California State Board of Equalization

Legislative Bill Analysis

Assembly Bill 1294 (Haney)
Date: June 15, 2026 (Amended)
Program: Property Taxes
Revenue and Taxation Code section 214
Effective: Upon enactment, immediately

Ted Angelo (Division Chief) 916-274-3423
Ronil Dwarka (Analyst) 916-274-3391
Ronil Dwarka (Revenue) 916-274-3391
Analysis Date: July 8, 2026

Summary: Assembly Bill (AB) 1294 would, for lien dates commencing on or after January 1, 2027, and before January 1, 2030, provide a partial Welfare Exemption in the case of certain residential rental property used for low- and moderate-income households. The exemption applies to properties located in Alameda County, Sacramento County, and the City and County of San Francisco. The exemption shall apply for 15 consecutive lien dates commencing with a lien date occurring on or after January 1, 2027, and before January 1, 2030.

Fiscal Impact Summary: Expanding the Welfare Exemption to include new moderate-income rental units would result in an estimated annual revenue loss in the range of $18 million to $26 million.

Existing Law: Existing law provides that low-income rental housing owned and operated by a qualifying nonprofit organization[1] may be exempt from property taxation under the Welfare Exemption, provided certain conditions and requirements are met. The law allows an unlimited exemption for rental housing owned by a nonprofit organization if it receives government financing or low-income housing tax credits.[2] However, the law limits the exemption to the first $20 million in assessed value statewide[3] on low-income rental housing property owned by a nonprofit that does not receive government financing or low-income housing tax credits.

Lower Income Household Definition. Property tax law defines low-income households by cross reference to the Health and Safety Code.[4] In general, low-income households are those households with incomes that do not exceed 80% of the area median income adjusted for family size. Income limits are established for all geographic areas of the state. The law also requires the California Department of Housing and Community Development (HCD) to annually publish these income limits based on data by the U.S. Department of Housing and Urban Development. Existing law[5] allows owners of low-income rental housing properties receiving federal low-income housing tax credits to continue to claim the property tax exemption on units occupied by tenants whose household income increases after move-in to a level above the low-income limit up to the federal law related limit of 140% of area median income (over-income tenant), provided that the units remain rent-restricted.

Joint Administration. The State Board of Equalization (BOE) and the 58 County Assessors jointly administer the Welfare Exemption.[6] The BOE determines whether the organization is eligible to receive the Welfare Exemption; and if eligible, issues an Organizational Clearance

[1] A qualified organization may also be an eligible limited liability company (LLC) or a limited partnership in which the managing general partner is an eligible nonprofit corporation or eligible LLC.

[2] Revenue and Taxation Code (RTC) section 214(g)(1)(A) and section 214(g)(1)(B).

[3] RTC section 214(g)(1)(C).

[4] Health and Safety Code section 50079.5. Additionally, the BOE annually reports the household income limits to assessors.

[5] RTC sections 214(g)(2)(A)(iii). See Letter To Assessors No. 2017/055.

[6] RTC section 214(o).

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 BOE's formal position.

Certificate for the claimant to provide with claim forms filed in any of the 58 counties. The County Assessor determines whether the use of the property is eligible for the exemption. Applications for exemption of property are filed with the County Assessor where the property is located. The assessor is responsible for granting or denying the exemption.

Proposed Law: This bill would, for lien dates commencing on or after January 1, 2027, and before January 1, 2030, provide a partial Welfare Exemption in the case of newly constructed residential units, or existing commercial uses converted into new residential units used for low- and moderate-income households in the counties of Alameda, Sacramento, and the City and County of San Francisco. The bill would require an owner to make specified certifications relating to the use of the property. The bill would apply the exemption described above for a period of 15 years from the date of the initial filing of the exemption, as specified. The following conditions are to be met:

The owner of the property certifies, under penalty of perjury, all of the following:

- That there is an enforceable and verifiable agreement with a public agency, and a recorded deed restriction or other legal document that restricts the applicable project's usage and that provides that the units designated for use by low- and moderate-income households are continuously available to, or occupied by, low- and moderate-income households for a period of not less than 55 years.
    - A unit shall continue to be treated as occupied by a low- or moderate-income household if the occupants were a low- or moderate-income household on the lien date in the fiscal year in which their occupancy of the unit commenced and the unit continues to be rent restricted, notwithstanding an increase in the income of the occupants of the unit to 140% of area median income, adjusted for family size. However, the unit shall cease to be treated as a unit serving low- and moderate-income households if the income of the occupants of the unit increases above 140% of area median income, adjusted for family size.
    - In the case of a limited partnership in which the managing general partner is an eligible nonprofit corporation, the restriction and provision specified above shall be contained in an enforceable and verifiable agreement with a public agency or in a recorded deed restriction to which the limited partnership certifies.
- That the initial rent charged upon occupancy for each unit designated for low- and moderate-income housing pursuant to clause (i) is below the fair market rent for the unit type in comparable properties within the geographic submarket in which the property is located, as determined either by the U. S. Department of Housing and Urban Development's Small Area Fair Market Rent for the applicable ZIP code or by a market study to be conducted by the owner of the property in general conformance with the standards of the most recently published California Tax Credit Allocation Committee Market Study Guidelines, as updated periodically

- The market study shall be conducted at the time the first low- or moderate-income household designated unit on the property is initially leased and updated at least every five years thereafter.

- While the same low- or moderate-income household remains in occupancy of the unit, the rent charged shall not be increased by more than the percent by which the area median income for the county in which the property is located, as published in the State Income Limits adopted by the U.S. Department of Housing and Community Development, was increased between the two most recent publications.

- If the fair market rent determined pursuant to this clause is less than or equal to the rent deemed affordable to moderate-income households, the initial rent charged upon occupancy for each unit designated for low- or moderate-income housing pursuant to clause (i) shall be either of the following, as applicable: (i) If the fair market rent is determined by the U. S. Department of Housing and Urban Development's Small Area Fair Market Rent for the applicable ZIP Code, at least 10 percent below the small area fair market rent. (ii) If the fair market rent is determined by the market study prescribed in this clause, at least 20 percent below the fair market rent for the unit type in comparable properties within the geographic submarket in which the property is located.

- That the funds that would have been necessary to pay property taxes are used to maintain the affordability of, or reduce rents otherwise necessary for, the units occupied by moderate-income households.

Definitions: For proposed subdivision (2) of subsection (h) (1) of the Revenue and Taxation Code (RTC) section 214:

- "Low- and moderate-income households" shall have the same meaning as "persons and families of low or moderate income" as defined by section 50093 of the Health and Safety Code.

- "Related facilities" means any manager's units and all common area spaces that are included within the physical boundaries of the rental housing development, including, but not limited to, common area space, walkways, balconies, patios, clubhouse space, meeting rooms, laundry facilities, and parking areas, except any portions of the overall development that are nonexempt commercial spaces.

- "Units serving low- and moderate-income households" means units that are occupied by low- and moderate-income households at an affordable rent, as defined in section 50053 of the Health and Safety Code or, to the extent that the terms of federal, state, or local financing or financial assistance conflict with section 50053 of the Health and Safety Code, rents that do not exceed those prescribed by the terms of the financing or financial assistance. Units reserved for low- and moderate-income households at an affordable rent that are temporarily vacant due to tenant turnover or repairs shall be considered occupied.

- An exemption allowed under this subdivision shall apply only for 15 consecutive lien dates commencing with a lien date occurring on or after January 1, 2027, and before January 1, 2030.

- Provisions of the proposed subdivision are severable.

Effective Date: This bill would be effective immediately.

In General: Under section 4 (b) of Article XIII of the California Constitution, the Legislature has the authority to exempt property (1) used exclusively for religious, hospital, or charitable purposes, and (2) owned or held in trust by nonprofit organizations operating for those purposes. This exemption from property taxation, popularly known as the Welfare Exemption, was first adopted by voters as a constitutional amendment on November 7, 1944.

When the Legislature enacted RTC section 214 to implement this constitutional provision in 1945, scientific was added as a fourth purpose to the three mentioned in the Constitution. Section 214 parallels and expands upon the constitutional provision by exempting property used exclusively for the stated purposes (religious, hospital, scientific, or charitable) owned by qualifying nonprofit organizations if certain requirements are met. An organization's primary purpose must be either religious, hospital, scientific, or charitable. Whether its operations are for one of these purposes is determined by its activities. A qualifying organization's property may be exempted fully or partially from property taxes, depending on how much of the property is used for qualifying purposes and activities.

Section 214 is the primary Welfare Exemption statute in a statutory scheme that consists of more than 20 additional provisions. Over the years, the scope of the Welfare Exemption has been expanded by both legislation and numerous judicial decisions. In general, the following requirements must be met before property is eligible for exemption:

- The property must be irrevocably dedicated to religious, hospital, scientific, or charitable purposes.
- The owner must not be organized or operated for profit and must be qualified as an exempt organization, under a specific federal or state statute, by the Internal Revenue Service or the Franchise Tax Board.
- No part of the net earnings of the owner may inure to the benefit of any private shareholder or individual.
- The property must be used for the actual operation of the exempt activity.

Property with Government Financing or Tax Credits: Unlimited Exemption. Under existing law, when a nonprofit organization owns and operates a low-income rental housing property that receives government financing or low-income housing tax credits, these properties may be exempt from property tax. Generally, a low-income rental housing property[7] may qualify for the Welfare Exemption provided:

[7] Such property may include single-family residences, multifamily residences (duplex, triplex, fourplex), and apartment complexes.

- **Government Financing or Tax Credits.** The property owner receives low-income housing tax credits or government financing on the property (RTC section 214[g][1][A] and [B]).
- **Use Restriction.** The property is subject to a recorded deed restriction, regulatory agreement, or "other legal document" restricting its use for low-income housing purposes at specified rents (RTC section 214[g][2][A][i] and Property Tax Rule 140).
- **Rents Charged.** The rents charged to low-income household occupants do not exceed the rent prescribed by the deed restrictions or regulatory agreement (RTC sections 214[g][1][A] and 214[g][2][A][i]).
- **Property Tax Savings.** The owner certifies that the funds otherwise necessary to pay property taxes are instead used to maintain the affordability of, or reduce rents for, units occupied by the low-income households (RTC section 214[g][2][B]).
- **Limited Partnership: Special Requirements.** In the case of housing owned by a limited partnership in which the managing general partner is an eligible nonprofit corporation or an eligible LLC,[8] use and rent restrictions must be contained in an enforceable and verifiable agreement with a public agency or in a recorded deed restriction (RTC section 214[g][2][A][ii] and Property Tax Rule 140).

While there is no minimum percentage of units that must be occupied by low-income households, the exemption only extends to the units serving low-income households (RTC section 214[g][1]).

Current law requires property owners to annually file a claim to receive the exemption. The claim must state the number of units serving low-income households, including temporarily vacant units that are held for such households, and requires an attachment that lists qualified households.[9]

Commentary:

1. **The Regional Housing Needs Allocation (RHNA) Process.** The revenue impact for AB 1294 as discussed below is based on production goals put forth by RHNA and permit data from the California Department of Housing and Community Development (HCD). The RHNA process refers to the first two steps (Determination and Allocation) of a multi-step process that California governments utilize to plan for housing needs in each region of the state. Since 1969, California has required that all local governments (cities and counties) adequately plan to meet the housing needs of everyone in the community. This process starts with HCD determining how much housing at a variety of affordability levels is needed for each region in the state. Then the regional

[8] See Property Tax Rule 136.

[9] RTC section 214(g)(3)(C). Vacant units in elderly and handicapped unit that qualify under moderate income under RTC section 214(g) are not eligible for exemption.

governments develop a methodology to allocate that housing need to local governments. California's local governments then adopt housing plans (called housing elements) as part of their "general plan" (also required by the state) to show how the jurisdiction will meet local housing needs.

2. **Previous Legislation.** Senate Bill (SB) 1415 (Arreguin) was introduced February 20, 2026, to create an alternate Welfare Exemption equal to the percentage that the number of units serving low- and moderate-income households represents out of the total number of residential units. SB 336 (Wiener) from 2025 proposed a substantially similar moderate-income partial Welfare Exemption. The bill was held on suspense in the Senate Appropriations Committee**.** In 2018, AB 3152 (Chiu) proposed to extend the Welfare Exemption for rental housing owned by nonprofit organizations that were occupied by moderate-income households in certain counties in the state. AB 3152 was held in the Assembly Appropriations Committee. In 2019, AB 1734 (Chiu), for tax liens dates on or after January 1, 2020, and before January 1, 2025, proposed to extend the Welfare Exemption to rental housing owned by nonprofit organizations and occupied by moderate-income households. This bill was also held in Assembly Appropriations.

3. **Loss of Low-Income Housing.** If the focus shifts to moderate-income tenants, this proposal could take attention and future construction away from low-income housing needs and potentially reduce the number of units available for low-income households.

4. **Moderate-Income Elderly and Handicapped Families.** Existing law provides an exemption for properties that are used for housing and related facilities for low- and moderate-income elderly or handicapped families.[10] The law allows a partial exemption equal to the percentage that the number of low- and moderate-income elderly and handicapped families represents of the total number of families occupying the property. This bill would extend the Welfare Exemption to units rented by occupants with moderate income that are not elderly or handicapped.

Costs: Costs to BOE are estimated to be $42,000 in the 2026/27 fiscal year, $8,000 in 2027/28 and 4,000 in 2028/29.

Revenue Impact:

AB 1294 applies to properties located in Alameda County, Sacramento County, or the City and County of San Francisco. Analysis of the RHNA 6th cycle (2023-2031) data for the three counties totaled to an estimated goal of 45,114 moderate-income units. According to HCD 2018-2024 moderate-income units data for the three counties, of the 16,707 permits submitted in the 2018-24 time frame, 11,965 units, or about 72%, were for rental-based housing tenure. Applying the 72% to the 6th cycle results in an estimated 32,482 moderate-income rental units (72% × 45,114 units).

[10] RTC section 214(f).

According to a January 2026 University of California Berkeley Terner Center brief, it cost approximately $630,000 to develop one subsidized housing unit funded with Low-Income Housing Tax Credit (LIHTC) equity in California. Using this as a basis to reflect the average cost to build in the three counties, and factoring in the above estimated 32,482 units, total assessed value is estimated to be $20.5 billion ($630,000 cost × 32,482 units). Given the RHNA cycle is an eight-year cycle, the annual property tax loss is estimated to be $26 million ($20.5 billion × 1% / 8 years).

The above estimate assumes all rental units will be constructed as envisioned in the 6th cycle. As stated earlier, 2018-2024 moderate-income units (rental tenure) permitted for the three counties was an estimated 11,965 units. An estimated 8,128 rental units were completed in the 2018-24 period. That resulted in an estimated 68% completion (8,128/11,965). Even with the AB 1294 Welfare Exemption incentive, if the completion rate is around 68%, then the estimated completed units for the three counties would be 22,088 (68% × 32,482 units). Based on the estimated construction cost of $630,000, assessed value is estimated to be $14 billion ($630,000 cost × 22,088 units), and the estimated annual property tax loss is estimated to be $18 million ($14 billion × 1% / 8 years).

A dynamic revenue analysis factoring in the reaction of developers and pertinent stakeholders to the proposed AB 1294 partial Welfare Exemption is beyond the scope of this analysis. The above analysis provides a possible range of property tax revenue loss in the range of $18 million to $26 million annually. In summary, the higher bound of the range ($26 million) assumes that every rental unit (100 % of the RHNA goal) will be built under the 6th cycle plan. The lower bound of the range ($18 million) assumes that the permitting rate from the 5th cycle would apply to the 6th cycle goal.

It should be noted that only those properties completed between January 1, 2027, and January 1, 2030, qualify and their exemption is capped at a total of 15 years. The revenue loss will end in 2045.

Revenue Summary:

The expansion of the Welfare Exemption by AB 1294 to include new moderate-income rental units would result in an estimated annual revenue loss in the range of $18 million to $26 million.