Senate Bill 587 (Stone)
Date: 06/22/16
Program: Property Taxes
Sponsor: Author
Revenue and Taxation Code Sections 51 and 5813
Effective: Upon enactment, but applies to fiscal year 2017-18

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Summary: Eliminates annual inflation factor-related assessed value increases on homes owned by low-income persons 65 years and older.

Purpose: To provide property tax relief to low-income homeowners by freezing assessed values once they turn 65.

Fiscal Impact Summary: Annual revenue loss of $27 million.

Existing Law: The law requires the assessor to establish a "base year value" for real property at its 1975 market value, and thereafter reset the value to current market value every time the property changes ownership.[1] The base year value must be compounded annually by an inflation factor not to exceed 2%.[2] The inflation-adjusted value is called the "*factored* base year value." Generally, every year the law requires a property's assessed value to be based on its factored base year value or its current market value, whichever is lower.[3]

Relevant to this bill, the California Constitution[4] specifies that a property's base year value *may* reflect from year to year the inflationary rate not to exceed 2% for any given year.

Proposed Law: Beginning January 1, 2017, this bill eliminates future inflation factor increases for qualified homeowners 65 years of age or older. To qualify, the person must have an annual household income of $25,000 or less if single, or $50,000 or less if married. In the case of a married couple, only one person must be 65 or older. This limitation only applies to a person's principal place of residence.

Effective Date. As a tax levy, this bill is effective immediately upon enactment. However, according to the bill's provisions, it will first apply to property taxes due for the 2017-18 fiscal year,[5] which are based on January 1, 2017 lien date values.

In General: **Property Tax System.** Voters changed California's property tax system through Proposition 13, which replaced a current market value-based system with an acquisition value-based system. This tax system provides certainty to property owners regarding future property tax liability.

Specifically, under Proposition 13, real property assessed values were rolled back to 1975 market value levels and future assessed value increases were limited to the inflation rate, not to exceed 2%, for as long as the property's ownership remains unchanged and the property is not substantially improved (i.e., new construction).

Thus, regardless of future real estate value increases, the 2% maximum inflation adjustment ensures limited assessed value increases. The acquisition-based system with the 2% inflation cap can result in substantial property tax savings for long-term property owners.

Base Year Values. The "base year value" of real property is the Proposition 13 protected value of a property. Under existing law, once the base year value of real property is established, it must be adjusted in subsequent years by an inflation factor, not to exceed 2% per year.

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[1] RTC Section 110.1 (a) and (b).
[2] RTC Section 110.1 (f) and Section 51.
[3] RTC Section 51 (a)(1).
[4] California Constitution Article XIII A, Section 2(b).
[5] July 1, 2017 to June 30, 2018.

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Specifically, RTC Section 110.1 provides that the "full cash value" of real property means its fair market value as of the date on which a purchase or change in ownership occurs. Subdivision (b) of Section 110.1 provides that this value is to be known as the "base year value," while subdivision (f) of Section 110.1 requires that the base year value annually be adjusted by an inflation factor, as specified in subdivision (a) of Section 51. This bill proposes to amend Section 51 (a) to prohibit the adjustment for income-qualified seniors.

Senior Property Tax Relief: Base Year Value Transfers for 55+. Persons over the age of 55 may "transfer" their Proposition 13 base year value from one home to another that is of equal or lesser value and located within the same county or in one of eleven counties that accept transfers from non-county residents.[6] The base year value transfer avoids reassessment of the newly purchased home to its fair market value. This once-in-a-lifetime benefit allows seniors to pay the same level of taxes if they move by avoiding Proposition 13's reassessment provisions when purchasing a qualifying new home.

Property Tax Assistance for 62+. Two state-run programs, both suspended since 2009, provided property tax assistance to income qualified persons age 62 or older, or blind or disabled.

- **Property Tax Assistance Program**.[7] This Franchise Tax Board-administered program provided a rebate to income qualified homeowners for property taxes paid up to the first $34,000 of assessed value. The percentage rebated was determined according to a sliding income scale. Household income limits were inflation adjusted.
- **Property Tax Postponement Program.**[8] This program is set to restart in October 2016. This State Controller-administered program will allow income-eligible persons at least 62 years of age to postpone property tax payments on their principal residence. To participate, the program requires total household income of $35,500 or less and 40% home equity. The interest rate is 7%.
- **County Deferred Property Tax Postponement Program**.[9] While the state's postponement program was suspended, the Legislature authorized a county-optional program. This program allowed a participating county to pay property taxes on behalf of individuals over the age of 62 or disabled persons making less than $35,500.

  Only Santa Cruz County enacted the program, which the county's Housing Authority administered. To qualify, (1) the home had to be located in an unincorporated county area (excluding homes located in the cities of Santa Cruz, Scotts Valley, Watsonville, or Capitola), and (2) annual property taxes had to be less than $7,985. Limited funding was available and a $50 application fee applied.

Background: Other legislation to assist seniors with their property tax obligations include:

- **Senior Citizen Tax Work-off Program**. AB 2459 (Davis, 2007-08) would have authorized any county board of supervisors to allow persons 62 or older with total household income below a specified amount to trade their time and skills performing needed government services to offset their property taxes. This bill was held in the Assembly Appropriations Committee.
- **Senior Citizen Homeowners' Exemption Increase:** The following table lists measures to increase the $7,000 homeowners' exemption for seniors only.

[6] The eleven counties are Alameda, El Dorado, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo, Santa Clara, Tuolumne, and Ventura.
[7] RTC Sections 20501 to 20564.
[8] RTC Sections 20581 to 20646.
[9] RTC Sections 20800 to 20825.

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Bill Number	Legislative Session	Author	Type
SB 1430	2009-10	Walters	Increase to $27,000 for 62+
AB 351	2007-08	Symth	Increase to $27,000 for 62+
AB 495	2007-08	Tran	Increase to $25,000 for 62+, plus index for inflation
AB 2738	2005-06	Wyland	Increase to $27,000 for 62+
AB 185	2005-06	Plescia	Increase to $15,000 for 62+
AB 2357	2003-04	Plescia	Increase to $10,000 for 62+
AB 211	2003-04	Maze	Increase to $17,000 for 62+, disabled, blind
AB 1844	2001-02	Mountjoy	Increase to $17,000 for 62+, disabled, blind
AB 2158	1999-2000	Strickland	Increase to $8,750 for 62+

The homeowners' exemption predates Proposition 13. First enacted in 1968, it has only increased once in 1974. Additionally, despite numerous attempts, it has not been increased since Proposition 13 was enacted in 1978. Opponents of increasing the homeowner's exemption generally argue that Proposition 13's assessment limitation provisions provide sufficient property tax relief and protections. Additionally, increasing the exemption creates a fiscal impact because the Constitution requires the state to (1) reimburse local governments for the associated revenue loss and (2) provide renters with comparable increased benefits via the renters' state income tax credit.

Commentary:

1. **Provides financial relief to low-income home-owning seniors.** According to the author, capping the property tax assessment for seniors age 65 or older who meet the income requirements will help them afford to stay in their own home and avoid homelessness. The author notes the pride and freedom that comes from home ownership and that providing this small financial relief to low-income seniors living on a fixed income will help them cope with the rising costs of health care and prescription drugs.
2. **Freezes assessed values for low-income seniors 65+.** In practical application, this bill freezes the assessed value of any income-qualified person 65 years of age or older at the home's factored base year value for the 2016-17 fiscal year, which is the factored base year value for the January 1, 2016 lien date. In addition, as other homeowners reach the age of 65, their homes' assessed values also will be frozen.
3. **Historically, the inflation factor has applied equally to all property types and all property owners.** The Constitutional provision that is specific to inflation adjustments of the "full cash value base" does not appear to prohibit the Legislature from enacting a law that makes the inflation factor optional. And it is silent with respect to applying the inflation factor to the "full cash value base" in a differential manner. Section 2 (b) of Article XIII A of the Constitution reads:

   > The full cash value base *may reflect* from year to year the inflationary rate not to exceed 2 percent for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced to reflect substantial damage, destruction or other factors causing a decline in value.

   Section 1 of Article XIII provides that:

   > [A]ll property . . . shall be assessed at the same percentage of fair market value. When a value standard other than fair market value is prescribed by this Constitution or by statute authorized by this Constitution, the same percentage shall be applied to determine the assessed value. The value to which the percentage is applied, whether it is to be the fair market value or not, shall be known for property tax purposes as the full value."

   Article XIII, Section 1 relates to the same percentage of "assessed value" and "full value." It is unclear if the amendment to Section 51 prohibiting the application of an inflation adjustment to the "full cash value base" of a limited class of properties could be interpreted to run counter to Section 1's requirement, or if it could be interpreted as being "a statute authorized by this constitution."

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4. **Qualifying homeowners will need to take action.** Assessors do not have homeowners' age information. The bill specifies a basic requirement that a claim must be filed to request this tax benefit.
5. **Annual income verification process.** To implement this bill, assessors will need to establish a procedure to verify continued income eligibility. The bill requires that homeowner's provide proof of income to continue to receive the benefit.
6. **The bill would apply to low income 65+ floating home owners.** The law[10] provides that Section 110.1 applies to a floating home and it is to be treated the same as real property for property tax assessment purposes. Therefore, age and income qualified floating homeowners would benefit from the bill.
7. **The bill does not address whether the inflation factor should be eliminated for land in excess of what is reasonably necessary for use of the property as a home.** For example, in other areas of law, "residential dwelling" means a dwelling occupied by the claimant as the principal place of residence, and so much of the land surrounding it as is reasonably necessary for use of the dwelling as a home.
8. **Identical Bill.** This bill is identical to SB 1126 (Stone) which was held in the Senate Appropriations Committee on May 27.
9. **Inflation Factor Related Legislation.** SB 1104 and SB 690 (Stone) also proposes to eliminate annual assessed value inflation increases. That bill applies to all honorably discharged veterans age 65+ regardless of income.

Costs: BOE would incur absorbable costs to modify forms, publications, and website materials.

Revenue Impact: **Background, Methodology, and Assumptions.** Generally, a property's sales price sets its assessed value (called the base year value), and annual increases to that value are limited to the rate of inflation, not to exceed 2% (called the factored base year value). This bill eliminates the annual inflation factor increase applied to the base year value of an income-qualified senior's home, once that person is 65 years of age, or after January 1, 2017, whichever occurs later. To qualify, the person must have an annual household income of $25,000 or less if single, and $50,000 or less if married.

According to U.S. Census data, roughly 750,000 homes in the state are owned by those 65 years and older. The census also provides data on the median household incomes of seniors 65 and over, and other details on living arrangements among that group. Based on that data, staff estimates as many as half, or 375,000 homes, will qualify for this tax relief.

For fiscal year 2015-16, the average assessed value (AV) of homes receiving the homeowners' exemption was $358,217. Eliminating the inflation factor for qualified seniors 65 and older results in annual revenue loss at the basic 1% property tax rate calculated as follows:

Avg. Home AV	Inflation Factor	AV Increase Avoided	Tax Rate	Tax Savings Per Home	Qualified 65+ Homes	Revenue Loss
$358,217	2%	$7,164	1%	$71.64	375,000	$27 Million

Revenue Summary. By eliminating the inflation factor applied to a qualifying senior's home, this bill would result in a potential annual revenue loss of $27 million.

Qualifying Remarks. This revenue estimate does not account for any changes in economic activity that may or may not result from enactment of the proposed law.

[10] RTC Section 229.