

ASSEMBLY THIRD READING

AB 556 (Gallagher)

As Amended April 27, 2023

2/3 vote. Urgency

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.

Major Provisions

- 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) 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.
- 3) 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.
- 4) Takes immediate effect as an urgency measure.

COMMENTS

- 1) *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 burned.
- 2) *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 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.

According to the Author

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.

Arguments in Support

The Town of Paradise, writing as sponsors to a previous, but substantially similar, version of this bill, states, 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.

Arguments in Opposition

None on file

FISCAL COMMENTS

According to the Assembly Appropriations Committee:

- 1) Annual property tax revenue loss of \$26.6 million, at a maximum, if an estimated 14,000 homeowners whose homes were destroyed in the Camp Fire needed additional time to purchase a comparable replacement property within the same county. However, some homeowners would likely rebuild onsite instead of purchasing a replacement property, thus lessening this estimated revenue impact. Although property tax is a local government revenue source and this bill specifies that the state shall not reimburse any local agency for lost property tax revenues, reductions in property tax revenues increase Proposition 98 General Fund (GF) spending by up to roughly 50% (the exact amount depends on the specific amount of the annual Proposition 98 guarantee).
- 2) One-time costs of approximately \$28,000 and ongoing costs of approximately \$6,000 per year to the Board of Equalization (BOE) to provide guidance to assessors, updated informational materials, and legal reviews (GF).
- 3) By requiring the Butte County assessor to process additional base year value transfers, this bill likely creates a state-mandated local program. If the Commission on State Mandates determines the provisions of this bill create a new program or impose a higher level of service for which the state must reimburse local costs, Butte County could claim reimbursement from the state (GF).

VOTES

ASM REVENUE AND TAXATION: 11-0-0

YES: Irwin, Wallis, Bains, Grayson, Pacheco, Jim Patterson, Petrie-Norris, Luz Rivas, Ta, Valencia, Zbur

ASM APPROPRIATIONS: 15-0-1

YES: Holden, Megan Dahle, Bryan, Calderon, Wendy Carrillo, Dixon, Mike Fong, Hart, Lowenthal, Mathis, Papan, Pellerin, Sanchez, Weber, Ortega

ABS, ABST OR NV: Robert Rivas

UPDATED

VERSION: April 27, 2023

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FN: 0000623