



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Introduced:	12/11/06	Bill No:	SB 38
Tax:	Property	Author:	Battin
Related Bills:	AB 62 (Nava) SB 114 (Florez)	Position:	Support

BILL SUMMARY

This bill would, among other things, allow persons whose homes in Riverside County were destroyed as a result of wildfires occurring in October of 2006 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 the wildfires.

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, 2007 is not eligible for the homeowners' exemption on the 2007-08 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

¹A home destroyed after January 1, 2007, would continue to be eligible for the exemption on the 2007-08 property tax bill. However, if the home has not been rebuilt and occupied by the next lien date, January 1, 2008, it would not be eligible for the homeowners' exemption on the 2008-09 property tax bill.

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.

PROPOSED LAW

Homeowners' Exemption. This bill would, among other things, add subdivision (k) to Section 218 to provide that a dwelling qualified for the homeowners' exemption prior to October 26, 2006, and subsequently damaged or destroyed by wildfires and any other related casualty in the county of Riverside 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 for the 2006-07 fiscal year for Riverside County. Specifically, it adds provisions to the Revenue and Taxation Code to outline the process and timeline for the counties, the Department of Finance, and the State Controller to follow.

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
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

- 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 wildfires and provide property tax revenue backfill to Riverside County.

2. **Proclamation.** On October 26, 2006 the Governor issued a proclamation of a State of Emergency for Riverside County for fires commencing on October 26, 2006.
3. **This bill would allow homeowners whose residences were damaged or destroyed as a result of the fire 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.
4. **The Board advises county assessors that damaged homes may keep the exemption but totally destroyed homes may not.** The Board staff has opined that a home temporarily vacated on the lien date because of damage from a disaster, such as a flood or fire, will not result in the loss of the exemption, provided the owner intends to return to the home after it has been repaired. (See Letter To Assessors 82/50, Question G16) However, when the home has been totally destroyed, staff has opined that the property would not qualify for the exemption except in cases, such as this bill would provide, where legislation has been enacted to provide that the property will not lose its homeowners' exemption due to the disaster. To be eligible for the exemption, the law requires (1) the existence of a dwelling and (2) that it be occupied by the owner. If a home is totally destroyed, then no dwelling exists on the property and therefore of course it could not be occupied as a principal place of residence. (See Property Tax Annotation 505.0019 "Homeowners' Exemption – Disaster Impact") Referenced documents available at www.boe.ca.gov select "Property Tax."
5. **Related Bills.** AB 62 (Nava) makes similar amendments to Section 218 but also includes fires occurring in Ventura County in September and December of 2006. SB 114 (Florez) makes similar amendments for damages incurred in those counties that were declared by the Governor to be in a state of emergency due to severe freezing conditions that commenced January 11, 2007.

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 homeowners' exemption portion of the bill.

BACKGROUND, METHODOLOGY, AND ASSUMPTIONS

Existing property tax law provides for a homeowners' property tax exemption in the amount of \$7,000 of the full value of a "dwelling," as defined. This bill would provide that any dwelling that qualified for this exemption prior to commencement dates listed in the Governor's proclamations, that was damaged or destroyed by wildfires and any other related casualty that occurred in the county of Riverside, and that has not changed ownership since the commencement dates listed in the Governor's proclamations, shall not be denied the exemption solely on the basis that the dwelling was temporarily damaged or destroyed or was being reconstructed by the owner, or was temporarily uninhabited as a result of restricted access to the property due to wildfires.

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.

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 the information from the Office of Emergency Services and from County Assessor's offices, we estimate that approximately 25 homes were totally destroyed.

County	Damaged Homes	Destroyed Homes	Exempt (# x \$7,000)	Average Tax Rate	2007-08 Subvention
Riverside	75	25	175,000	1.094%	1,195
TOTALS			\$175,000		\$1,195

REVENUE SUMMARY

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 \$1,915 annually. The impact will decrease over time as these homes are rebuilt and the owners can reoccupy them.

Analysis prepared by:	Rose Marie Kinnee	916-445-6777	03/06/07
Revenue by:	Bill Benson Jr.	916-445-0840	
Contact:	Margaret S. Shedd	916-322-2376	
Is			0038-1rk.doc

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.