



To: Members of the RCRC Board of Directors
From: Paul A. Smith, Senior Vice President Governmental Affairs
Date: August 4, 2020
Re: Proposition 19/ACA 11 - The Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disasters Act – **ACTION**

Summary

This memo provides an analysis of Proposition 19 – The Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disasters Act. Proposition 19 will appear on the November 2020 General Election ballot for consideration. RCRC staff is recommending the RCRC Board of Directors adopt an “Oppose” position on this measure.

Background

Under Proposition 13, the value of a real property for tax purposes is reassessed to market level whenever a change in ownership takes place which usually results in higher property taxes for the buyer. Proposition 60 was enacted in 1986 to allow qualified seniors to keep their property tax base assessment when they move within the same county. In 1988, California voters approved Proposition 90, which allows a residential property owner over the age of 55 to move from one county to another without undergoing a change in their base property tax provided the replacement dwelling is of equal or lesser value than the departing home. These provisions were extended to severely and permanently disabled persons by Proposition 110 in 1990. A homeowner can transfer their assessed value only once in their lifetime. Proposition 90 provides each county Board of Supervisors the option of participating and accepting another county’s tax base for a particular real property owner. If the county that the property owner is moving from does not have a Proposition 90 ordinance, this does not affect the eligibility of the owner.

Currently, El Dorado and Tuolumne Counties allow intercounty transfers pursuant to resolutions adopted by the Boards of Supervisors in those counties. Two RCRC member counties (Inyo and Modoc) had previously adopted ordinances to implement Proposition 90, but later repealed these ordinances.

In the past several years, the Legislature has considered several measures to alter/expand Proposition 60, Proposition 90, and Proposition 110. RCRC opposed these measures on the basis of revenue loss and/or the elimination of local discretion. Each measure failed in the legislative process.

In November 2018, voters considered Proposition 5 which would have changed the current parameters for base year value transfers. Consistent with the position RCRC has taken with regards to legislative measures, the RCRC Board of Directors adopted an “Oppose” position on Proposition 5. Proposition 5 was rejected statewide with only San Benito County in California supporting the measure; however, El Dorado, Lassen, and Sutter Counties nearly approved Proposition 5 with just under 48 percent support.

In a related effort, the Legislature and voters approved two change in ownership exclusions for base year property tax transfers between parents and children. In 1986, Assembly Constitutional Amendment 2 (Hannigan) was adopted and ultimately became Proposition 58. This measure exempted certain real property from reassessment when there is a change in ownership from parents to children. In 1996, Assembly Constitutional Amendment 17 (Knowles) was approved in the form of Proposition 193 and extended to grandchildren the exemption from reassessment so long as the grandchild’s parent is deceased.

Issue

Proposition 19 has three primary components:

- Liberalizes the ability for homeowners to transfer their base year property tax.
- Imposes reassessment of real properties transferred between a parent and a child/grandchild when the transferred property will NOT be the principal residence of the child/grandchild.
- Monies derived from an increase in state tax revenues as a result of increased property transfers are placed into a fund whereby struggling independent local fire protection districts would receive the overwhelming share (monies are also available to certain counties that experience a loss of property tax revenues).

Base Year Property Tax Transfer

Proposition 19 allows a transfer of the property tax base to replace a residence for homeowners over age 55 and/or severely disabled and/or a victim of a natural disaster. Transfers by qualified seniors and disabled persons could occur up to three times, and could occur between counties without the board of supervisors adopting an acceptance policy. Most importantly, a transfer can be allowed when the ‘going-to’ home value exceeds the ‘departing’ home value. An example of how these changes impact homeowners:

A couple has lived in their suburban home for 40 years. The home’s assessed value is \$75,000 (based on the purchase price in 1980) and could be sold in the current market for \$600,000. They are looking at two options:

- Purchasing a home in the mountains located in another county nearly 400 miles away: The couple could buy a home in the mountains for \$700,000. Under Proposition 19, the assessed value of the new home would be \$175,000: \$75,000 (assessed value of their ‘departing’ home) plus \$100,000 (the amount of the ‘going to’ home’s market value, \$700,000, minus the ‘departing’ home’s market value, \$600,000).

- Purchasing a smaller home in the next county over: The couple could buy a smaller home in a neighboring county for \$500,000. Under the measure, the assessed value would be \$75,000 (the assessed value of their prior home).

Property Tax Status Upon Inheritance

As mentioned, current law allows a person to receive real property from their parent/grandparent and enjoy the property tax base of their parent/grandparent. In the case of the parent/grandparent's residence, the benefit covers the full value of the property. In other words, when mom dies, the kid gets her house and no reassessment occurs; however, there is no requirement that the kid move into the house as their own primary residence. For other properties, the benefit only covers the first \$1 million dollars of taxable value of *all other properties combined*. Thus, when mom dies, the kid gets the shopping mall and the apartment complex, and now faces a limited reassessment whereby the first \$1 million of aggregate taxable value of both properties is exempt, but values exceeding \$1 million are reassessed at market value.

Under Proposition 19, reassessment of homes will automatically be brought to market value unless the home remains the principle residence for the child/grandchild, and even then, the benefit would only cover the first \$1 million of increased value. More importantly, Proposition 19 eliminates the benefit for properties other than the primary residence – with one major exception. The measure allows that ‘family farms’ can be passed down to a child/grandchild, but for reassessment purposes, the first \$1 million of increased value for each separate farm property is exempt (as opposed \$1 million total for all transferred farm properties under current law). This may result in a significant loss of potential property tax revenue in agricultural producing counties.

State Monies for Fire Districts

There is a belief that enactment of Proposition 19 will result in an increase in state tax revenues. It should be noted that property taxes receipts are constitutionally prohibited from being forwarded to the state and must remain local. However, an increase in property tax receipts caused by Proposition 19 will likely benefit local school districts, primarily, and counties, cities and special districts secondarily. Therefore, the state can retain a larger share of state revenues due to lower Proposition 98 (the minimum state funding guarantee to K-14 schools) commitments due to increased local property taxes. Therefore, it is unclear how much state revenues would increase as a result of Proposition 19.

Nevertheless, Proposition 19 specifies that the majority of any increase in state revenues would be placed into special revenue funds, and the measure specifies how those monies would be disseminated. The overwhelming share of monies – 75 percent - would be awarded to local fire protection districts through a grant process. 15 percent would be provided to counties that experience revenue loss due to having greater “inbound” intercounty base year value transfers than “outbound” transfers. (This funding would not cover other types of revenue losses, such as those resulting from the increased number of in-county transfers, or the expanded provisions for transfers of “family farms.”) The remaining 10 percent would be dedicated to the state General Fund.

ACA 11/Proposition 19 is a legislative compromise between the California Association of Realtors (CAR) and the California Professional Firefighters in an effort to remove a similar

effort that was put forth solely by CAR (many expected the sole CAR measure to face significant opposition from the business community due to another property tax component that does not exist in Proposition 19). With Proposition 19 now appearing on the ballot, CAR is no longer pursuing their initiative.

Staff Recommendation

Similar to the position from Proposition 5 in 2018, RCRC staff recommends the RCRC Board of Directors adopt an “Oppose” position on Proposition 19 - The Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disasters Act.

There are a myriad of reasons for the staff recommendation:

- Mandates the acceptance of base property tax values from another county, thereby eliminating the Board of Supervisor’s discretion
- Would create winners and losers between large/high-cost counties and non-coastal/rural areas. In essence, homeowners on the coast will be selling their high-value homes where a low tax base occurs, and transferring that low tax base to rural areas without any corresponding revenue gain from inherited property reassessments
- Restructuring the family farm exemption is very problematic. While this might be a ‘win’ for agricultural property owners, it would result in a significant and direct loss of revenue to ag-producing counties.
- Unlikely to see a significant increase in the amount of state revenues, and counties/rural counties would see very little from what gains materialize.

Attachment

- Copy of Assembly Constitutional Amendment 11 (Mullin)