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## SENATE COMMITTEE ON APPROPRIATIONS

Senator Anthony Portantino, Chair  
2023 - 2024 Regular Session

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### AB 556 (Gallagher) - Property taxation: transfer of base year value: disaster relief

**Version:** April 27, 2023

**Urgency:** Yes

**Hearing Date:** July 3, 2023

**Policy Vote:** GOV. & F. 8 - 0

**Mandate:** Yes

**Consultant:** Robert Ingenito

**Bill Summary:** AB 556 would extend the deadline by three years for taxpayers affected by the Camp Fire to transfer base-year values to replacement property.

#### Fiscal Impact:

- The Board of Equalization (BOE) estimates that this bill would result in annual property tax revenue losses of \$27 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).
- BOE would incur minor and absorbable costs to implement the provisions of the bill, including providing guidance to assessors, updating informational materials, and conducting legal reviews.
- By requiring the Butte County assessor to process additional base-year value transfers, this bill creates a state-mandated local program. To the extent the Commission on State Mandates determines that the provisions of this bill create a new program or impose a higher level of service on local agencies, Butte County could claim reimbursement of those costs (General Fund). The magnitude is unknown.

**Background:** Under the California Constitution, all property is taxable unless explicitly exempted by either itself or by federal law. The Constitution 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. County assessors reappraise property whenever it is purchased, newly constructed, or when its ownership changes.

Current law generally sets a property's value as (1) its sales price when purchased or, (2) when there is no sales price, at its fair market value when ownership changes; this amount is referred to as "base-year value". In subsequent years, current law requires an annual inflation adjustment to that value that cannot exceed 2 percent (referred to as "factored base-year value").

Base-year value transfers allow a taxpayer to continue to pay property taxes at the factored base year value of their previous home and not on the value of their newly purchased or constructed home, often resulting in tax savings. For example, as described by the Senate Committee on Governance and Finance, a taxpayer who

purchased a residence for \$100,000 in 1975 currently has a base-year value under that cannot exceed \$259,000 under the 2 percent cap in annual inflationary growth, regardless of its market value. If that taxpayer sold the residence for \$500,000 and purchased a new one for the same amount, a base-year value transfer allows them to continue to pay property taxes based on the \$259,000 value, not \$500,000, which at the 1 percent property tax rate results in \$2,410 in annual tax savings ( $\$500,000 - \$259,000 = \$241,000 \times 1\% = \$2,410$ ).

In June 1986, voters enacted Proposition 50 to allow a taxpayer to transfer their base-year value when their property is damaged by a major misfortune or calamity and located in an area the Governor declared to be in a state of disaster. Subsequent implementing legislation allows the transfer when (1) the damaged property sustains physical damages amounting to more than 50 percent of current market value immediately prior to the disaster, (2) the replacement property is located in the same county as the damaged property and is acquired or newly constructed within five years after the disaster, (3) the replacement property is comparable to the damaged property in size, utility, and function, (4) the market value of the replacement property does not exceed 120 percent of the fair market value of the replaced property in its pre-damaged condition, and (5) the buyer of the replacement property was the owner of the damaged property at the time of damage.

In November 1993, voters enacted Proposition 171, which additionally allowed taxpayers to transfer base-year values to other counties when their property is damaged by a major misfortune or calamity and located in an area declared to be in a state of disaster by the Governor. However, Proposition 171 only allowed transfers to other counties for a taxpayer's principal place of residence, and solely when the board of supervisors in the county where the replacement property is located has adopted an ordinance making this benefit available. As of January 2020, 13 counties have such an ordinance: Contra Costa, Glenn, Los Angeles, Modoc, Orange, San Diego, San Francisco, Santa Clara, Solano, Sonoma, Sutter, Ventura, and Yuba. Additionally, unlike Proposition 50, Proposition 171 explicitly stated replacement homes must be purchased or newly constructed within three years.

**Proposed Law:** This bill would extend the five-year deadline in current law by three years if the qualified property was substantially damaged or destroyed on or after November 1, 2018, but on or before November 20, 2018. The bill would (1) limit its provisions to property that was substantially damaged or destroyed by the 2018 Camp Fire (Shasta County) disaster, as proclaimed by the Governor, and (2) apply its provisions to the determination of base year values for 2018–19 and subsequent fiscal years.

**Related Legislation:** AB 1500 (Irwin) would allow victims of both the Camp Fire and the Woolsey Fire that affected Los Angeles and Ventura Counties in 2018 an additional three years to apply the assessed value of their damaged or destroyed property to reconstructed property on the same site. The bill is currently pending in this Committee.

**Staff Comments:** Available data indicate that 14,000 homes were destroyed in the Camp Fire. BOE's revenue estimate reflects the difference between (1) the Butte County median home price (\$405,000), and (2) the average assessed value of a home

in Butte County receiving the homeowners' property tax exemption (\$215,288). BOE staff then applied the 1 percent basic tax rate to this difference.

BOE's revenue estimate assumes that all 14,000 impacted homeowners would seek the additional three years allowed under the bill. Consequently, its estimate of the revenue loss can be considered an upper bound. The Board notes that the requisite data series needed to further refine its revenue estimate are not available.

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