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## SENATE COMMITTEE ON APPROPRIATIONS

Senator Anthony Portantino, Chair  
2019 - 2020 Regular Session

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### **SB 364 (Stone) - Property taxation: senior and disabled veterans**

**Version:** February 20, 2019

**Urgency:** No

**Hearing Date:** May 6, 2019

**Policy Vote:** GOV. & F. 7 - 0, V.A. 7 - 0

**Mandate:** Yes

**Consultant:** Robert Ingenito

**Bill Summary:** SB 364 would (1) eliminate the inflation adjustment for the principal place of residence of income-eligible veteran taxpayers over the age of 65, and (2) expand to a full exemption the current partial disabled veterans' property tax exemption.

**Fiscal Impact:** The Board of Equalization (BOE) estimates that the bill's two proposed changes to property tax law would result in annual revenue losses of \$126 million. Reductions in local property tax revenues, in turn, increase General Fund Proposition 98 spending by up to roughly 50 percent (the exact amount depends on the specific amount of the annual Proposition 98 guarantee, which in turn depends upon a variety of economic, demographic and budgetary factors). Additionally, the bill could result in unknown, but likely minor, costs to reimburse local governments related to changes in property tax administration. Costs to BOE would be minor and absorbable.

**Background:** The California Constitution provides that all property is taxable unless explicitly exempted by either the Constitution or federal law. The Constitution (1) limits the maximum amount of any ad valorem tax on real property at one percent of full cash value, plus any locally-authorized bonded indebtedness, and (2) provides that assessors can only reappraise property whenever it is purchased, newly constructed, or when ownership changes (Proposition 13, 1978). Proposition 13 also limit the inflationary growth of real property value to two percent per year.

Thus, when real property is purchased, the county assessor assigns it an assessed value that is equal to its purchase price (known as its "acquisition value"). Each year thereafter, the property's assessed value increases by either two percent or the rate of inflation (as measured by the California Consumer Price Index), whichever is lower. This process continues until the property is sold, at which point the county assessor again assigns it an assessed value equal to its most recent purchase price. In other words, a property's assessed value resets to market value (what a willing buyer would pay for it) when it is sold. In most years, under this assessment practice, a property's market value is greater than its assessed value. This occurs because assessed values increase by a maximum of two percent per year, whereas market values tend to increase more rapidly. Therefore, as long as a property does not change ownership, its assessed value increases predictably from one year to the next and is unaffected by higher annual increases in market value.

For example, a home purchased in 2014 for \$300,000, has a maximum taxable base year value of \$306,000 in 2015, \$312,200 in 2016, \$318,440 in 2017, \$325,808 in 2018, and \$337,324 in 2019. This base year value is then multiplied by the appropriate rate (usually one percent, but can be slightly more) to determine tax due.

Reassessment limits and capped inflation growth ensure a predictable, slowly growing tax obligation for the taxpayer, and predictable revenue for local agencies; however, these provisions may also result in a taxable base year value below the property's fair market value, which grows in magnitude the longer the assessor has not reassessed the property. In most cases, this system results in shifting the cost of public services from incumbent homeowners onto individuals who recently purchased property.

The Constitution permits the Legislature to partially or wholly exempt from property tax the value of a disabled veteran's principal place of residence (known as the disabled veterans exemption) if the veteran has lost one or more limbs, is totally blind, or is totally disabled as a result of a service-connected injury. The Constitution provides that disabled veteran taxpayers, or unmarried surviving spouses of persons who die while on active duty, must apply for the exemption instead of, but not in combination with, other real property exemptions. BOE indicates that the number of taxpayers claiming the disabled veterans' exemption has increased by 475 percent between 1990 and 2015. Unlike the homeowners' property tax exemption, the State does not backfill local property tax revenue losses resulting from taxpayers applying the disabled veterans' exemption.

State law implementing the exemption doesn't fully exclude property value; instead, it permits a partial exemption of \$100,000 for disabled veteran taxpayers with household income of more than \$40,000, or \$150,000 for income lower than that amount, with each threshold adjusted for inflation (as measured by the California Consumer Price Index). The current inflation adjusted value is \$139,437 for disabled veterans with income of more than \$62,614, and \$209,156 for those with less than that amount.

**Proposed Law:** This bill would make two changes to property tax law:

- The bill would eliminate annual inflation factor-related assessed value increases on homes owned by income-qualifying veterans 65 years and older, as specified. To be eligible, a veteran homeowner must meet specified criteria.
- The bill would fully exempt from property tax the principal place of residence of any person eligible for the disabled veterans' exemption, commencing with lien date for the 2019-20 fiscal year.

**Related Legislation:** SB 404 (Stone, 2017) and SB 1104 (Stone, 2016) were both substantially similar to this bill. Both were held under submission on the Suspense File of this Committee.

**Staff Comments:** BOE indicates that the bill would result in annual property tax revenue losses of \$131 million. Of this amount, the disabled veterans' exemption accounts for \$104 million, while the other \$27 million is related to the assessment freeze.

To develop the revenue estimate for the disabled veterans' exemption, BOE used 2018-19 data (the most recent period for which all necessary information is available). Specifically, BOE staff estimated the number of disabled veteran-owned homes currently receiving the exemption to be 48,829: 44,292 at the basic level and 4,537 at the lower income level. Based on a survey of several counties, BOE estimates that this

bill would not impact 21 percent of homes receiving the basic exemption (9,301 homes), or 24 percent of homes receiving the lower income exemption (1,089 homes). These homes are already fully exempt because they have an assessed value below the requisite levels in existing law. Thus, BOE estimates that the bill would exempt 38,439 additional homes: 34,991 currently receiving the basic exemption, and 2,448 homes receiving the lower income exemption.

Using the average 2018-19 assessed value of \$412,000, and the basic one percent property tax rate, BOE calculates that the bill would result in an annual property tax reduction of \$104 million.

BOE's revenue loss estimate for the proposed assessment freeze is based on an assessment that qualifying veterans own 15 percent of owner-occupied homes for those aged 65 and older, a total of 330,000 homes. BOE assumes that 80 percent, or 264,000, of veteran-owned homes would qualify for the expansion under the bill. Again using the average 2018-19 assessed value of \$412,000. BOE calculates that avoiding the two percent increase would reduce the property tax liability of each qualifying homeowner by \$82.40. The total revenue loss for the assumed number of qualifying homes would be \$22 million.

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