To: RCRC Board of Directors

From: Paul A. Smith, Vice President Governmental Affairs

Date: June 12, 2018

Re: People's Initiative to Protect Proposition 13 Savings Act – **ACTION**

Summary

This memo provides an analysis of the "People's Initiative to Protect Proposition 13 Savings Act," which is slated for the November 2018 General Election ballot. RCRC staff is recommending the RCRC Board of Directors adopt an "Oppose" position for this measure.

Background

Under Proposition 13, the value of a home for property tax purposes is reassessed to market level whenever a change in ownership takes place. This reassessment usually results in higher property taxes for the homebuyer. 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. 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, two RCRC member counties (El Dorado and Tuolumne) 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 Two RCRC member counties (Inyo and Modoc) had previously adopted ordinances to implement Proposition 90, but later repealed these ordinances. A homeowner can transfer their assessed value only once in their lifetime.

In the past several years, the legislature has considered several measures to dramatically alter both Proposition 60 and Proposition 90, including:

- Senate Bill 378 (Beall) & Senate Constitutional Amendment 9 (Beall) – 2015, would have allowed base year value transfers to properties of greater value than the current home.

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- Assembly Bill 2668 (Mullin) & Assembly Constitutional Amendment 12 (Mullin) – 2016, would have allowed base year value transfers to properties of equal or greater value for seniors and those with a disability.

- Assembly Bill 1322 (Bocanegra) & Assembly Constitutional Amendment 7 (Bocanegra) – 2017, would authorize intercounty base year values, regardless of whether the local board of supervisors has adopted an ordinance to deny or permit such transfers.

RCRC opposed each of these measures on the basis of revenue loss and/or the elimination of local discretion. Each measure failed in the legislative process.

Issue

The California Association of Realtors (CAR) is the lead proponent of the "People's Initiative to Protect Proposition 13 Savings Act," which changes the current parameters for base year value transfers by expanding the program in several ways.

Current Law	**CAR Initiative**
Elderly and/or Severely Disabled Persons	
Elderly (55+) and/or severely disabled persons may transfer their property tax "base year value" of their home to a replacement home once in a lifetime.	Allows elderly (55+) and/or severely disabled persons to transfer "base year value" of their home an unlimited number of times.
Boards of Supervisors may elect to accept "base year values" transferred from other counties by elderly and/or severely disabled homeowners.	Counties are required to accept "base year values" transferred from other counties by elderly and/or severely disabled homeowners.
To be eligible for "base year value" transfer, the elderly and/or severely disabled person's replacement home must be of equal or lesser market value.	Allows elderly and/or severely disabled homeowners to transfer their "base year value" regardless of the value of the replacement dwelling.
If the elderly and/or severely disabled person's replacement dwelling has a *lower* (or equal) market value than their current home, their current "base year value" is transferred to the new home.	If the elderly and/or severely disabled person's replacement dwelling has a *lower* market value than their current home, their "base year value" will be reduced (based upon a formula reflecting the difference in market value).
If the elderly and/or severely disabled person's replacement dwelling has a *higher* market value than their current home, their "base year value" will not transfer, and their property taxes will be based on the value of the new home.	If the elderly and/or severely disabled person's replacement dwelling has a *higher* market value than their current home, their "base year value" will transfer, with an upward adjustment (based upon a formula reflecting the difference in market value).

If former co-owners (who are both either elderly or disabled) purchase separate replacement homes, they must mutually agree which one will take the "base year value" transfer property tax benefit.	Allows former co-owners (who are both either elderly or disabled) who purchase separate replacement homes to transfer the base year value to each new home in proportion to their respective ownership interests in the original property.
Property Damaged or Destroyed by a Disaster	
Boards of Supervisors may elect to accept "base year values" transferred from other counties by persons whose former property was substantially damaged or destroyed by a declared disaster.	Counties are required to accept "base year values" transferred from other counties by persons whose former property was substantially damaged or destroyed by a declared disaster.
To be eligible for "base year value" transfer, the replacement property must be "comparable" to the damaged or destroyed property.	Allows "base year value" transfer regardless whether the replacement property is "comparable" to the damaged or destroyed property.
If the market value of the replacement property is *lower* than (or up to 120% of) the market value of the damaged or destroyed property, the current "base year value" is transferred is transferred to the new property.	If the market value of the replacement property is *lower* than the market value of the damaged or destroyed property, the "base year value" will be reduced (based upon a formula reflecting the difference in market value).
Contaminated Property	
Boards of Supervisors may elect to accept "base year values" transferred from other counties by persons whose former property was contaminated (as defined).	Counties are required to accept "base year values" transferred from other counties by persons whose former property was contaminated.
To be eligible for "base year value" transfer, the market value of the replacement property must be equal or less than the value that the contaminated property would have if uncontaminated.	Allows "base year value" transfer regardless of the value of the replacement property.
If the replacement property has a *lower* (or equal) market value than the contaminated property, the current "base year value" is transferred to the new property.	If the replacement property has a *lower* market value than the contaminated property, the "base year value" will be reduced (based upon a formula reflecting the difference in market value).
If the replacement property has a *higher* market value than the contaminated property would have if uncontaminated, the "base year value" will not transfer, and property taxes will be based on the value of the new property.	If the replacement property has a *higher* market value than the contaminated property, the "base year value" will transfer, with an upward adjustment (based upon a formula reflecting the difference in market value).

An example of how these changes impact homeowners:

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:

- Purchasing a home in the mountains: The couple could buy a home in the mountains for $700,000. Under the measure, the assessed value of the home would be $175,000: $75,000 (assessed value of their prior home) plus $100,000. The $100,000 amount is a calculation of the new home's market value, $700,000, minus the prior 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 $62,000: $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]).

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 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.

Staff Recommendation

RCRC staff recommends the Board of Directors adopt an "Oppose" position on the People's Initiative to Protect Proposition 13 Savings Act. This measure mandates the acceptance of base property taxes from another county, thereby eliminating the local option component of Proposition 90. Without question, this measure would lower the amount of property tax revenues to California counties and other local jurisdictions without any corresponding revenue source or relief/elimination of any current county responsibilities.

Attachment

- Copy of People's Initiative to Protect Proposition 13 Savings Act