STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

Draft

Date Amended:	**5/15/07**	Bill No:	**AB 62**
Tax:	**Property**	Author:	**Nava, et al**
Related Bills:	**SB 38 (Battin)**		

BILL SUMMARY

This bill would, among other things, allow persons whose homes were destroyed in Ventura County as a result of wildfires occurring in 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 these assessment reductions.

SUMMARY OF AMENDMENTS

The amendments since the previous analysis delete the provisions applying to fires occurring in Riverside County.

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

[1] A 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.

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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.

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 September 4, 2006, and subsequently damaged or destroyed by wildfires and any other related casualty in Ventura County 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 Ventura 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

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 the fires and provide property tax revenue backfill to affected local governments.

2. **The May 15, 2007 amendments** limit the scope of this bill to fires occurring in Ventura County. As introduced, this bill would have also applied to fires occurring in

Riverside County; however, provisions for these fires are contained in SB 38 (Battin). The April 9 amendment made a nonsubstantive change and added co-authors.

3. **Proclamations.** Related to Ventura County, two proclamations have been issued as noted below.

   September. On September 24, 2006, the Governor issued a proclamation of a State of Emergency for Ventura County due to fires that commenced on September 4, 2006. (The Day Fire)

   December. On December 4, 2006, the Governor issued a second proclamation for Ventura County for fires that commenced on December 3, 2006. (The Shekell Fire)

4. **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.

5. **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 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 38 (Battin) makes similar amendments to Section 218 but is limited in scope to 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

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 in 2006, that was damaged or destroyed by wildfires and any other related casualty that occurred in the County of Ventura, 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.

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 Ventura County Assessor's office, we estimate that approximately 10 homes were totally destroyed in the 2006 fires.

County	Damaged Homes	Number of Homes Destroyed	Exempt Value *	Total Exempt (# x $7,000)	2005-06 Average Tax Rate	Continued Subvention
Ventura	6	10	N/A	$ 70,000	1.079%	$ 755

*Assumes that the damaged property will retain an assessed value of at least 7,000.

In addition, the County of Ventura estimates an assessed value of $3 million of property damaged or destroyed by fires that occurred in the County of Ventura during calendar year 2006. This bill would provide a State allocation of $32,270 ($3 million x 1.079%, the average tax rate) from the loss in assessed value.

REVENUE SUMMARY

The local jurisdictions are reimbursed by the state for their losses due to the homeowners' exemption (HOX). 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 $755 annually. The impact will decrease over time as these properties are rebuilt and the owners can reoccupy them. In addition, the billl would provide a State allocation of $32,370 resulting from the reassessment of property damaged or destroyed by wildfires within the County of Ventura in calendar year 2006.

Revenue Impact

State Subvention	$ 755	Annually
State Allocation	32,370	1 year reimbursement
Total	$ 33,125	

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