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May 17, 2018

To: CSAC Board of Directors

From: Dorothy Johnson, CSAC Legislative Representative
Tracy Sullivan, CSAC Legislative Analyst

Re: 2018 Ballot Initiative: People's Initiative to Protect Proposition 13 Savings – ACTION ITEM

Recommendation. The CSAC Executive Committee approved and forwards the recommended "oppose" position from the Governance and Finance Committee in light of the fiscal impacts on counties and erosion of local control.

Summary.
The California Association of Realtors (CAR) is the lead proponent on an initiative that seeks to change the current parameters for base year value transfers by expanding the program in several ways. For counties, this could dramatically change residential property reassessments, creating annual revenue losses in the tens of millions for counties alone, with losses growing to exceed $1 billion for local governments statewide.

Background.
Current Law
Under current law, base year transfers allow a homeowner to continue paying property taxes at the amount of their previous home and prevent the reassessment of their newly purchased or constructed home to full market value. They are able to use their prior home's Proposition 13 (1978) protected assessed value when purchasing a home of equal or lesser value. This privilege is currently granted to homeowners 55 years of age and older and also homeowners with a severe, permanent disability (regardless of age), as long as certain specifications are met related to date of purchase, place of primary residence, and other conditions.

Both properties must be located within the same county unless the county where the homeowner seeks to purchase their new residence has adopted an ordinance allowing intercounty transfers. Currently, 11 counties (Alameda, El Dorado, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo, Santa Clara, Tuolumne, and Ventura) allow intercounty transfers pursuant to resolutions adopted by the Board of Supervisors in those counties. A homeowner can transfer their assessed value only once in their lifetime.[1]

The program parameters were created through Proposition 60 (1986; established program), Proposition 90 (1988; permitted intercounty transfers with local approval), and Proposition 110 (1990; extended authority to homeowners with a severe, permanent disability).

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[1] The only exception is when a person becomes disabled after receiving the tax relief for age; they may transfer the base year value a second time if disability.

How it Works
Generally, a home's value is established when it is purchased, constructed or undergoes a change in ownership under Proposition 13. Proposition 13 also offers that the maximum amount of any *ad valorem* tax on real property may not exceed 1% of the property's full cash value, as adjusted for inflation or 2% per year, whichever is lower. As a result, a homeowner who holds onto his or her home for a long period of time has a much lower property tax bill than someone who just recently purchased or built their home, even if the fair market values of both homes are similar. The base year value transfer allows the homeowner to continue paying property taxes at the amount of the previous residence and not the fair market value of the new residence.

Ballot Initiative Proposal vs. Current Law
The proposed initiative expands base year value transfers for homeowners 55 years and older and/or severely disabled as follows:

	Homeowner Eligibility	**Residential Property Eligibility**	**Frequency**	**County to County Transfer**
Current Law	Restricted to homeowners 55+ or severely disabled	Restricted to replacement properties of equal or lesser value	A once in a lifetime	Only if approved by Board of Supervisors
Proposed Initiative	Same	No value limit on replacement properties	Unlimited Transfer Opportunities	Permitted anywhere in the state, between any counties

Under the proposed initiative, if the new and old homes share the same market value, the assessed value of the new home would be the assessed value of the prior home. If the market value of the new home is <u>higher</u> than the prior home, the assessed value of the prior home would be adjusted upward. This adjusted value would be greater than the prior home's assessed value but less than the new home's market value. Conversely, if the market value of the new home is less than the prior home, the assessed value of the prior home would be adjusted downward. The Legislative Analyst's Office offers the following example to demonstrate the loss of property tax revenue based on adjusted assessments.

> *A couple has lived in their suburban home for 30 years. The home's assessed value is $75,000 and could be sold for $600,000. They are looking at two options:*
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> *Beach Home. The couple could buy a beach home for $700,000. Under the measure, the assessed value of the beach home would be $175,000: $75,000 (assessed value of their prior home) plus $100,000 ($700,000 [the new home's market value] minus $600,000 [the prior home's market value]).*
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> *Small Downtown Condo. The couple also could buy a downtown condo for*

> *\$500,000. Under the measure, the assessed value of the condo would be \$62,500: \$75,000 (assessed value of their prior home) multiplied by 0.8 (\$500,000 [the new home's market value] divided by \$600,000 [the prior home's market value]).*

Fiscal Impact
The Legislative Analyst's Office (LAO) estimates the resulting property tax losses would total hundreds of millions of dollars per year, with schools and other local governments (cities, counties, and special districts) losing $150 million annually statewide. Over time, the losses would grow as established base year values move to additional properties, creating abnormally low tax bills based on prior assessment transfers. The LAO estimates property tax losses would total between $1 billion to a few billion dollars per year (in today's dollars), with schools and other local governments each losing $1 billion or more annually statewide.

CAR contends this estimate is inaccurate because it does not take into account the reassessment of the residence being sold and the uptick in home sales from seniors and those with a disability being able to carry forward their property tax base. The former property would be reassessed under normal practices and could arguably create greater property tax revenue than received under the long-time homeowner (unless it is being purchased by another individual who is eligible to use the base year value transfer program).

Policy Considerations.
The California County Platform, CSAC's adopted statement of the basic policies of concern and interest to California's counties, speaks directly against the changes presented by this initiative.

> "Property Tax Revenue: Counties oppose erosion of the property tax base through unreimbursed exemptions to property taxes. The state should recognize that property tax revenues are a significant source of county discretionary funds. Any subventions to counties that are based upon property tax losses through state action should be adjusted for inflation annually." – Chapter 9, Financing County Services

CSAC has a well-established position to oppose the expansion of base year value transfers due to the fiscal impact on property taxes, an important discretionary revenue base that makes up approximately 20% of county revenue. The CAR legislative advocates have introduced three separate bills and corresponding constitutional amendments (see list below), all which failed, in the last three legislative sessions seeking to expand the program in a variety of ways including intercounty transfer authority statewide outside of Board of Supervisor approval and to homes of greater value, in addition to equal or lesser value.

The proponents argue that homeowners are being trapped in their existing homes because seniors and those with a disability, presumably those on a fixed income, cannot afford a higher property tax bill associated with a new home purchase. At the same time, a large stock of homes suitable for first-time homeowners is unavailable. Allowing homes of greater value to be part of the program and transferring property tax bills across county lines ensure individuals can find a home that better meets their needs.

CSAC's historic opposition is based on the loss of revenue and loss of Board of Supervisors' authority to make decisions impacting their county.

Legislative Attempts to Expand the Base Year Value Program
SB 378 (Beall) & SCA 9 (Beall) – 2015, Held in Senate Appropriations Committee: Would have allowed base year value transfers to properties of greater value than the current home, as well as equal or lesser value for seniors and those with a disability.

> CSAC Position: Oppose Unless Amended to make it optional for counties (similar to Prop 90) and to have the state backfill local government property tax losses. This stance was taken due to the tremendous loss of general purpose revenue for local agencies that would result. Link to the CSAC Letter.

AB 2668 (Mullin) & ACA 12 (Mullin) – 2016, Held in Assembly Appropriations:
Would have allowed base year value transfers to properties of equal or greater value for seniors and those with a disability.

> CSAC Position: Oppose Unless Amended to make it optional for counties (similar to Prop 90) and to have the state backfill local government property tax losses. This stance was taken due to the tremendous loss of general purpose revenue for local agencies that would result. Link to the CSAC Letter.

AB 1322 (Bocanegra) & ACA 7 (Bocanegra) – 2017, Held in Assembly Appropriations: Would have authorized intercounty base year values, regardless of whether the local board of supervisors has adopted an ordinance to deny or permit such transfers

> CSAC Position: Oppose based on the fact that not only would general purpose revenues take a significant hit, but also because the measure would erode the local decision making process set in place by Prop 90. Link to CSAC Letter.

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Resources.
1) Full Text of Ballot Initiative
2) Fiscal Analysis by Legislative Analyst's Office