California State
Board *of* Equalization

Legislative Bill Analysis

SB 663 (Allen)
Date: Introduced 02/20/25
Program: Property Taxes
Revenue and Taxation Code Sec 70.5, 170, 214
Effective: Upon enactment, immediately

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Summary: This bill amends Revenue and Taxation Code (RTC) section 70.5 to allow victims of the 2025 Los Angeles Fire an additional three years to apply the base year value of a property that was substantially damaged or destroyed to a replacement property. The three-year extension relates to damage arising from the 2025 Palisades Fire, the 2025 Eaton Fire, the 2025 Hughes Fire, and the 2025 Kenneth Fire, on or after January 1, 2025, but on or before February 1, 2025.

This bill amends RTC section 170 to extend the period to file for reassessment to the latter of the time specified in the county's ordinance or within 24 months of the fires. It provides that the assessor shall have the discretion to determine the appropriate date of damage for the purposes of reassessment.

Lastly, the bill amends RTC section 214 to deem property eligible for the welfare exemption, as specified, if the property had already received a welfare exemption in 2025, even if the property is no longer used for an exempt purpose due to damage from the fires. These provisions would apply until the property has been replaced, new construction has been completed on the property, or the property has returned to its prior use. The bill would make these provisions operative only for lien dates prior to January 1, 2033.

Fiscal Impact Summary: SB 663 would reduce annual property tax revenues by an estimated $184 million.

Existing Law: For property tax purposes, the law requires County Assessors to reassess real property from its Proposition 13 protected value ("base year value") to its current market value whenever a change in ownership occurs or upon completion of new construction[1]. Exceptions to this reassessment requirement have been enacted, including three base year value transfers as discussed below, for property owners whose property has been damaged or destroyed in a disaster for which the Governor proclaimed a state of emergency.

- On June 3, 1986, the voters of California approved Proposition 50, adding subdivisions (e) And (f) to section 2 of article XIII A of the California Constitution to allow the transfer of the base year value of real property that is substantially damaged or destroyed by a disaster for which the Governor proclaims a state of emergency to comparable replacement property located within the same county. These provisions are implemented by Revenue and Taxation Code (RTC)

[1] Article XIII A, section 2 of the California Constitution.

section 69.

- On November 2, 1993, California voters approved Proposition 171, which amended section 2(e) of article XIII A, to allow the base year value of a principal residence substantially damaged or destroyed in a disaster for which the Governor proclaims a state of emergency to be transferred to a replacement principal residence located in another county, provided that the replacement residence is located in a county that has adopted an ordinance to accept such base year value transfers. These provisions are implemented by RTC section 69.3.

- On November 3, 2020, California voters approved Proposition 19, which added section 2.1 to article XIII A, to allow, as relevant here, an owner of a primary residence who is a victim of a wildfire or natural disaster to transfer the taxable value of their original primary residence to a replacement primary residence that is purchased or newly constructed as that person's principal residence within two years of the sale of the original primary residence. Proposition 19 became operative as of April 1, 2021. These provisions are implemented by RTC section 69.6.

Revenue and Taxation Code (RTC) section 70.5

Related to this bill, RTC section 70.5 allows owners of property substantially damaged or destroyed in a Governor-proclaimed disaster to reconstruct comparable property onsite with a return to the former property's base year value if they elect to rebuild instead of purchasing replacement property.

To be comparable, the reconstructed property must be similar in size, utility, and function. Property is considered similar in "size and utility" if its full cash value doesn't exceed 120 percent of the full cash value of the property before damage or destruction. If the value does exceed 120 percent, partial relief is available. To qualify for relief under section 70.5, the reconstruction must be completed within five years of the date of the disaster.

Revenue and Taxation Code (RTC) section 170

Additionally, RTC section 170 provides potential property tax disaster relief to property owners impacted by fires or other disasters, if the county has adopted an ordinance allowing reassessment for property that is damaged or destroyed without the owner's fault. Los Angeles County and Ventura County adopted this disaster relief and county specific information can be accessed via their preceding links.

In accordance with RTC section 170, if a calamity such as fire, earthquake, or flooding damages or destroys property, any person liable for taxes on property that was damaged without any fault of that person may apply for reassessment of that property. In such case, the County Assessor will reappraise the property to reflect its damaged condition. Also, when the property is rebuilt in a like or similar manner, it will retain its prior value for tax purposes. A supplemental refund will be issued based on the reduction amount, prorated from the disaster month to the end of the fiscal year or the completion of new construction. Property owners must continue to pay their regular property tax bill.

Filing a Claim and Eligibility

To qualify for property tax relief, a claim must be filed with the County Assessor within the time specified in your county ordinance, or 12 months from the date of damage or destruction, whichever is later. For property receiving a homeowners' exemption, the loss estimate must be the lesser of 10% or at least $10,000 of fair market value. For all other property, the damage must be at least 20% of value. The application process for reassessment varies by county, and property owners must contact their County Assessor for the appropriate forms. In some cases, the form may be available for download from the county's website. This property tax relief is available to owners of real property, business equipment and fixtures, orchards or other agricultural groves, and to owners of aircraft, boats, and certain manufactured homes – it is not available to property that is not assessable, such as state licensed manufactured homes or household furnishings.

Revenue and Taxation Code (RTC) Section 214

Under the California Constitution, all property is taxable unless otherwise provided for by the State Constitution or the laws of the United States.[2] The Legislature may exempt from property taxation in whole or in part property used exclusively for religious, hospital, scientific, or charitable purposes and owned or held in trust by nonprofit corporations or other entities if specific criteria are met.[3]

This exemption is known as the "welfare exemption" and is implemented according to RTC section 214. Section 214 generally exempts from taxation, subject to certain conditions and qualifications, property (1) owned by nonprofit organizations organized and operated for charitable purposes, and (2) used exclusively for those purposes.

Proposed Law: SB 663 proposes the following changes to the following RTC sections:

RTC section 70.5

This bill would extend the 5-year period described above by three years if a property was substantially damaged or destroyed by the 2025 Palisades Fire, the 2025 Eaton Fire, the 2025 Hughes Fire, and the 2025 Kenneth Fire 2025, on or after January 7, 2025, but on or before February 1, 2025, for those who elect to reconstruct a comparable replacement property at the same site. This would apply to the determination of the base year values for the 2025-26 fiscal year and fiscal years thereafter.

"Qualified real property" is defined as property that was substantially damaged or destroyed, as described in RTC 70.5(c)(1), by the wildfires in the County of Los Angeles and the County of Ventura in January 2025, including, but not limited to, the 2025 Palisades Fire, the 2025 Eaton Fire, the 2025 Hughes Fire, and the 2025 Kenneth Fire.

[2] California Constitution, article XIII, section 1.
[3] California Constitution, article XIII, section 4(b).

<u>RTC section 170</u>
This bill would also authorize a local government to provide for the assessment or reassessment of taxable property damaged by a major misfortune or calamity in an area or regions subsequently proclaimed to be in a state of emergency, as specified.

The bill would provide that the assessor shall have the discretion to determine the appropriate date of damage for the purposes of reassessment.

This bill would, in the case of property damaged by the wildfires in the County of Los Angeles and the County of Ventura in January 2025, including, but not limited to, the 2025 Palisades Fire, the 2025 Eaton Fire, the 2025 Hughes Fire, and the 2025 Kenneth Fire, extend the period to file for reassessment to the latter of the time specified in the county's ordinance or within 24 months of the fires.

<u>RTC Section 214</u>
This bill, in the case of property impacted by the wildfires of January 2025, in the County of Los Angeles and the County of Ventura, as specified, would deem property to be eligible for a welfare exemption, as specified, if the property received a welfare exemption in 2025, and the property is no longer used for an exempt purpose due to damage from the fires. These provisions would apply until the property has been replaced, new construction has been completed on the property, or the property has returned to its prior use. The bill would make these provisions operative only for lien dates prior to January 1, 2033

Effective Date. As a tax levy, this bill is effective immediately upon enactment.

In General: Disaster Relief. California's system of property taxation under Article XIII A of the California Constitution (Proposition 13) values the property at its 1975 fair market value, with annual increases after that limited to the amount of inflation or 2 percent, whichever is less, until the property changes ownership or new construction occurs. Once a reassessable event occurs (i.e., a change in ownership or new construction), the property's value for tax purposes is redetermined based on its current market value. The value initially established, or redetermined where appropriate, is called the "base year value."

Because real estate values generally appreciate at a rate greater than 2 percent per year, when an event triggers a reassessment of property to its current market value, the reassessed value (i.e., its new base year value) will likely be substantially higher.

California property tax law provides for various situations where the base year value of a property is either: (1) retained, notwithstanding that new construction has taken place or that the property has changed ownership, or (2) transferred to another property, notwithstanding that the property has changed ownership. These special situations are provided pursuant to various constitutional amendments modifying the original Proposition 13 framework and serve to avoid the otherwise required reassessment of a property to its current market value.

For instance, related to the subject matter of this bill, RTC section 70(c) provides that where the property has been damaged or destroyed by misfortune or calamity, the property will retain its previous base year value after its reconstruction as long as such reconstruction is substantially equivalent to the property before damage or destruction. Consequently, a rebuilt property after a fire will continue to be assessed on the base year value even though the property may have been substantially or entirely newly constructed.

RTC section 70.5 has a provision specific to post-disaster reconstruction following a Governor-proclaimed event. These provisions allow a base year value to be reinstated for reconstructed improvements if those improvements are similar in function, size, utility, and within 120% of value. These provisions parallel the intra-county base year value transfer under RTC section 69 to provide similar benefits to those who elect to rebuild. This section also states that if the reconstruction exceeds 120% of value, the amount that exceeds 120% is added to the factored base year value.

Governor State of Emergency Proclamations. The Government Code[4] authorizes the Governor to proclaim a state of emergency under specified circumstances, including:

- "State of war emergency" means the condition which exists immediately, with or without a proclamation thereof by the Governor, whenever this state or nation is attacked by an enemy of the United States or upon receipt by the state of a warning from the federal government indicating that such an enemy attack is probable or imminent.

- "State of emergency" means the duly proclaimed existence of disaster conditions or extreme peril to the safety of persons and property within the state.

- "Local emergency" means the duly proclaimed existence of disaster or extreme peril to the safety of persons and property within the territorial limits of a county, city, and county or city.

Commentary:

1. **Amends RTC Section 70.5 Exclusively.** This bill amends RTC section 70.5 and applies only to property owners who reconstruct substantially damaged or destroyed improvements. It does not extend the base year value transfer period under RTC section 69 for property owners who elect to purchase a replacement property.

2. **Related Legislation.** SB 603 (Niello) proposes to amend RTC section 69 and authorize the county board of supervisors of any county affected by a disaster declared by the Governor on or after January 1, 2025, to extend the five years period to transfer by up to 3 years for properties located in that county. AB 245 amends RTC Section 70.5 to allow victims of the 2025 Los Angeles Fire an additional three years to transfer the base year value of a property that was substantially damaged or destroyed to a replacement property.

3. **Emergency Proclamations.** On January 7, 2025, the Governor proclaimed a state of emergency to exist in Los Angeles and Ventura counties due to the Palisades fire and windstorm conditions. A total of nineteen executive orders were issued during the devastation period. According to Cal Fire, as of February 7, 2025, an estimated 23,707 acres burnt down in the Palisades Fire destroying 6,833 structures. In the Eaton Fire, an estimated 14,021 acres were affected, and 9,413 homes destroyed. These Cal Fire

[4] Government Code (GC) sections 8558 and 8625.

statistics provide the basis for the revenue estimate below.

4. **Local Government Reimbursement.** Existing law requires the state to reimburse local agencies annually for certain property tax revenues lost as a result of any exemption or classification of property for purposes of ad valorem property taxation. This bill would provide that, notwithstanding those provisions, no appropriation is made, and the state shall not reimburse local agencies for property tax revenues lost by them pursuant to the bill.

5. **Properties with Welfare Exemption.** In the report *Impact of 2025 Los Angeles Wildfires and Comparative Study* that was commissioned by the Southern California Leadership Council and produced by the Los Angeles County Economic Development Corporation, it was reported that six churches and fifty one schools were destroyed in the Palisades Fire. In the Eaton Fire, nine churches and forty-six schools were destroyed. Two hospitals were partially damaged. Staff assumes these community and public structures received the welfare exemption in 2025, and that SB 663 would allow these entities to continue to receive the exemption in their current state (unless sold) until reconstructed or 2033, whichever is first.

Costs: The BOE would incur base year costs of approximately $10,317 and on-going costs of approximately $6,554 per year for the following three years.

Revenue Impact:

According to CalFire data, an estimated 6,833 structures were destroyed in the Palisades fire, and 9,413 structures in the Eaton fire. “Structures” is defined as to include homes, outbuildings (barns, garages, sheds, etc.) and commercial properties. In the report *Impact of 2025 Los Angeles Wildfires and Comparative Study*, a detailed breakdown of the overall structures in the fire areas was provided, and the following breakdown is all of the structures fully destroyed:

	PALISADES FIRE	**EATON FIRE**
Residential Structures	**Number of Structures**	**Number of Structures**
Single-Family Residences	5,058	6,003
Mobile Homes and Motor Homes	361	12
Commercial Structures		
Commercial Buildings	101	98
Mixed-Use Buildings	5	5
Multi-Family Residences	135	96

Community and Public Structures		
Churches	6	9
Schools	51	46
Hospitals	0	2
Infrastructure, Utility, and Miscellaneous Structures		
Infrastructure	1	10
Utility/Miscellaneous Structures	1,115	3,134
TOTAL	**6,833**	**9,415**

Single-Family Residences (SFR)

The estimated average assessed value of a SFR destroyed in Palisades was $1.6 million and the market value was estimated to be approximately $4 million. Therefore, when a transfer is granted, the estimated assessed value difference per home will likely be $2.4 million ($4 million - $1.6 million). At the 1% property tax rate, the estimated revenue loss per SFR is estimated to be $24,000 (1% × $2.4 million).

Based on the assumption that the homeowners of the estimated 5,068 homes destroyed in the Palisades Fire would need additional time to reconstruct the property, the estimated annual revenue loss is $122 million (5,068 homes × $24,000).

The estimated average assessed value of single-family residences (SFR) destroyed in the non-Palisades areas was $532,568, and the market value was estimated at $1.4 million. Therefore, when the transfer is granted, the estimated assessed value difference per home will likely be $867,432 ($1.4 million - $532,568). At the 1% property tax rate, the estimated revenue loss per SFR is estimated to be $8,674 (1% × $867,432).

Based on the assumption that the homeowners of the estimated 6,003 homes destroyed in the non-Palisades Fire would need additional time to reconstruct the property, the estimated annual revenue loss is $52 million (6,003 homes × $8,674).

SB 663 would reduce annual SFR property tax revenues by an estimated $174 million (Palisades $122 million + non-Palisades $52 million).

Commercial Impact

According to CRE Daily, a digital media company covering the business of commercial real estate, the Palisades and Eaton fires affected commercial property worth an estimated $1.9 billion.

These properties, valued at $1.9 billion before the disaster, include multifamily apartments, retail centers, and office buildings.

BOE conducts an annual study to determine the statewide and county-by-county ratio of assessed value to fair market value of locally assessed commercial real property in California through sales-assessment ratio studies of transferred commercial property. Based on the most recent study, the commercial sales ratio for Los Angeles County is 48.09%. This means the assessed value of commercial properties in Los Angeles County, on average, is 48.09% of market value.

Based on the 48.09% ratio, staff estimated assessed value to be $914 million (48.09% × $1.9 billion market value). The difference between the market and assessed value of $986 million results in property tax revenue loss of $9.9 million (1% × $986 million).

Revenue Summary.

SB 663 would reduce annual property tax revenues by an estimated $184 million (SFR $174 million, Commercial $9.9 million).

Qualifying Remark:

- When preparing the revenue analysis, staff had no data or estimates or any research in general on the number of prospective homeowners who may need the additional three years to reconstruct. The above analysis assumes that all homeowners affected would seek an additional three years.
- An assumption made is that every fire victim who had a home damaged or destroyed elects to rebuild on their property instead of purchasing replacement property. Hence, this estimate should be viewed as the maximum annual revenue loss - as there will no doubt be a significant number of fire victims who decide to purchase a replacement property instead of rebuilding in place.
- In addition, SB 603 (Niello) is a similar bill. If passed, it would likely reduce the revenue impact of this bill, as additional property owners may elect to buy replacement property instead of rebuilding improvements on an existing property.
- RTC 70.5 applies to all real property (residential and commercial). The above analysis is based on residential property (SFR) only, and both multi-unit and commercial properties are not factored in the analysis. The overarching property tax revenue impact is likely understated.
- This analysis assumes that the destruction of the more than eleven thousand SFRs in the Palisades and Eaton fires has zeroed out the total value of both improvements and land. Determining post-disaster land value is complex, therefore residual land value has

not been estimated in the above revenue projection.

- At the time of preparing this estimate, staff did not have specific data in relation to the commercial value or commercial structures tied specifically to Los Angeles or Ventura County. The above commercial analysis is based on data that reflects Palisades and Eaton fires. To understand the impact, staff used the Los Angeles County commercial sales ratio.

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