



MALIA M. COHEN

CHAIR
STATE BOARD OF EQUALIZATION

November 14, 2019

TO: Members of the Board of Equalization

FROM: Malia M. Cohen, Chairperson

RE: Board of Equalization Board Meeting, November 19, 2019
Item L.1. Property Tax Exemptions Review and Affordable Housing

I am placing this item before you for discussion and possible action to allocate time at the December Board Meeting to take testimony on a review of property tax exemptions to spur affordable housing development in California.

As stated in the Summary of the California State Budget 2019-2020 (Pages 71-74), *"The Budget includes a comprehensive \$1.75 billion package to increase housing supply. This includes planning and infrastructure grants to local governments, an investment in the state's housing loan program, an expanded housing tax credit program, opportunities for innovative housing projects on excess state property, legal assistance for renters, strategies to improve regional housing needs planning, and a framework that holds local governments accountable for building an adequate supply of housing to meet their needs."*

These specific housing-related investments included in the 2019-2020 California State Budget:

- **SHORT-TERM PLANNING AND INFRASTRUCTURE GRANTS**
Includes \$750 million in one-time General Fund grants to local governments to increase and accelerate housing production; and \$250 million to regional jurisdictions for technical assistance, preparation of planning documents, and process improvements to meet ambitious housing goals in the next regional housing needs assessment.
- **INVESTMENT IN STATE HOUSING LOAN PROGRAM**
Includes \$500 million in one-time grants to bolster further development of affordable housing throughout the state.
- **EXPANDED STATE HOUSING TAX CREDIT PROGRAM**
Includes expanded state tax credits up to \$500 million, and up to \$500 million annually thereafter upon appropriation. The additional authority includes a state tax credit program targeted at new construction of qualified residential rental developments (for households with an average Area Median Income of 60%).

- **INNOVATIVE DEVELOPMENT OF EXCESS STATE PROPERTY**
Includes \$3.4 million one-time General Fund and \$782,000 ongoing, to solicit affordable housing developers to build projects that use creative and streamlined approaches to building affordable and mixed-income housing.
- **LEGAL ASSISTANCE FOR RENTERS**
Includes \$20 million one-time General Fund to the Judicial Council to provide grants to more than 100 legal services projects and support centers that offer legal services to renters.
- **FOSTER YOUTH TRANSITIONAL HOUSING**
Includes \$13 million General Fund in 2019-20 and \$8 million General Fund ongoing for counties to provide housing assistance to current and former foster youth.

The urgency of these investments is highlighted by a 2017 study of the costs of housing which found that 53.9% of renters were “cost-burdened,” indicating that they spent more than 30% of income for housing, including utilities; and that 29% were severely cost-burdened, indicating that they spent more than 50% of income for housing and utilities. (See [Joint Center for Housing Studies of Harvard University, Renter Costs Burdens, States.](#))

A [2019 report from the California Housing Partnership](#) found that California needs at least 1.4 million additional affordable housing units; and that one in three California household cannot pay the real cost of living due primarily to high housing costs.

The [2017 public draft, California’s Housing Future: Challenges and Opportunities, Public Draft, Statewide Housing Assessment 2025](#), published by the California Department of Housing and Community Development found that “Overall homeownership rates are at their lowest since the 1940s,” and “(Housing) production averaged less than 80,000 new homes annually over the last 10 years, and ongoing production continues to fall far below the projected need of 180,000 additional homes annually.”

In view of this obvious need to produce new housing, particularly affordable housing, it is appropriate for the Board of Equalization to take testimony on a review of property tax exemptions to spur affordable housing development in California.

An important part of the work of the Board of Equalization is to administer various property tax exemptions that are designed to limit the impact of property taxes, limit property tax revaluations for children or grandchildren, or provide that no property taxes are required to be paid by non-profit organizations which perform a public benefit.

Currently, there are several property tax exemptions that directly or indirectly affect housing affordability and availability. These include:

- The Homeowners’ Exemption.
California’s Constitution provides a \$7,000 reduction in the taxable value for a qualifying owner-occupied home. The home must have been the principal place of residence of the owner on the lien date, January 1st.

- Exemption of leased property used exclusively for low income housing.
Revenue and Taxation Code section 214 provides that the welfare exemption is available to property owned and operated by qualifying organizations, and used exclusively for rental housing occupied by lower-income households.

Rental housing includes properties owned and operated by limited partnerships in which the managing general partner is an eligible nonprofit corporation or an eligible limited liability company.

This type of property is unique in that while it is owned and operated by a limited partnership that is not itself a nonprofit organization, the property may still be eligible for the welfare exemption if the managing general partner is an eligible nonprofit organization or limited liability company with sufficient management authority and duties.

- Disabled Veterans' Exemption.
This reduces the property tax liability on the principal place of residence of qualified veterans who, due to a service-connected injury or disease, have been rated 100% disabled or are being compensated at the 100% rate due to unemployment. There are two levels of the Disabled Veterans' Exemptions:

Basic – The basic exemption, also referred to as the \$100,000 exemption, is available to all qualifying claimants. The exemption amount is compounded annually by an inflation factor. For example, for 2018, the basic exemption amount was \$134,706.

Low-Income – The low-income exemption, also referred to as the \$150,000 exemption, is available to qualifying claimants whose annual household income does not exceed a specified income limit. The amounts for both the low-income exemption and the annual income limit are compounded annually by an inflation factor. For example, for 2018, the low-income exemption amount was \$202,060 and the annual household income limit was \$60,490.

- Transfers between parents to child (reassessment exclusions).
Proposition 58, effective November 6, 1986, is a constitutional amendment approved by the voters of California which excludes from reassessment transfers of real property between parents and children.
- Transfers between grandparents to grandchild (reassessment exclusions).
Proposition 193, effective March 27, 1996, is a constitutional amendment approved by the voters of California which excludes from reassessment transfers of real property from grandparents to grandchildren, providing that all the parents of the grandchildren who qualify as children of the grandparents are deceased as of the date of transfer.

- Legal Entity Ownership Program (LEOP) (reassessment exclusions).
Although the transfer may be deemed a change in control or change in ownership, it may qualify for one of the exclusions from reassessment for legal entity transfers. These exclusions include:

Interspousal and Registered Domestic Partner Exclusions;

Proportional Transfer Exclusions (any transfer between an individual or individuals and an entity, or between legal entities, that results solely in a change in the method of holding title to the real property, and in which the proportional ownership interests of the transferors and transferees in each and every piece of real property transferred remain the same before and after the transfer); and

Affiliated Group Exclusions (corporate reorganizations).

I respectfully suggest that, given the ongoing need to create new market-rate and affordable housing, and the ongoing commitment of state government to invest in housing development, that it is appropriate for the Board of Equalization to hear testimony from housing policy advocates, interested parties, housing developers, non-profit organizations, and other stakeholders, as well as BOE staff, to create an opportunity for a public discussion about possible amendments to existing property tax exemptions or the addition of new property tax exemptions, which could spur housing development in California.

If it is the desire of the Board, such an inquiry and review of property tax exemptions and their impact on affordable housing could be held at the Board's upcoming December 2019 Board Meeting.