

Date of Hearing: April 24, 2023

ASSEMBLY COMMITTEE ON REVENUE AND TAXATION

Jacqui Irwin, Chair

AB 556 (Gallagher) – As Amended March 29, 2023

SUSPENSE

Majority vote. Fiscal committee.

SUBJECT: Property taxation: transfer of base year value: disaster relief

SUMMARY: Extends by three years the period to transfer the base year value of a property substantially damaged or destroyed by a specified disaster when purchasing or rebuilding a property on a site in the same county. Specifically, **this bill:**

- 1) Extends by three years the period to transfer to a comparable replacement property in the same county the base year value of a "qualified property" substantially damaged or destroyed by a disaster on or after November 1, 2018, but on or before November 20, 2018.
- 2) Specifies that this bill's provisions shall apply to the determination of base year values for the 2018-19 fiscal year, and fiscal years thereafter.
- 3) Defines a "qualified property" as a property that was substantially damaged or destroyed, as defined, by the 2018 Camp Fire disaster, as proclaimed by the Governor.
- 4) Finds and declares that this bill does not constitute a gift of public funds.
- 5) Finds and declares that in light of the unprecedented 2018 Camp Fire disaster, the deadliest and most destructive wildfire in California's history, to ensure that owners of real property that has been substantially damaged or destroyed by this fire are provided the full and fair opportunity to transfer the property tax base year value of that property to a comparable replacement property, an extension of the deadline in Revenue and Taxation Code (R&TC) Section 69 serves a public purpose.
- 6) Provides that if the Commission on State Mandates determines that this bill contains costs mandated by the state that the state shall reimburse local agencies and school districts for those costs.
- 7) Provides that no appropriation is made by this bill and prohibits the state from reimbursing any local agency for property tax revenues lost pursuant to this bill.

EXISTING LAW:

- 1) Provides that all property is taxable unless otherwise provided by the California Constitution or the laws of the United States. (California Constitution, Article XIII, Section 1.)

- 2) Limits the maximum amount of *ad valorem* property taxation to 1% of the full cash value of the property. Generally, the Constitution restricts the full cash value of a property to the assessed value upon a change of ownership in, or new construction on, the property. This is referred to as the base year value, which may be adjusted upwards for inflation at no more than 2% annually. (California Constitution, Article XIII A, Section 1 and 2.)
- 3) Provides, pursuant to a requirement of the California Constitution, that the property tax base year value of real property that is substantially damaged or destroyed by a disaster, as proclaimed by the Governor, may be transferred to a comparable property located within the same county that is acquired or newly constructed within five years of the disaster as a replacement property. (California Constitution, Article XIII A, Section 2 and R&TC Section 69.)
- 4) Requires the state to reimburse local agencies and school districts for certain costs mandated by the state. (Government Code Section 17500 *et seq.*)
- 5) Requires the state to reimburse local agencies annually for certain property tax revenues lost as a result of any exemption or classification of property for purposes of *ad valorem* property taxation. (R&TC Section 2229.)

FISCAL EFFECT: Unknown

COMMENTS:

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

Under Proposition 13, when a property changes ownership or new construction occurs, the property is re-assessed at its current market value. At this time, a new "base year value" is established and the assessed value is limited to an increase of no greater than 2% each year. Current law also provides exemptions to allow disaster victims to transfer the base year value of a damaged or destroyed property to a comparable replacement property. This ensures that disaster victims, especially those who have been in their homes a long time, are not unexpectedly burdened with an unaffordable property tax bill through no fault of their own.

Current law requires disaster victims to acquire or construct the new property within five years after the disaster to avoid reassessment at full-market value. Unfortunately, the circumstances surrounding recent mega-fires have made rebuilding within the required five-year timeline nearly impossible. For example, in the case of the Camp Fire (November 2018), hazardous waste cleanup and debris removal took years. Moreover, many victims did not receive their settlement payments until last year, with thousands still waiting on payments. This puts many victims at risk of facing a sudden and significant tax increase as the five-year anniversary of the fire approaches.

AB 556 seeks to provide fire victims with enough time to take advantage of property tax relief provided in current law. This relief is particularly important for communities such as Paradise, which has a significant working-class population, including seniors and people with disabilities, who are especially vulnerable to sudden financial shocks.

- 2) The Town of Paradise, writing as sponsors of this bill, state, in part:

Efforts to rebuild from the devastation of the Camp Fire have encountered roadblocks, with a looming deadline of November 2023. Although more than 1,400 homes have been rebuilt, and nearly 10,000 people call Paradise home again, there is still much work to be done. For Camp Fire victims, the near absolute destruction of their communities meant that various burned properties included heavy metals, fiberglass, asbestos, and other hazardous materials, which "left a lethal film on the 240-square mile area burned." The clean-up effort, which removed 3.66 million tons of debris, delayed reconstruction for a full year. Since then, difficulty finding home builders, skyrocketing cost of raw materials, and even contractor fraud, have slowed the town's recovery efforts. Many victims did not receive their settlement payments until last year, with some still waiting on payments. Despite these challenges, residents of Paradise remain committed to rebuilding their homes and a more resilient community in the process.

AB 556 will allow the residents of Paradise to rebuild in a more affordable and equitable manner. For these reasons, the Town is proud to sponsor this incredibly important bill.

3) Committee Staff Comments:

- a) *California wildfires*: California has seen a sharp increase in the severity and frequency of wildfires in the last two decades. According to the California Department of Forestry and Fire Protection (Cal Fire), 15 of the 20 most destructive wildfires in California's history have occurred in the last decade. Of these, the Camp Fire is the most destructive by a significant margin, with 153,336 acres and 18,804 structures burned¹.
- b) *Pacific Gas and Electric (PG&E) bankruptcy*: In November 2018, PG&E was sued by multiple victims of the Camp Fire. In January 2019, PG&E declared bankruptcy resulting from investigative findings that the company's equipment sparked a number of wildfires, including the Camp Fire. On June 20, 2020, the United States Bankruptcy Court for the Northern District of California approved PG&E's bankruptcy plan, which established the Fire Victims Trust and authorized \$13.5 billion in compensation to victims of the 2015 Butte Fire, the 2017 North Bay Fires, and the 2018 Camp Fire. For victims that still have not received a payment, they may not have the financial wherewithal to rebuild their property. This bill would provide additional time for property owners to receive remuneration and rebuild without the base year value of their property being adjusted upwards.
- c) *General background*: For the purposes of property taxation, existing law requires county assessors to reassess real property from its base year value to its current market value whenever a change in ownership occurs or upon completion of construction. The law, however, provides certain exceptions to this reassessment requirement. For example, pursuant to constitutional authorization, R&TC Section 69 allows the base year value of property that is substantially damaged or destroyed by a Governor-proclaimed disaster to be transferred to comparable property within the same county, which is acquired or newly constructed within five years of the disaster as a replacement property. Property is

¹ Cal Fire, *Top 20 Most Destructive California Wildfires* (2022) <https://34c031f8-c9fd-4018-8c5a-4159cdf6b0d-cdn-endpoint.azureedge.net/-/media/calfire-website/our-impact/fire-statistics/featured-items/top20_destruction.pdf?rev=479d39ded1e248faac4114bdabf49416&hash=33D35B11518F3A681BA613D8C32073FC> Accessed March 2023.

considered substantially damaged or destroyed if either the land or improvements sustain physical damage amounting to more than 50% of either the land's or the improvement's full cash value immediately before the disaster. Finally, base year value transfers are available for all property types with the limitation that the original property and the replacement property must be for the same use, whether residential, commercial, agricultural, or industrial.

If the full cash value of the replacement property does not exceed 120% of the full cash value of the property substantially damaged or destroyed, then the adjusted base year value of the property substantially damaged or destroyed is transferred to the comparable replacement property as its replacement base year value. If, however, the full cash value of the replacement property exceeds 120% of the full cash value of the property substantially damaged or destroyed, then the amount of the full cash value over 120% of the full cash value of the property substantially damaged or destroyed shall be added to the adjusted base year value of the property substantially damaged or destroyed. The sum of these amounts then becomes the replacement property's replacement base year value.

- d) *Recent legislative action:* In 2021, the Legislature provided an extension similar to the one this bill authorizes by passing SB 303 (Borgeas), Chapter 540, Statutes of 2021. That bill extended the period during which a property owner may transfer the base year value of a property pursuant to R&TC Section 69 by two years if the last day to transfer the base year value of the property occurred, or if the property was substantially damaged or destroyed, on or after March 4, 2020, but on or before March 4, 2022. This extension was provided to acknowledge the delays caused by the sudden increase in demand for contractors and construction materials, in conjunction with the supply constraints that arose during the COVID-19 pandemic.
- e) *The problem and this bill's solution:* The author and sponsor note that the Camp Fire destroyed thousands of homes and left hazardous materials in its wake. The resulting rebuilding and toxic chemical remediation has taken years and is still ongoing in some cases. While the Camp Fire occurred before the COVID-19 pandemic, victims still faced the same impediments to recovering as those victims that benefit from the SB 303 extension. As the five-year deadline for victims to take advantage of the base year value transfer provisions of R&TC Section 69 approaches, there are still property owners that have not been able to comply with the requirements of those provisions through no fault of their own. This bill would provide a three-year extension for those victims of the Camp Fire to transfer their base year value of a property substantially damaged or destroyed by certain disasters to a comparable property in the same county. While this bill provides a similar extension as the one authorized by SB 303, this bill authorizes a three-year extension, rather than a two-year extension.
- f) *Pending legislation:* AB 1500 (Irwin) would authorize a three-year extension to the existing five-year period during which the base year value of a property substantially damaged or destroyed by certain disasters may be applied to a replacement property reconstructed on the same site. AB 1500 is pending hearing by this Committee.
- g) *Previous legislation:* AB 303 (Borgeas), Chapter 540, Statutes of 2021, extended by two years the five-year period during which the base year value of a property substantially

damaged or destroyed by a Governor-proclaimed disaster may be transferred to comparable property within the same county, as specified.

REGISTERED SUPPORT / OPPOSITION:

Support

California Association of Realtors
County of Butte
Howard Jarvis Taxpayers Association
Town of Paradise

Opposition

None on file

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