Date of Hearing: June 17, 2019

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION
Autumn R. Burke, Chairwoman

SB 364 (Stone) – As Amended May 17, 2019

FOR TESTIMONY ONLY

Majority vote. Tax levy. Fiscal committee.

SENATE VOTE: 38-0

SUBJECT: Property taxation: senior veterans

SUMMARY: Eliminates the annual maximum 2% inflation adjustment applied to the assessed value of a home owned by a veteran who is age 65 or older and whose income does not exceed $50,000, if single, or $100,000, if married. Specifically, **this bill**:

1) Prohibits, for any assessment year commencing on or after January 1, 2020, the percentage increase by an inflation factor, as specified, from being applied to the base year value of a "qualified veteran's" principal place of residence (including a manufactured home) and so much of the land surrounding it as is reasonable necessary for the use of the dwelling if the following conditions apply:

   a) The "qualified veteran" is 65 years of age or older on the lien date (January 1); and,

   b) The "qualified veteran" was honorably discharged from military service.

2) Defines a "qualified veteran" as a person who meets the following criteria:

   a) The person meets the criteria for the "Veterans' Exemption" specified in the California Constitution[1] excluding the limit on the value of property the veteran or the veteran's spouse may own of $5,000, if single, or $10,000, if married; and,

   b) The person's annual income, as defined in Revenue and Taxation Code (R&TC) Section 20503, if single, is $50,000 or less; or if married, the person's household combined annual income, as defined in R&TC Section 20504, is $100,000 or less.[2]

3) Requires the veteran to file an affidavit provided by the assessor to claim this benefit and provide all necessary information and answer all questions to determine whether the claimant is a "qualified veteran."

---

[1] Article XIII, Section 3(o). The Veterans' Exemption, in the amount of $4,000 in assessed value, is different from the "Disabled Veterans' Exemption". The Veterans' Exemption is effectively obsolete because of this low asset threshold and the availability of the greater $7,000 in assessed value Homeowners' Exemption. In FY 2018-19, only one veteran qualified in the State.

[2] These income definitions are used for purposes of the State Controller administered Property Tax Postponement Program and the suspended Franchise Tax Board administered Homeowner' and Renters Assistance Program.

4) Allows the assessor to require additional information from the claimant to verify the affidavit before granting the claimant the benefit.

5) Provides that, notwithstanding existing law, no appropriation is made by this act and no reimbursement is required to any local agency for any property tax revenues lost.

6) Imposes a state-mandated local program, for which reimbursement to local agencies and school districts are required if the Commission on State Mandates makes the necessary determinations, as specified.

7) Takes immediate effect as a tax levy.

EXISTING LAW:

1) Specifies that all property is taxable unless otherwise provided by the California Constitution or federal law.[3]

2) Limits, as a general rule, the maximum amount of any *ad valorem* tax on real property to 1% of the property's "full cash value".[4]

3) Defines the term "full cash value" as the county assessor's valuation of real property as shown on the 1975-76 tax bill or, thereafter, the appraised value of real property when purchased or newly constructed, or when a change in ownership occurs.[5] In addition, the "full cash value base" may reflect from year to year an inflationary rate not to exceed 2% for any given year.[6]

4) Specifies that the inflation factor shall be the percentage change, rounded to the nearest one-thousandth of 1%, from October of the prior fiscal year to October of the current fiscal year in the California Consumer Price Index for all items, as determined by the California Department of Industrial Relations.[7]

5) Provides that the taxable value (assessed value) of real property is the lesser of its "base year value" compounded annually by the inflation factor not to exceed 2%, as provided, or its "full cash value" (current market value).[8]

6) Defines a "veteran" as a person:

   a) Who is serving in the U.S. Army, Navy, Air Force, Marines, Coast Guard, or Revenue Marine Service, or served in one of the listed services and was discharged under honorable conditions;

---

[3] California Constitution Article XIII, Section 1.
[4] California Constitution Article XIII A, Section 1(a).
[5] California Constitution Article XIII A, Section 2(a) and R&TC Section 110.1
[6] California Constitution Article XIII A, Section 2(b).
[7] R&TC Section 51(a)(1)(C). This is the current calculation. Section 51(a)(1)(A) and (B) for prior assessment years are slightly different.
[8] R&TC Section 51(a).

b) Served either in time of war[9] or in time of peace in a campaign or expedition for which a medal has been issued by Congress or in time of peace and because of a service-connected disability was released from active duty; and,

c) Resides in the State on the current lien date.[10]

7) Establishes the Senior Citizens and Disabled Citizens Postponement Law and the Senior Citizens Mobilehome Postponement Law. This allows the State Controller to pay property taxes to county tax collectors on behalf of individual homeowners over the age of 62 making less than $35,500 who apply for this loan program.[11]

8) Provides a Disabled Veterans' Exemption that reduces the assesssed value of a qualifying veteran's home in the inflation-adjusted amount of $139,437 or $209,156 if their income is less than the inflation-adjusted amount of $60,563.

9) Requires the Legislature to reimburse local agencies annually for certain property tax revenues lost as a result of any exemption or classification of property for purpuses of *ad valorem* property taxation.[12]

FISCAL EFFECT: The State Board of Equalization (BOE) estimates annual revenue losses of $27.2 million.

COMMENTS:

1) The author has provided the following statement in support of this bill:

> An issue that is currently plaguing California is the issue of veterans who are homeless. Veterans have sacrificed much for their county, and in return, local, state, and federal governments need to do everything in their power to help them succeed. According to the National Coalition for Homeless Veterans, homeless veterans are younger on average than the total veteran population. Approximately 9% are between the ages of 18 and 30, and 41% are between the ages of 31 and 50. On top of that, about 1.4 million other veterans are at risk of homelessness. There is no single solution that will solve this crisis. Reasons for the large number of homeless veterans are complex and numerous. Two of the biggest factors are the extreme shortage of affordable housing and livable income. SB 364 attempts to address the affordable housing issue for veterans by capping the property taxes on any primary residence of an honorably discharged veteran over the age of 65. Making this change will go a long way to help veterans stay in their homes by making their living situation more affordable.

2) The Veteran organizations in support of this bill state:

> SB 364 is a small attempt to help all veterans, who have sacrificed the most, receive much needed tax relief from the state in order to stay in their homes. [T]his bill would

---

[9] This includes all persons who have served since August 2, 1990 to present because a Presidential Proclamation related to the Gulf War has yet to be issued.
[10] California Constitution Article XIII, Section 3(o); R&TC Section 205.5.
[11] R&TC Sections 20581 – 20646.
[12] R&TC Section 2229.

cap property taxes on any primary residence of an honorably discharged veteran over the age of 65 within certain income parameters.

3) The California Assessors' Association (CAA) and the assessors of Los Angeles and Santa Clara County are in opposition to this bill on the basis of practical administrative difficulties including the cost and resources counties would incur to implement this bill's provisions. County assessors stress that their opposition is not related to providing senior veterans with property tax relief but that this particular approach to use the inflation factor is not a cost-effective way. The following areas of concern are noted:

   a) *Technology challenges and costs*: Counties do not have the necessary systems in place to implement this bill's requirements in the provided timeline, as it is effective immediately. 31 counties use the same the same computer system and the remaining 27 use individualized systems. These systems will need to be changed, at significant cost, and, in the short term, complicated technological workarounds would be necessary.

   b) *Ongoing administration costs*: Based on their experience with the disabled veterans' exemption, administering this bill will be labor intensive. The income threshold requires regular contact and review of personal data that property owners are not always eager to share. Additionally, veteran-owned property will need to be tracked and monitored differently than all other real property and when no longer veteran-owned or no longer-income qualified returned to the regular system.

   c) *Implementation uncertainties*: It is unclear how to address years with negative inflation factors or how to address properties with shared ownership.

4) Committee Staff Comments:

   a) *California's property tax system*: Proposition 13 (1978) replaced California's market value-based system of property taxation with an acquisition value-based system. This change was designed to provide property owners with greater predictability regarding future property taxes. Specifically, Proposition 13 rolled back the assessed values of real property to 1975 market value levels and limited future assessed value increases to the inflation rate, not to exceed 2%, for as long as a property's ownership remains unchanged and the property is not substantially improved (i.e., through new construction). Thus, even if a property appreciates considerably in value over time, the 2% maximum inflation adjustment ensures only limited increases in the property's assessed value. In this manner, California's property tax system result in substantial property tax savings for long-term property owners.

   This system ensures a predictable, slowly increasing tax obligation for the taxpayer, as well as predictable revenues for local agencies. At the same time, however, these provisions may also result in an assessed value for a property well below the property's actual market value. Critics, in turn, contend that this system shifts the cost of public services from longstanding property owners to those who have only recently purchased property.

   b) *Base year values*: A property's "base year value" refers to the real property's protected value under Proposition 13. The base year value is compounded annually since the base year (1975 or the year of acquisition) by an inflation factor not to exceed 2%. The property's inflation-adjusted value, in turn, is called the "adjusted" or "factored" base year value. Generally, the law requires a property's assessed value to be the lower of its base year value as adjusted by the inflation factor or its current market value, whichever is lower.

c) *What does this bill do*? This bill is designed to provide additional property tax relief to age-qualified (65 years of age or more) and income-qualified (less than $50,000 if single, less than $100,000 if married) homeowners who have served in the military and who were honorably discharged from military service. The relief is provided by eliminating the maximum 2% annual inflation adjustment to the base year value of a qualified veteran's principal place of residence. For any assessment year beginning on or after January 1, 2020, this serves to essentially freeze the current assessed value (absent subsequent new construction) of a qualified veteran's home who is age 65 or older on January 1, 2020, and for all other qualified veterans when they reach the age of 65 years.

d) *How much is the tax savings*? For FY 2018-19, the statewide average assessed value of homes receiving the homeowners' exemption is $412,000. If the 2% inflation factor is not applied, then at the basic 1% property tax rate, the property tax savings on a home is about $82 in the first year. However, the savings would grow over time due to the nature of inflation factor compounding. Because Proposition 13 results in assessed values that are unique to each homeowner (year of purchase, improvements, location) for some senior veterans the savings will be higher and for others it will be lower. In this regard, this bill is unlike the disabled veterans' exemption, which provides the same amount property tax relief regardless of a home's assessed value. Thus, this bill provides unequal tax relief in that the higher the assessed value, the greater the tax savings. To illustrate these assessed value differences, while the statewide average assessed value is $412,000, in the case of the disabled veterans' exemption, the current assessed value exemption amount of about $140,000 is sufficient to fully exempt 30% of those veteran-owned homes from the *ad valorem* property tax.

e) *Policy considerations and tradeoffs:* The rationale for this bill focuses on the issue of veteran homelessness, the housing affordability crisis, and ensuring those veterans who are homeowners can continue to afford their homes. However, a senior veteran homeowner may be mortgage free and paying non-market based property taxes. In contrast, a senior veteran renter's monthly rent obligation is unabated and may be at market rate levels. For a senior homeowner in need of property tax assistance, the state's Property Tax Postponement Program allows income-eligible individuals ($35,500) at least 62 years of age to postpone property tax payments on their principal residence. Given limited resources and competing priorities, senior veterans who are homeless, at risk of homelessness, or rent their homes may be in greater need of assistance than senior veteran homeowners. Additionally, since the resulting revenue loss to local governments is not reimbursed, local governments that provide services and assistance to homeless California veterans in their communities will have less funds for those purposes.

f) *Administrative cost considerations:* This Committee may wish to consider whether this expansion of property tax benefits should depend on taxpayers' income, requiring assessors to verify taxpayers' private financial matters unrelated to property value, and whether the use of the inflation factor to provide a property tax benefit is appropriate given the administrative costs assessors have identified. Exemptions applied to homes are generally a one-time administrative procedure. For example, the homeowners' exemption and the regular disabled veterans' exemption require a one-time application to filed with the assessor. The disabled veterans' exemption requires annual claiming for the higher exemption based on an income threshold; however, this represents less than 10% of the nearly 49,000 disabled veterans' exemptions granted statewide.

g) *Prior year compounding of the base year value by the inflation factor ambiguity:* Over the years, the calculation of the inflation factor for purposes of the annual percentage increase has been slightly modified. As a result, the law separately outlines the calculations for three distinct time periods noting the assessment years covered.[13] Committee staff notes that, as currently drafted, this bill states that the percentage increase for *all* three of these periods shall not apply to a qualified veteran's home for any assessment year on or after January 1, 2020. This language raises uncertainty because it could be read in different ways. It might be argued that all *past* inflation adjustments to a base year value must be eliminated. For instance, if read this way, the assessed value of a qualifying veteran who has lived in the same home since 1985 would revert to its initial 1985 base year value without the subsequent 34 years of inflation factor compounding. That is, the home's market value in 1985. While this is not the author's intent, this issue is raised because the application of the inflation factor has been an area that has been previously litigated.[14]

h) *Existing property tax relief provisions for California seniors*: Beyond the protections afforded by Proposition 13, California seniors benefit from additional property tax relief measures. For example, individuals over the age of 55 may "transfer" their base year value from one home to another that is of equal or lesser value and located within the same county or in one of 10 counties that accept transfers from non-county residents. In this manner, the individual is able to avoid a reassessment of the newly purchased home to its current market value. This once-in-a-lifetime benefit allows seniors to pay the same level of taxes if they move by avoiding Proposition 13's reassessment provisions when purchasing a qualifying new home.

i) *Committee's tax expenditure policy*: SB 1335 (Leno), Chapter 845, Statutes of 2014, added R&TC Section 41, which recognized that the Legislature should apply the same level of review used for government spending programs to tax credits introduced on or after January 1, 2015. This year, this Committee adopted a policy requiring that all new tax expenditure proposals, including those enacting an exemption, exclusion, or tax preference such as this bill proposes, comply with the requirements of R&TC Section 41. A tax expenditure proposal must outline specific goals, performance indicators, and data collection provisions for the Legislature to evaluate the effectiveness of the tax expenditure. A tax expenditure bill will not be eligible for a Committee vote unless it has complied with these requirements. This bill does not include currently comply with this policy.

j) *Ten-year sunset provisions*: In addition to the R&TC Section 41 requirements, this Committee's policy also requires that all tax expenditure proposals contain an appropriate sunset provision to be eligible for a vote. According to the policy, this means 10 years in

---

[13] R&TC Section 51(a)(1)(A), (B), and (C).
[14] For example, see *County of Orange v. Renee M. Bezaire* (2004) 117 Cal.App.4th 121.

the case of a tax expenditure providing relief to California veterans. Without a sunset, tax expenditures are created with a majority vote, but require a 2/3rds vote to rescind. This bill does not currently comply with the Committee's policy on sunset dates.

k) *Double referral*: This bill is double referred to the Assembly Committee on Veterans Affairs should this bill pass this Committee.

f) *Previous legislation*:

   i) SB 404 (J. Stone) of the 2017-18 Legislative Session was substantially similar to this bill except that SB 404 would have also provided a full property tax exemption for disabled veterans. SB 404 was held on the Senate Appropriations Committee's Suspense File.

   ii) SB 587 (J. Stone) of the 2015-16 Legislative Session would have eliminated the annual inflation adjustment for the principal place of residence of an income-eligible ($25,000 or less if single; $50,000 or less if married) taxpayer 65 years of age or older. SB 587 was held on the Assembly Appropriations Committee's Suspense File.

   iii) SB 690 (J. Stone) of the 2015-16 Legislative Session was substantially similar to this bill. SB 690 was held on the Assembly Appropriations Committee's Suspense File.

   iv) SB 1104 (J. Stone) of the 2015-16 Legislative Session was substantially similar to this bill, except that SB 1104 would have also provided a full property tax exemption for disabled veterans. SB 1104 was held on the Senate Appropriations Committee's Suspense File.

   v) SB 1126 (J. Stone) of the 2015-16 Legislative Session would have eliminated the annual inflation adjustment for the principal place of residence of an income-eligible ($25,000 or less if single; $50,000 or less if married) taxpayer 65 years of age or older. SB 1126 was held on the Senate Appropriations Committee's Suspense File.

REGISTERED SUPPORT / OPPOSITION:

Support

American G.I. Forum of California
American Legion – Department of California
AMVETS, Department of California
California Association of County Veterans Service Officers
California State Commanders Veterans Council
Military Officers Association of America
National Guard Association of California
Vietnam Veterans of America, California State Council

Opposition

California Assessors' Association
Los Angeles County Assessor
Santa Clara County Assessor

Analysis Prepared by: Rose Marie Kinnee / REV. & TAX. / (916) 319-2098