0	0	Senate 3rd Reading SB364 Stone
		Ayes: Allen, Archuleta, Atkins, Bates, Beall, Borgeas, Bradford, Caballero, Chang, Dodd, Durazo, Galgiani, Glazer, Grove, Hertzberg, Hill, Hueso, Hurtado, Jackson, Jones, Leyva, McGuire, Mitchell, Monning, Moorlach, Morrell, Nielsen, Pan, Portantino Roth, Rubio, Skinner, Stern, Stone, Umberg, Wieckowski, Wiener, Wilk				
		Noes:				
		No Votes Recorded:				
05/16/19	(PASS)	Sen Appropriations	6	0	0	Do pass as amended
		Ayes: Bates, Bradford, Hill, Jones, Portantino, Wieckowski				
		Noes:				
		No Votes Recorded:				
05/06/19	(PASS)	Sen Appropriations	5	0	1	Placed on suspense file
		Ayes: Bates, Hill, Jones, Portantino, Wieckowski				
		Noes:				
		No Votes Recorded: Bradford				
04/23/19	(PASS)	Sen Veterans Affairs	7	0	0	Do pass, but first be re-referred to the Committee on [Appropriations]
		Ayes: Archuleta, Grove, Hurtado, Nielsen, Roth, Umberg, Wilk				
		Noes:				
		No Votes Recorded:				
03/27/19	(PASS)	Sen Governance and Finance	7	0	0	Do pass, but first be re-referred to the Committee on [Veterans Affairs]
		Ayes: Beall, Hertzberg, Hurtado, McGuire, Moorlach, Nielsen, Wiener				
		Noes:				
		No Votes Recorded:				

Reeb Government Relations, LLC

June 22, 2019

The Honorable Autumn Burke
Chair, Assembly Revenue and Taxation Committee
California State Assembly
State Capitol
Sacramento, CA 95814

RE: SB 364 (Stone): Property Taxation: senior and disabled veterans – SUPPORT

Dear Chairwoman Burke:

I am writing on behalf of our clients, the American GI Forum of California, American Legion-Department of California, AMVETS-Department of California, California Association of County Veterans Service Officers, California State Commanders Veterans Council, Military Officers Association of America-California Council of Chapters, and the National Guard Association of California, and the Vietnam Veterans of America-California State Council, to support SB 364, which will provide a property tax exemption for veterans.

Veterans have sacrificed much for their country, and in return, local, state and federal governments need to do everything in their power to help them succeed.

According to the National Coalition for Homeless Veterans, homeless veterans are younger on average than the total veteran population. Approximately 9% are between the ages of 18 and 30, and 41% are between the ages of 31 and 50. On top of that, about 1.4 million other veterans are considered at risk of homelessness. Last year in California, 10,836 veterans were homeless. Throughout the whole nation in 2018, there were 37,878 homeless veterans. That means that 28.6% of the nation's homeless veteran population is in California. Thirteen other states already provide full property tax exemptions for disabled veterans. California should be the 14th!

SB 364 is a small attempt to help veterans, who have sacrificed so much, receive much needed tax relief from the state in order to stay in their homes. Many of these veterans live on fixed incomes and need this financial relief to help maintain their quality of life. This bill eliminates the inflation adjustment for the principal place of residence of an income-eligible veteran over the age of 65.

SB 364 shows California's appreciation to its veteran community in alleviating to some degree one of the struggles that veterans fight. For all these reasons, we respectfully urge your "AYE" vote.

Sincerely,

Seth Reeb
Veterans Advocate

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Sacramento, California 95814

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(Addt'l.: 6/25/19)