California State Board *of* Equalization

Legislative Bill Analysis

Assembly Bill 1500 (Irwin)
Date: March 22, 2023 (Amended)
Program: Property Taxes
Revenue and Taxation Code section 70.5
Effective: Immediately

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Analysis Date: June 1, 2023

Summary: This bill amends Revenue and Taxation Code (RTC) section 70.5 to allow property owners an additional three years to reconstruct improvements on the property substantially damaged or destroyed by the 2018 Woolsey Fire and the 2018 Camp Fire.

Amended Fiscal Impact Summary: Assembly Bill (AB) 1500 would reduce annual property tax revenues by an estimated $7.7 million to $11.5 million if every affected property owner elects to rebuild property damaged or destroyed in the fires, and the property owner also needs an additional three years to reconstruct the improvements. This approximate figure should be considered a maximum loss.

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 or new construction occurs[1]. RTC section 70.5 allows owners of the 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.

Proposed Law: This bill would extend the 5-year period described above by three years if the property was substantially damaged or destroyed by the 2018 Woolsey Fire or by the 2018 Camp Fire on or after November 1, 2018, but on or before November 30, 2018, for those who elect to reconstruct comparable improvements on their existing property.

In General: 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."

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

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 assessed value after its reconstruction as long as such reconstruction is substantially equivalent to the property before damage or destruction[2]. Consequently, a rebuilt property after a fire will continue to be assessed at the same amount even though the property has been entirely newly constructed.

RTC section 70.5 added a new 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 to qualify for a base year value transfer. These provisions parallel the intracounty 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[3] 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 only 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.

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[2] This new construction exclusion was provided by Proposition 8 in 1978.

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

2. **Piecemeal Amendments.** This bill allows extension of relief only for owners of the property substantially damaged or destroyed by the 2018 Woolsey Fire or the 2018 Camp Fire. In 2018, the Governor issued a state of emergency for 14 fires, including the Woolsey Fire and the Camp Fire. In 2019, the Governor issued a state of emergency for seven other fires and other disaster events. With this bill specifically limiting this relief extension to the Woolsey Fire and Camp Fire, this may lead to subsequent amendments of RTC section 70.5 for specific events.

   Using the intracounty base year value relief as an example, when section 69 was added to the Revenue and Taxation Code, replacement property had to be purchased within two years of the date of the disaster. In 1993, AB 1824 (Stats. 1993, ch. 1053) extended the timeframe for RTC section 69 base year value transfers from two years to three years for all disasters occurring on or after October 20, 1991, the date of the Oakland Hills fire. In 1997, Senate Bill (SB) 594 (Stats. 1997, ch. 941) provided a special five-year timeframe for any victim of the 1994 Northridge earthquake. In 2006, AB 1890 (Stats. 2006, ch. 317) extended the timeframe for RTC section 69 base year value transfers from three years to five years for all disasters occurring after July 1, 2013, when several devastating fires swept through Southern California.

3. **Related Legislation.** AB 556 (Gallagher) proposes to amend RTC section 69 to extend the five-year period for intercounty base year value transfers for property substantially damaged or destroyed by the 2018 Camp Fire.

Costs: The administrative costs related to this bill would be a one-time cost of approximately $28,000 and ongoing costs of approximately $6,000 per year. These costs would be incurred in drafting Letters to Assessors, updating materials, and legal reviews.

Amended Revenue Impact: According to the National Low Income Housing Coalition, an estimated 14,200 homes were destroyed in the 2018 Camp Fire. The Butte County Assessor reports that approximately 10,035 of those homes have either been sold, are currently up for sale, the homeowners have left California, or the property did not otherwise qualify for relief. Per information received from the Butte County Assessor the actual number of homes eligible for this relief is 4,165, as of May 2023.

The average assessed value of a home in Butte County in 2018 receiving the homeowners' exemption was $215,288. The California Association of Realtors February 2023 median home price in the county is $405,000. Therefore, where the transfer is granted, the estimated assessed value difference per home is $189,712 ($405,000- $215,288), or $1,897 per home, in cases where property owners with damaged or destroyed property would purchase a replacement property instead of rebuilding improvements on the existing property. In cases where property owners elect to reconstruct improvements on the existing lot, the Butte County Assessor reports that the average assessed value per home could be reduced by as much as one-third, as the land portion of the property would not be reassessed. In these cases, the estimated assessed value difference is $127,107 ($189,712 x 0.67), or $1,271 per home.

Of the estimated 4,165 homes in Butte County still eligible for this relief, we do not know how many property owners will choose to rebuild on the existing site and how many will purchase a replacement property.

If all 4,165 homes were reconstructed homes, revenue loss is estimated as:

4,165 homes x $1,271 per home, or $5.3 million.

However, if all 4,165 homes were replacement homes, revenue loss is estimated as:

4,165 homes x $1,897 per home, or $7.9 million.

According to NLIHC, an estimated 1,000 homes were destroyed in the 2018 Woolsey Fire which was located near the boundaries of Los Angeles and Ventura counties. The average assessed value of a home in Ventura County in 2018 receiving the homeowners' exemption was $442,708. The CAR February 2023 median home price in the county is $805,000. Therefore, where the transfer was granted, the estimated assessed value difference per home is $362,292 ($805,000 - $442,708), or $3,623 per home, in cases where property owners with damaged or destroyed property would purchase a replacement property instead of rebuilding on the existing property. In cases where property owners elect to reconstruct improvements on the existing lot, the average assessed value per home could be reduced by as much as one-third, as the land portion of the property is not reassessed. In these cases, the estimated assessed value difference is $242,736 ($362,292 x 0.67), or $2,427 per home. We do not know how many property owners will choose to purchase a replacement property and how many will rebuild on the existing site.

If all 1,000 homes were reconstructed homes, revenue loss is estimated as:

1,000 homes x $2,427 per home, or $2.4 million.

However, if all 1,000 homes were replacement homes, revenue loss is estimated as:

1,000 homes x $3,623 per home, or $3.6 million.

Assembly Bill (AB) 1500 would reduce annual property tax revenues by an estimated $7.7 million to $11.5 million, in adding the potential revenue losses for the 2018 Camp Fire and the 2018 Woolsey Fire.

Qualifying Remarks: The above analysis assumes that all homeowners affected would seek an additional three years of relief.

Staff does not know if every fire victim who had a home damaged or destroyed will elect to rebuild on their property or purchase a replacement property.

AB 556 is a similar bill. If passed, it may reduce the revenue impact of this bill, as some property owners may elect to buy replacement property instead of rebuilding improvements on an existing property.

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.