



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

DRAFT

Date Amended:	05/22/08	Bill No:	SB 1064
Tax:	Property	Author:	Hollingsworth
Related Bills:	AB 1759 (DeVore)		

BILL SUMMARY

This bill, among other things, would:

- Allow persons whose homes were destroyed in specified wildfires in Southern California and strong winds in Riverside County to retain the homeowners' exemption on their property while they are in the process of rebuilding. §218
- Provide one-year state reimbursement to backfill property tax revenue loss resulting from assessment reductions related to these disasters. §§195.128-195.133
- Change the fiscal year for which reimbursement will be made for state reimbursement to El Dorado County to backfill property tax revenue loss for the June 2007 fire near Lake Tahoe. §§195.120 and 195.122

Summary of Amendments

The amendments since the last analysis add provisions related to property tax reimbursement for El Dorado County related to the June 2007 Angora fire.

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

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.

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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.

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.

State Reimbursement – El Dorado County Wildfire. Sections 195.120, 195.121, and 195.22 of the Revenue and Taxation Code provide reimbursement to El Dorado County for wildfires that commenced on June 24, 2007 for the property tax revenue losses associated with the 2006-07 fiscal year, which is a period of six days.

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. Those are:

Southern California Wildfires. This bill adds subdivision (o) to Section 218 to provide that a dwelling qualified for the homeowners' exemption prior to the commencement of various wildfires in 2007, 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.

Winds. This bill adds subdivision (p) to Section 218 to provide that a dwelling qualified for the homeowners' exemption prior to October 20, 2007 and subsequently damaged or destroyed by extremely strong winds and any other related casualty in Riverside County will continue to be eligible for the homeowners' exemption.

State Reimbursement – Southern California Wildfires and Winds. 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.

State Reimbursement – El Dorado County Wildfire. This bill would modify state reimbursement provisions enacted last year for property tax revenue losses due to Section 170 disaster relief reassessments for the fire. Specifically, it changes the fiscal year for which reimbursement will be made from 2006-07 to 2007-08 and makes corresponding changes to the timeline for El Dorado County, the Department of Finance, and the State Controller to complete the reimbursement process.

IN GENERAL

Disaster Relief. There are a variety of provisions in property tax law to provide property tax relief for disaster victims. These provisions address both the short term and the long term consequences of the disaster as it relates to current and future property tax liabilities. In the short term, property tax liability is redetermined to reflect the damage to the property and for some the next property tax installment payment may be deferred. Over the long term, property owners may rebuild or repair the damage to their property without incurring any increase in property tax liability. Alternatively, property owners may instead relocate rather than rebuild without being adversely impacted by the property tax consequences. The various provisions of law in the Revenue and Taxation Code are noted below.

DISASTER RELIEF REFERENCE CHART

Section	Property Type	Type of Relief Available	Type of Disaster
170	All property types	Reassessment	Any disaster or calamity
194 & 194.1	Real property and manufactured homes	Property tax deferral – next installment	Governor-proclaimed
195.1	Real property and manufactured homes	Property tax deferral – second consecutive installment	Governor-proclaimed
194.9	Real property and manufactured homes	Property tax deferral – supplemental assessment	Governor-proclaimed
69	All property types	Base year value transfer	Governor-proclaimed
69.3	Principal place of residence	Base year value transfer	Governor-proclaimed
69.5	Principal place of residence —over 55 or physically disabled	Base year value transfer	Any disaster or calamity
172 & 172.1	Manufactured home	Base year value transfer	Governor-proclaimed
70	Real property only	New construction exclusion	Any disaster or calamity
5825	Manufactured home	New construction exclusion; Base year value transfer	Any disaster or calamity

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 a wind storm occurring in Riverside County in October 2007 and to provide property tax revenue backfill to affected local governments. The bill also makes corrective amendments related to legislation enacted last year to provide property tax revenue backfill to El Dorado County for the Lake Tahoe fire.
2. **Amendments.** The May 22 and March 10 amendments change the fiscal year for which reimbursement to El Dorado County will be made from the 2006-07 fiscal year to the 2007-08 fiscal year. Because the fire took place at the end of the 2006-07 fiscal year, reimbursement would be limited to a six day period without these clean up amendments to last year's AB 62 (Stats. 2007, Ch. 224). The February 25 amendments added co-authors and corrected a typographical error. As introduced, the language adding subdivision (p) to Section 218 relating to wind damage provided that a dwelling must be qualified for the homeowners' exemption prior to October 20, 2006; however, the year 2007 was intended and the amendment makes this correction.
3. **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 and November 9, 2007.

Additionally, the governor issued a proclamation of a state of emergency related to strong winds occurring in Riverside County.

Winds. On November 2, 2007, the governor issued a proclamation for extremely high winds and resulting damage for **Riverside** County that began about October 20, 2007.

4. **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.
5. **This bill would allow homeowners whose residences were damaged or destroyed as a result of these fires or winds 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.
6. **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."
7. **Related Bills.** AB 1759 (DeVore) proposes identical provisions for the Southern California wildfires. AB 1759 differs from this bill in that it does not include provisions for the 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, temporarily damaged properties were not factored into the revenue estimate.

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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 and extreme wind during October and November of 2007. This bill would provide a state allocation of \$4,850,000 (\$485 million x 1%) for the loss in assessed value.

REVENUE SUMMARY

	Revenue Loss	
Homeowners' Exemption Subvention	169,285	Annually
Property Tax Revenue Loss		
Reimbursement	4,850,000	1 year reimbursement
Total	\$5,019,285	

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