



**STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS**

DRAFT

Date Amended:	02/14/08	Bill No:	<u>AB 1759</u>
Tax:	Property	Author:	DeVore and Spitzer
Related Bills:	SB 1064 (Hollingsworth)		

BILL SUMMARY

This bill would, among other things, allow persons whose homes were destroyed in specified wildfires in Southern California to retain the homeowners' exemption on their property while they are in the process of rebuilding.

This bill also provides one-year state reimbursement to backfill any property tax revenue loss resulting from assessment reductions related to these disasters.

ANALYSIS

CURRENT LAW

Homeowners' Exemption. Article XIII, Section 3(k) of the California Constitution exempts from property tax the first \$7,000 of the full value of a dwelling when occupied by an owner as his principal residence. This exemption is commonly referred to as the "homeowners' exemption."

Section 218 of the Revenue and Taxation Code details the qualifications for the homeowners' exemption authorized by the constitution. Eligibility is generally continuous once granted. However, if a property is no longer owner-occupied, is vacant, or is under construction on the lien date (January 1), the property is not eligible for the exemption for the upcoming tax year.

Relevant to this bill, homes that are totally destroyed on the lien date for a particular fiscal year (that is January 1 for the forthcoming fiscal year that begins July 1) are not eligible for the homeowners' exemption. For example, a home destroyed on or before January 1, 2008 is not eligible for the homeowners' exemption on the 2008-09 property tax bill.¹

Disaster Relief - Property Reassessment for Property Owners. Section 170 of the Revenue and Taxation Code provides that property taxes may be reduced following a disaster, misfortune, or calamity in those counties where the board of supervisors has adopted an ordinance authorizing these provisions. These provisions apply to both governor-declared disasters and site specific disasters such as a home fire. Disaster relief is provided by allowing the county assessor, under specified conditions, to reassess the property as of the date of the disaster to recognize the loss in a property's market value. The loss in value must be at least \$10,000. The prior assessed value of the damaged property is reduced in proportion to the loss in market value; the new reduced value is used to calculate a pro-rata reduction in taxes. The affected property retains its lower value, with reduced taxes, until it is restored, repaired, or reconstructed. Generally, taxpayers have up to 12 months to file a request for reassessment.

¹A home destroyed on or after January 1, 2008, would continue to be eligible for the exemption on the 2008-09 property tax bill. However, if the home has not been rebuilt and occupied by the next lien date, January 1, 2009, it would not be eligible for the homeowners' exemption on the 2009-10 property tax bill.

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.

Disaster Relief - State Reimbursement for Local Governments. Additionally, legislation is frequently enacted to fully reimburse local governments for one year’s property tax revenue loss associated with Section 170 reductions in assessment.

PROPOSED LAW

Homeowners’ Exemption. This bill would allow persons whose homes were destroyed in specified disasters in certain counties to retain the homeowners’ exemption on their property while they are in the process of rebuilding by adding subdivision (o) to Section 218 to provide that a dwelling qualified for the homeowners’ exemption prior to the commencement of various wildfires, and that was subsequently damaged or destroyed by wildfires and any other related casualty in the counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego, Santa Barbara, and Ventura will continue to be eligible for the homeowners’ exemption.

State Reimbursement. This bill would also provide state reimbursement for property tax revenue losses due to Section 170 disaster relief reassessments. Specifically, it adds provisions to the Revenue and Taxation Code to outline the process and timeline for the affected counties, the Department of Finance, and the State Controller to follow for each particular disaster.

BACKGROUND

Special purpose legislation has been enacted in recent years to provide that dwellings that were destroyed by specific disasters, as noted in the table below, will not be disqualified as a “dwelling” or be denied the homeowners’ exemption solely on the basis that the dwelling was temporarily damaged or destroyed or was being reconstructed by the owner.

Disaster	Year	Legislation
Zaca Fire – Santa Barbara and Ventura County	2007	Stats. 2007, Ch. 224 (AB 62)
Angora Fire – El Dorado County	2007	Stats. 2007, Ch. 224 (AB 62)
Freeze	2007	Stats. 2007, Ch. 224 (AB 62)
Day and Shekell Fires - Ventura County	2006	Stats. 2007, Ch. 224 (AB 62)
Northern California Storms, Floods & Mudslides	2006	Stats. 2006, Ch. 396 (AB 1798)
Northern California Storms, Floods & Mudslides	2006	Stats. 2006, Ch. 897 (AB 2735)
Shasta Wildfires	2005	Stats. 2005, Ch. 623 (AB 164)
Southern California Storms, Floods & Mudslides	2005	Stats. 2005, Ch. 624 (AB 18)
Southern California Storms, Floods & Mudslides	2005	Stats. 2005, Ch. 622 (SB 457)
San Joaquin levee break	2004	Stats. 2004, Ch. 792 (SB 1147)
San Simeon earthquake	2003	Stats. 2004, Ch. 792 (SB 1147)
Southern California wildfires	2003	Stats. 2004, Ch. 792 (SB 1147)
Oakland/Berkeley Hills fire	1992	Stats. 1992, Ch. 1180 (SB 1639)
Los Angeles civil riots	1991	Stats. 1992, Ch. 17X (AB 38 X)

COMMENTS

1. **Sponsor and Purpose.** The author is sponsoring this measure to provide some financial relief to persons whose homes were damaged or destroyed as a result of various fires occurring in 2007 in Southern California and provide property tax revenue backfill to affected local governments.
2. **Proclamations.** Related to this bill, two proclamations of a state of emergency have been issued related to various wildfires in the latter part of 2007 affecting 7 counties that were not otherwise addressed by legislation enacted in the prior year via AB 62 as noted below:
 - The Butler Two Fire.** On September 15, 2007, a proclamation was issued for **San Bernardino** for the Butler Two Fire that started on September 14, 2007.
 - Various Wildfires.** On October 21, 2007, the governor issued a proclamation for the counties of **Los Angeles, Orange, Riverside, San Bernardino, San Diego, Santa Barbara, and Ventura** for more than 11 major wildfires burning in Southern California at that time. Eventually there were a total of 23 fires that burned between October 20 to November 9, 2007.
3. **Other Fires Occurring in 2007.** Legislation enacted last year, AB 62 (Stats. 2007, Ch. 224) has already addressed the Zaca Fire that occurred in the 2007 calendar year for Santa Barbara and Ventura Counties.
4. **This bill would allow homeowners whose residences were damaged or destroyed as a result of these fires to retain the exemption on their property while they are in the process of rebuilding their homes.** Homes that are uninhabitable on the lien date (January 1) are technically ineligible for the exemption for the upcoming fiscal year under current law.
5. **The Board advises county assessors that damaged homes may keep the exemption but totally destroyed homes may not.** Board staff has opined that a temporary absence from a dwelling because of a natural disaster, such as a flood or fire, will not result in the loss of the homeowners' exemption for those properties temporarily vacated for repairs. (See Letter To Assessors 82/50, Question G16) However, when a dwelling has been totally destroyed, staff has opined that because no dwelling exists there is no occupancy or possibility of occupancy on the lien date and the property would not be eligible for the exemption even if the property was under construction. (See Property Tax Annotation 505.0019 "Homeowners' Exemption – Disaster Impact") Referenced documents available at www.boe.ca.gov select "Property Tax."
6. **Related Bills.** SB 1064 (Hollingsworth) proposes identical provisions for the Southern California wildfires. However, SB 1064 also includes provisions for a governor proclamation related to strong winds in Riverside County.

COST ESTIMATE

With respect to administration, the Board would incur insignificant costs in informing and advising local county assessors, the public, and staff of the law changes. These costs are estimated to be under \$10,000.

REVENUE ESTIMATE

The revenue estimate is limited to the property tax provisions of this bill.

BACKGROUND, METHODOLOGY, AND ASSUMPTIONS

Homeowners’ Exemption Subvention. Board staff has opined that a temporary absence from a dwelling because of a natural disaster, such as a flood or fire, will not result in the loss of the homeowners’ exemption for those properties temporarily vacated for repairs. Therefore, damaged properties were not factored into the revenue estimate.

Based on information from the Governor’s Office of Emergency Services, we estimate that approximately 2,233 homes were totally destroyed in the referenced disasters.

COUNTY	DAMAGED HOMES	DESTROYED HOMES	EXEMPT (# x \$7,000)	AVERAGE TAX RATE	2007-08 SUBVENTION
Los Angeles	57	81	567,000	1.136%	6,441
Orange	8	15	105,000	1.026%	1,097
Riverside	0	1	7,000	1.082%	76
San Bernardino	67	450	3,150,000	1.116%	25,154
San Diego	331	1,686	11,802,000	1.072%	126,517
Santa Barbara	0	0	0	1.046%	0
Ventura	0	0	0	1.075%	0
TOTALS	463	2,233	\$15,631,000		\$169,285

The local jurisdictions are reimbursed by the state for their losses due to the homeowners’ exemption. This bill would require the state to continue to subvene these amounts. Based on the calculations above, we estimate the revenue impact to be about \$169,285 annually. The impact will decrease over time as these properties are rebuilt and the owners can reoccupy them.

Property Tax Reimbursement for Property Tax Losses. The county assessors in the affected counties estimate \$485 million in property damaged or destroyed by wildfires during October and November. This bill would provide a State allocation of \$4,850,000 (\$485 million x 1%) for the loss in assessed value.

REVENUE SUMMARY

	<u>Revenue Loss</u>	
Homeowners’ Exemption Subvention	169,285	Annually
Property Tax Revenue Loss		
Reimbursement	4,850,000	1 year reimbursement
Total	<u>\$ 5,019,285</u>	

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