PARADIGM TAX GROUP, LLC
6320 Canoga Avenue
Suite 1430
Woodland Hills, CA 91367

818.436.5744 Phone
818.436.5728 Fax
www.paradigmtax.com

January 30, 2015

Ms. Patricia Lumsden
State Board of Equalization
Property and Special Taxes Department
PO Box 942879
Sacramento, CA 94279-0064

Dear Ms. Lumsden:

This letter is in response to your letter, dated 12/29/2014, for Welfare Exemption Low-Income Housing Property Partial Exemptions. We believe there is a 4th example that should be considered for the amendment to R&T code section 214(g).

We respectfully request that same methodology used for single parcel properties with existing exemptions be considered in the case of subsequent parcel segregation as follows:

Example – Subsequent Parcel Segregation

Before Segregation – One Parcel

Subject property is a five-story, low-income residential housing project located on a 2.0 acre parcel. The total square footage of the building is 50,000 square feet. There are common area spaces, walkways, laundry facilities, a manager's unit, and parking. The property is entirely dedicated to residential housing. The building includes a total of 50 residential units, with 40 units designated for lower-income households. The current market value of the property is $10 million.

40 LIH units / 50 total units = 80 percent

$10 million X 80 percent = $8 million

Therefore, $8 million of the total property value consists of low-income housing and related facilities, which are exempt from taxation, while the remaining $2 million is taxable.

After Segregation – 40 LIH Units Subsequently Segregated to Separate Parcel(s)

Subject property is a five-story, low-income residential housing project originally located on a single 2.0 acre parcel and had the exemption shown above. The total square footage of the building is 50,000 square feet. There are common area spaces, walkways, laundry facilities, a manager's unit, and parking. The property is entirely dedicated to residential housing. The building includes a total of 50 residential units, with 40 units designated for lower-income households that were subsequently segregated to separate parcel(s). The current market value of the property is $10 million.

40 LIH units of 50 total units segregated to separate parcel(s)

40 LIH units / 50 total units – 80 percent LIH units segregated to separate parcel(s)

$10 million X 80 percent = $8 million

Therefore, $8 million of the total property value consists of low-income housing and related facilities segregated to separate parcel(s) which are exempt from taxation, while the remaining $2 million is taxable.

We appreciate your consideration on the matter. Please contact Le Anne Thomas at Paradigm Tax Group Los Angeles if you have any questions.

Sincerely,

Le Anne Thomas, CCIM, MSRE
Managing Consultant, Paradigm Tax Group
818-436-5729
lthomas@paradigmtax.com

STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
PROPERTY AND SPECIAL TAXES DEPARTMENT
450 N STREET, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0064
1-916-274-3350 • FAX 1-916-285-0134
www.boe.ca.gov

December 29, 2014

No. 2014/070

TO COUNTY ASSESSORS AND INTERESTED PARTIES:

WELFARE EXEMPTION LOW-INCOME HOUSING PROPERTY PARTIAL EXEMPTIONS

Senate Bill 1203 (Stats. 2014, ch. 693), effective January 1, 2015, amends portions of Revenue and Taxation Code section 214(g).[1] The amendments allow for a partial exemption on property and related facilities when the rental housing does not exclusively serve lower income households.

Government Code section 15606(e) and section 169 require that the Board issue to county assessors information to promote uniformity in appraisal and assessment practices throughout the state. Consistent with this requirement, Board staff has initiated a project to develop guidelines to assist county assessors' staff in applying the welfare exemption to low-income housing property when the rental housing does not exclusively serve lower income households.

Enclosed is a draft of the proposed Letter To Assessors (LTA) that briefly describes the amendments, provides procedures to use when applying the welfare exemption to a low-income housing property, and provides multiple examples to illustrate the partial exemption calculation. Interested parties are encouraged to participate in the project by providing any suggested revisions to the LTA in the form of alternate text. Suggested revisions or comments should be submitted by January 20, 2015 to Ms. Patricia Lumsden at patricia.lumsden@boe.ca.gov or mailed to the above address.

After reviewing responses received from interested parties, it is anticipated that the project will proceed as follows:

- Staff will post on the Board's website a matrix summarizing proposed changes.
- Staff will meet with interested parties on February 4, 2015, to discuss proposed changes to the LTA.
- It is anticipated that the LTA will be scheduled for discussion before the Property Tax Committee at the Board's March 25-26 meeting in Sacramento.

[1] All statutory references are to the Revenue and Taxation Code, unless otherwise provided.

All documents regarding this project will be posted to the Board's website at www.boe.ca.gov/proptaxes/otherprojects15.htm. If you have questions regarding this project, you may contact Ms. Lumsden at 1-916-274-3383 or Ms. Diane Yasui at 1-916-274-3424.

Sincerely,

/s/ Benjamin Tang for

Dean R. Kinnee
Acting Deputy Director
Property Tax Department

DRK:dy
Enclosure

WELFARE EXEMPTION - LOW-INCOME HOUSING PROPERTY PARTIAL EXEMPTIONS

On September 27, 2014, the Governor signed Senate Bill 1203 (Stats. 2014, ch. 693), which relates to a property tax exemption for low-income rental housing projects. Included in the bill are amendments to portions of Revenue and Taxation Code section 214(g),[1] which allow for a partial exemption on property and related facilities when the rental housing does not exclusively serve lower income households. The amendments are effective January 1, 2015.

Section 214(g) provides for partial exemption for property used exclusively for rental housing and related facilities that are owned and operated by qualifying organizations. The amendments to section 214(g) relate to partial exemption calculation issues by: (1) specifying that the partial exemption calculation use a "number of units" basis (section 214(g)(1)); (2) defining "related facilities" to explicitly include certain items (section 214(g)(3)(B)); and (3) defining "units serving lower income households" to explicitly address units that are vacant when determining the occupancy percentage (section 214(g)(3)(C)).

Section 214(g)(1) is amended to read, in part, as follows:

> Property used exclusively for rental housing and related facilities and owned and operated by religious, hospital, scientific, or charitable funds, foundations, limited liability companies, or corporations, including limited partnerships in which the managing general partner is an eligible nonprofit corporation or eligible limited liability company, meeting the requirements of this section...*shall be entitled to a partial exemption equal to that percentage of the value of the property that is equal to the percentage that the number of units serving lower income households represents of the total number of residential units in any year*... [Emphasis added.]

[1] All statutory references are to the Revenue and Taxation Code, unless otherwise provided.

In addition, section 214(g)(3) is amended to include subparagraphs (B) and (C). Section 214(g)(3)(B) states:

> "Related facilities" means any manager's units and any 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 space.

Section 214(g)(3)(C) states:

> "Units serving lower income households" shall mean units that are occupied by lower 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 conflicts with Section 50053, rents that do not exceed those prescribed by the terms of the financing or financial assistance. Units reserved for lower income households at an affordable rent that are temporarily vacant due to tenant turnover or repairs shall be counted as occupied.

Forms BOE-267-L, *Welfare Exemption Supplemental Affidavit, Housing – Lower Income Households*, and BOE-267-L1, *Welfare Exemption Supplemental Affidavit, Low-Income Housing Property of Limited Partnership*, were updated to reflect these amendments. In addition, the following exempt value calculation procedure should be used when applying the welfare exemption to a low-income housing property:

1. Determine the total value of the property.
2. Determine the value of the rental housing and related facilities by subtracting the value of the nonexempt commercial property, if any, from the total property value.
3. Determine the percentage of residential units eligible for exemption by dividing the number of units serving lower income households by the total number of residential units.
4. Finally, determine the exempt value by multiplying the percentage of residential units eligible for exemption by the value of the rental housing and related facilities.

The following examples illustrate the application of the exempt value calculation procedure:

Example 1 – Low-Income Residential Housing Project

Subject property is a five-story, low-income residential housing project located on a 2.0 acre parcel. The total square footage of the building is 50,000 square feet. There are common area spaces, walkways, laundry facilities, a manager's unit, and parking. The property is entirely dedicated to residential housing. The building includes a total of 50 residential units, with 40 units designated for lower income households. The current market value of the property is $10 million.

40 LIH[2] units / 50 total units = 80 percent

$10 million X 80 percent = $8 million

Therefore, $8 million of the total property value consists of low-income housing and related facilities, which are exempt from taxation, while the remaining $2 million is taxable.

Example 2 – Low-Income Residential Housing Project with Vacant Units

Subject property is a five-story, low-income residential housing project located on a 2.0 acre parcel. The total square footage of the building is 50,000 square feet. There are common area spaces, walkways, laundry facilities, a manager's unit, and parking. The property is entirely dedicated to residential housing. The building includes a total of 50 residential units, with 40 units designated for lower income households. Of those 40 lower income household units, 35 units are occupied and 5 units are vacant, but reserved for low-income residents. The current market value of the property is $10 million.

35 LIH units + 5 vacant LIH units = 40 LIH units

40 LIH units / 50 total units = 80 percent

$10 million X 80 percent = $8 million

[2] Lower Income Household (LIH).

Therefore, $8 million of the total property value consists of low-income housing and related facilities, which are exempt from taxation, while the remaining $2 million is taxable.

Example 3 – Low-Income Residential Housing Project with Commercial Space

Subject property is a five-story, low-income residential housing project located on a 2.0 acre parcel. The total square footage of the building is 50,000 square feet. There are common area spaces, walkways, laundry facilities, a manager's unit, and parking. The property is a mixed use of residential housing and commercial space. The building includes a total of 50 residential units, with 40 units designated for lower income households, and 10,000 square feet of commercial space. Of those 40 lower income household units, 35 units are occupied and 5 units are vacant, but reserved for low-income residents. The current market value of the property is $11 million.

Current market value of total property	$11,000,000
Market value of nonexempt commercial property	(2,000,000)
Residential property	9,000,000
Low-income housing (80%)[3]	(7,200,000)
Nonexempt residential housing	$1,800,000

Current market value of total property	$11,000,000
Exempt low-income housing	(7,200,000)
Total taxable property	$3,800,000

In valuing the nonexempt commercial portion of the property, care must be taken to ensure that the value includes all components of the property that contribute to the commercial use, including land and any common property, such as parking and walkways. The income approach to value may already include these components in the income to be capitalized; the comparative sales approach to value may already include these components in the unit of comparison. However, when using the cost approach to value, these components may have to be explicitly added to capture the full value of the property used for nonexempt commercial use.

[3] See Example 2 for calculation of the percentage of residential units eligible for exemption (35 LIH units + 5 vacant LIH units = 40 LIH units / 50 total units = 80 percent).

Example 4 – Low-Income Residential Housing Project with Commercial Space and Vacant Excess Land

Subject property is a five-story, low-income residential housing project located on a 4.0 acre parcel. Of those 4.0 acres, only 2 acres are being utilized. The total square footage of the building is 50,000 square feet. There are common area spaces, walkways, laundry facilities, a manager's unit, and parking. The property is a mixed use of residential housing, commercial space, and 2.0 acres of vacant excess land. The building includes a total of 50 residential units, with 40 units designated for lower income households, and 10,000 square feet of commercial space. Of those 40 lower income household units, 35 units are occupied and 5 units are vacant, but reserved for low-income residents. The current market value of the property is $11.5 million.

Current market value to total property	$11,500,000
Market value of nonexempt vacant excess land	(500,000)
Market value of nonexempt commercial property	(2,000,000)
Residential property	9,000,000
Low-income housing (80%)[4]	(7,200,000)
Nonexempt residential housing	$1,800,000

Current market value of total property	$11,500,000
Exempt low-income housing	(7,200,000)
Total taxable property	$4,300,000

In this example, the nonexempt portion of the property includes excess land, which must be removed prior to determining that portion eligible for the low-income housing exemption. Excess land is that which is not needed to support the existing improvements and, as such, would not qualify as rental housing and related facilities.[5]

[4] See Example 2 for calculation of the percentage of residential units eligible for exemption (35 LIH units + 5 vacant LIH units = 40 LIH units / 50 total units = 80 percent).

[5] Generally, unused vacant property does not qualify for the welfare exemption. However, section 214.15, provides that vacant land owned by qualifying nonprofit organizations, whose primary purpose is to build and rehabilitate single- or multi-family residences for sale at cost to low-income families with zero interest rate loan financing, may qualify for exemption.