Date of Hearing: January 20, 2022

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Chris Holden, Chair
AB 1206 (Bennett) – As Amended January 3, 2022

Policy Committee:	Revenue and Taxation	Vote:	9 - 0
	Housing and Community Development		8 - 0

Urgency: No State Mandated Local Program: Yes Reimbursable: Yes

SUMMARY:

This bill, for fiscal year (FY) 2022-23 to FY 2027-28, allows property owned by a rent-restricted community land trust (CLT) to continue benefiting from the property tax welfare exemption if the income of occupants increases up to 140% of area median income (AMI), by requiring a residential unit to continue to be treated as occupied by a lower-income household. This bill states the goal of expanding the tax exemption and requires the Legislative Analyst's Office (LAO), in collaboration with the State Board of Equalization (BOE), to annually review and provide a report on the exemption's effectiveness. Each county assessor must provide data requested by the BOE to complete the review.

FISCAL EFFECT:

1) Annual property tax revenue loss of an unknown amount, but likely in excess of $300,000 (costs of approximately $150,000 General Fund). Although property tax is a local government revenue source, reductions in 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).

   Revenue loss depends on the number of impacted CLTs and occupants, as well as the location and taxable value of qualifying properties, all of which is unknown. However, there are approximately 25 CLTs operating in California and one CLT reported paying approximately $12,000 more in annual property taxes after losing the welfare exemption due to income fluctuations.

1) Minor and absorbable costs to the BOE to update claims forms and informational materials, and collaborate with the LAO on the report.

2) By adding to the duties of county assessors, this bill likely creates a state-mandated local program. To the extent the Commission on State Mandates determines the provisions of this bill create a new program or impose a higher level of service, the county could claim reimbursement for costs.

   This bill would likely complicate administration of the welfare exemption. Verifying income information could present a challenge to assessors, as assessors do not generally receive such information at the unit level for purposes of the welfare exemption. Assessors would need to know which CLT units exceed the higher income limitations under this bill's provisions, and track the eligibility by date for each specific unit and each specific tenant over multiple years.

COMMENTS:

1) **Purpose.** According to the author, CLTs utilize 99-year renewable ground leases to keep housing projects, like the one being built in-district, affordable for both current and future residents. The author states, "[f]uture residents of that land trust should be able to receive the same benefits as residents of housing built using funds from the Low Income Housing Tax Credit [LIHTC]. AB 1206 ensures that housing remains affordable by making sensible exceptions in the tax code."

2) **Welfare Exemption.** The California Constitution authorizes the Legislature to exempt from taxation property used exclusively for religious, hospital or charitable purposes. This "welfare exemption" extends to low-income housing developments operated by non-profit organizations, if financed with tax-exempt bonds, government loans, grants or the LIHTC. The benefit is equal to the percentage of the value of the property that is representative of the percentage of units serving lower income households.

3) **Precedent of Prior Legislation.** AB 1193 (Gloria), Chapter 756, Statutes of 2017, extended the welfare exemption to property financed by the LIHTC when a rent-restricted unit becomes occupied by an over-income tenant who was income-qualified at first occupancy. AB 1193 required such units to continue to be treated as if the tenant was lower income, so long as income does not increase above 140% AMI, thus easing any incentive for a property owner to displace low-income tenants who suddenly find themselves barely over the threshold with tenants who would allow the property owner to maintain the tax benefit. This bill extends the same income-flexibility provisions to rent-restricted CLT properties not financed by the LIHTC. However, this bill does not contain provisions included in AB 1193, requiring the property owner to submit an affidavit certifying unit and occupant information when claiming the exemption, intended to ease administration by county assessors.

Analysis Prepared by: Irene Ho / APPR. / (916) 319-2081