STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
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EXAMPLE #2
SUPERSEDED BY
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TO COUNTY ASSESSORS:

REVISIONS IN CALAMITY AND DISASTER RELIEF
ASSESSMENT PROCEDURES IN LIGHT OF SENATE BILL 139

Senate Bill 139, Chapter 377 of the Statutes of 1981, amended the following Revenue and Taxation Code Sections:

(1) Section 51, Adjustments to Base Year Values

(2) Section 170, Reassessments of Property Damaged by Misfortune or Calamity

This bill furthers the process of legislative change begun with Assembly Bills 1488 and 1019 (Chapters 242 and 1161, respectively, of the Statutes of 1979); see Letter to Assessors 79/207, dated November 30, 1979, for a full discussion of these bills.

Section 51 of the Revenue and Taxation Code has been expanded. It now specifically prescribes two different valuation procedures for properties stricken by calamity or disaster. In counties that have not adopted a disaster relief ordinance pursuant to Section 170 of the Revenue and Taxation Code, the taxable value of such damaged property shall be the lesser of the sum of the factored base year value of land and improvements or the sum of the full cash value of land and improvements. In counties that have adopted a proper disaster relief ordinance, the taxable value of such damaged property shall be its assessed value computed pursuant to Section 170.

Section 170 has been amended. Under the latest revision, the assessor may accept applications from property owners for the reassessment of damaged property only if the claim is filed within six months of the date of the disaster or calamity. More importantly, the assessed value of the property in its damaged condition, as determined by the procedure outlined in subdivision (b) of this section (see examples in letter to assessors 79/207), shall be adjusted annually by the inflation factor, not to exceed 2 percent. This will be the taxable value of the property until it is repaired or until other provisions of law require that a new base year value be established. When partial repair has taken place on any subsequent lien date, the percentage of restoration shall be recognized in the assessed value of the property, through a formula indicated in subdivision (g). When the property is fully repaired, it is again assessed at the lower of either the factored base year value, plus the value of any qualifying new construction, or at its full cash value. This requirement is the same as for all other properties pursuant to Section 51.

The amendments to Section 170 are most significant. Under the former version of this section, the full cash value of the damaged property (land and improvements) had to be determined on each lien date subsequent to the disaster or calamity. Then this value was compared with the factored base year value (i.e., the value last enrolled before the disaster occurred), and the lower of the two was the value that had to be enrolled. The new version of Section 170 provides that the reduced value, as determined according to subdivision (b), will stand as an "interim" base year value, as it were, to be adjusted annually by the inflation factor. The property would not be assessed under the provisions of Section 51 until restoration, repair, or reconstruction was complete. Therefore, the taxable value of calamity-ridden property, located in a county that has adopted a proper disaster relief ordinance, is "frozen;" and its value as calculated under this section becomes its temporary base year value. As such, it must be adjusted annually by the inflation factor.

<u>EXAMPLES OF CALAMITY PROCEDURES:</u>

<u>EXAMPLE 1</u>: Assume the county has a calamity ordinance under Chapter 2.5, Section 170 of the Revenue and Taxation Code. The subject property is a single-family residence located in an expensive neighborhood in a brushy canyon. The area was ravaged by a brush fire in September, 1981. The structures were burned to the ground and the site was damaged by the loss of the mature trees and native shrubbery. The property has a 1975 base year, the tax rate for the current tax year is 1.25 percent of taxable value, and the property has not been restored by the following lien date.

(A) Computation of 1981-82 Tax Liability:

Land (1975 base value) x	$50,000 1.126 (1981 factor)	$ 56,300	(factored base year value)
Improvement (1975 base value) x	$150,000 1.126 (1981 factor)	+$168,900	(factored base year value)
	Total Taxable Value	$225,200	
	Tax Rate	.0125	
	Current Year Tax Liability	$ 2,815	

(B) Fair Market Value Immediately Before the Calamity:

Land	$ 80,000
Improvement	+$240,000
Total	$320,000

(C) Fair Market Value Immediately After the Calamity:

Land	$ 60,000
Improvement	+$24,000 *
Total	$84,000

* Foundation and footing only, estimated to be 10% of previous total property value.

(D) Computation of Percent Good After Damage:

Percent of land value remaining $\frac{\$60,000}{\$80,000} = 75\%$

Percent of Improvement Value Remaining $\frac{\$\ 24,000}{\$240,000} = 10\%$

(E) Computation of Taxable Value of Property in Damaged Condition:

Land	75% x $ 56,300 =	$42,220
Improvement	10% x $168,900 =	+$16,880
	Total	$59,100
	Tax Rate	x.0125
Tax Liability for Damaged Property		$ 739

(F) Computation of 1981-82 Tax Liability:

$\frac{2\ \text{(months undamaged)}}{12\ \text{(number of months in year)}}$ x $2,815 = $ 469

$\frac{10\ \text{(months damaged)}}{12\ \text{(number of months in year)}}$ x $739 = +$ 616

Current Year Tax Liability $1,085

(G) Computation of 1982-83 Tax Liability:

Land	\$ 56,300 (Current enrolled value)	x	75% (percent good after damage)	=	\$42,220
Improvement	\$168,900 (Current enrolled value)	x	10% (percent good after damage)	=	+\$16,880
	Total				\$59,100
	Tax Rate				x .0125
					\$ 739

EXAMPLE 2: Assume the property is partially restored by the subsequent lien date, March 1, 1983. The structures are approximately half complete and are being rebuilt exactly as they stood before the fire. The site has been cleared and landscaping has been replaced. The site is now restored to the pre-calamity condition. In addition, the owner has constructed a new detached storage building on his lot. It was not there before. It is 100 percent complete on lien date. The 1983-84 tax liability would be computed as follows:

(A) Current Year Taxable Value for Land

	Land	\$56,300 x 1.0404	=	\$ 58,560
(B)	Partially Restored Improvement Value:	\$168,900 x 50%	=	\$ 84,440
	New Storage Building			+\$ 10,000
	Total Taxable Value			\$153,000
	Tax Rate			x .0125
	1983-84 Tax Liability			\$ 1,913

When the destroyed home is completely restored, its value will be its original base year value prior to the calamity, adjusted by the annual inflation factor for each subsequent assessment year. Assuming that restoration was completed by March 1, 1984, the assessment for that year would be computed as follows:

Land	$58,560 x 1.02 =	$ 59,720
(B) Replacement Improvements:	$168,900 x 1.0612 =	$179,220
1983 New Construction $10,000 x 1.02		+$ 10,200
Taxable Value		$249,140
Tax Rate		x .0125
1984-85 Tax Liability		$ 3,114

EXAMPLE 3: Assume the calamity described in Example 1 had taken place on April 20, 1982, the restoration as described in Example 2 was completed by December 10, 1982, and the market values before and after the calamity are the same as in Example 1. No storage building was constructed.

(A) Tax Relief Proration for 1981-82 year:

9 (months undamaged) / 12 (number of months in year)	x $2,815 =	$2,111
3 (months damaged) / 12 (number of months in year)	x $739 =	+$ 185
1981-82 Tax Liability		$2,296

(B) Initial Taxable Value for 1982-83:

Land ($56,300 x 75%) =	$ 42,220
Improvement ($168,900 x 10%) -	+$16,880
	$ 59,100

(C) Taxable Value for 1982-83 after Restoration:

Land ($56,300 x 1.02) =	$ 57,420
Restored Improvement ($168,900 x 1.02)	+$172,260
Total	$229,680

(D) Determination of 1982-83 Tax Liability:

$\frac{6 \text{ (months damaged)}}{12 \text{ (number of months in year)}}$ x	\$ 739* =	\$ 370
$\frac{6 \text{ (months restored)}}{12 \text{ (number of months in year)}}$ x	\$2,871** =	+\$1,436
1982-83 Tax Liability		\$1,806

* \$59,100 x .0125
** \$229,680 x .0125

EXAMPLE 4: Assume the same circumstances as in Example 1, except that the county has no disaster relief ordinance pursuant to Section 170. The taxable value of the total property on March 1, 1982, would be determined as follows:

(A) LAND:

\$56,300 x 1.02 = \$57,420	vs.	\$60,000
(Factored Base Year Value)		(Current Market Value, Damaged)

The correct amount to enroll for land is \$57,420, which is the lower of the factored base year value or the full cash value.

(B) IMPROVEMENTS:

\$168,900 x 1.02 = \$172,260	vs.	\$24,000
(Factored Base Year Value)		(Current Market Value, Damaged)

The correct amount to enroll is \$24,000, which is the market value of the damaged improvements.

LAND	+	IMPROVEMENTS	=	TOTAL PROPERTY
\$57,420		\$24,000		\$81,420

Therefore, the correct total taxable value of the damaged property on March 1, 1982, is \$81,420.

EXAMPLE 5: Assume the same circumstances as in Example 2, except that the county has no disaster relief ordinance pursuant to Section 170. The total taxable value of the property on March 1, 1983, would be computed as follows:

(A) LAND:

$57,420 x 1.02 = $58,560	vs.	$96,000*
(Factored Base Year Value)		(Current Market Value, Fully Restored)

(B) IMPROVEMENTS:

(1) Factored Base Year Value: $172,260 x 1.02 =	$175,700
Plus	
New Storage Building	+ 10,000
	$185,700
	vs.
(2) Current Market Valuation: (50% Restored)	$144,000*
Plus	
New Storage Building	+ 10,000
	$154,000

Total Improvements $185,700 vs. Total Improvements $154,000

* Assume 20% appreciation in property value has occurred from the date of the calamity (September, 1981) to the current lien date (March 1, 1983); thus, the land value of $80,000 would be factored by 1.20 to $96,000, and the improvement value of $240,000 would also be multiplied by 1.20 to equal $288,000.

LAND	+	IMPROVEMENTS	=	TOTAL PROPERTY
$58,560		$154,000		$212,560

The effective date of Senate Bill 139 is January 1, 1982. It is our opinion that there was no intent on the part of the Legislature for the provisions of this bill to be retroactive. Accordingly, it would not be proper to change the 1981-82 enrolled value of a property that was damaged as of lien date, 1981, and had been assessed correctly under prevailing statutes. Previously, the proper procedure was to enroll the lower of either the factored base-year value or the full-cash value of land and improvements. The value so enrolled will usually differ greatly from the value determined pursuant to revised Section 170. Nonetheless, we feel that the intent of this bill is to provide an equitable assessment procedure for damaged properties covered by disaster relief ordinances, beginning with the tax year 1982-83.

Enclosed is a copy of Senate Bill 139 for your information.

If you have any questions regarding calamity valuation procedures, please contact Pete Gaffney or Bill McKay of our staff at (916) 445-4982.

Sincerely,

Verne Walton

Verne Walton, Chief
Assessment Standards Division

VW:bjb
Enclosure
AL-01-1124A