
THIRD READING

Bill No: AB 556
Author: Gallagher (R)
Amended: 4/27/23 in Assembly
Vote: 27 - Urgency

SENATE GOVERNANCE & FIN. COMMITTEE: 8-0, 6/21/23
AYES: Caballero, Seyarto, Blakespear, Dahle, Durazo, Glazer, Skinner, Wiener

SENATE APPROPRIATIONS COMMITTEE: 7-0, 9/1/23
AYES: Portantino, Jones, Ashby, Bradford, Seyarto, Wahab, Wiener

ASSEMBLY FLOOR: 80-0, 5/31/23 - See last page for vote

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

SOURCE: Town of Paradise

DIGEST: This bill extends the deadline by three years for taxpayers affected by the Camp Fire to transfer base year values to replacement property.

ANALYSIS:

Existing law:

- 1) Provides that all property is taxable unless explicitly exempted by the Constitution or federal law (California Constitution, Article XIII).
- 2) Limits the maximum amount of any ad valorem tax on real property at 1% of full cash value, and directs assessors to set assessed values at 1975 market value levels and only reappraise property thereafter if there is new construction or a change in ownership (California Constitution, Article XIII A, as added by Proposition 13, 1978).
- 3) Sets, generally, a property's value as its sales price when the taxpayer purchases it, or when there is no sales price, at its fair market value, which becomes its "base year value."

- 4) Allows taxpayers to continue to pay property taxes at the factored base year value of their previous home (or other property types where the law allows) and not on the value of their newly purchased or constructed home in specified circumstances, including:
 - a) 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 (Proposition 50, 1986).
 - b) 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 when the county enacts an ordinance allowing the transfer (Proposition 171, 1993)
- 5) Implements Proposition 50 to allow base year value transfers when:
 - a) The damaged property sustains physical damages amounting to more than 50% of its full cash value immediately prior to the disaster;
 - b) 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;
 - c) The replacement property is comparable to the damaged property in size, utility, and function. For example, a residential property can be replacement property for a damaged residence, but not for a commercial, agricultural, or industrial property;
 - d) The market value of the replacement property does not exceed 120% of the fair market value of the replaced property in its pre-damaged condition. Property owners can still receive the disaster relief in cases where the value of the replacement property exceeds the 120% limitation, but any amount over this threshold is assessed at full market value and added to the transferred base year value; and,
 - e) The buyer of the replacement property was the owner of the damaged property at the time of damage.
- 6) Extends by two years the time period for a taxpayer affected by a disaster declared by the Governor to transfer their base year value to a new residence if the property meets either of the following conditions (SB 303, Borgeas, Chapter 540, Statutes of 2021):

- a) The last day to transfer their base year value was on or after March 4, 2020, but on or before the COVID-19 emergency termination date, or March 4, 2022, whichever is earlier.
- b) The property was substantially damaged or destroyed on or after March 4, 2020, but on or before the COVID-19 emergency termination date, or March 4, 2022, whichever is earlier.

This bill:

- 1) Extends the current five-year deadline 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.
- 2) Limits its provisions to property that was substantially damaged or destroyed by the 2018 Camp Fire disaster, as proclaimed by the Governor.
- 3) Applies its provisions to the determination of base year values for the 2018–19 fiscal year and fiscal years thereafter.
- 4) Makes a legislative finding and declaration stating its provisions do not constitute a gift of public funds.
- 5) Contains an urgency clause.

Background

Flexible deadline. Even before SB 303's blanket two-year extension due to the COVID-19 pandemic, the Legislature has extended the deadline for taxpayers to purchase or newly construct a replacement property to apply a base year value transfer under Proposition 50, often in response to wildfires. The Legislature initially set it at two years when implementing Proposition 50 in 1986, and then extended it to three years after the Oakland Hills fire (AB 1824, Lee, Chapter 1024, Statutes of 1993). In 2006, the Legislature further extended the deadline from three to five years for disasters occurring on or after July 1, 2003 (AB 1890, Mountjoy, Chapter 317, Statutes of 2006). Four years later, the Legislature allowed the San Diego County Board of Supervisors to extend the deadline two additional years for property substantially damaged or destroyed by the 2003 Cedar Fire (AB 157, Anderson, Chapter 341, Statutes of 2010).

The Camp Fire. The Camp Fire started on Thursday, November 8, 2018, in Northern California's Butte County. Ignited by a faulty electric transmission line, an east wind drove the fire downhill through developed areas where it spread

rapidly with high intensity through the rural community of Concow, culminating in an urban firestorm in the foothill Town of Paradise. The fire caused at least 85 fatalities, and injured 12 civilians and 5 firefighters. It covered an area of 153,336 acres, and destroyed more than 18,000 structures, with most of the destruction occurring within the first four hours. Paradise and Concow were almost completely destroyed, each losing about 95% of their structures.

Related/Prior Legislation

AB 1500 (Irwin, 2023) allows 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. AB 556 extends the time period for base year value transfers, where taxpayers transfer the assessed value from their damaged or destroyed property to a newly acquired or constructed replacement property.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: Yes

According to the Senate Appropriations Committee:

- 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 turns 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.

SUPPORT: (Verified 9/1/23)

Town of Paradise (source)
California Assessors' Association
California Association of Realtors

California Builders Alliance
California State Board of Equalization
Howard Jarvis Taxpayers Association
Sacramento Regional Builders Exchange
Valley Contractors Exchange

OPPOSITION: (Verified 9/1/23)

None received

ARGUMENTS IN SUPPORT: According to the author, “Under Proposition 13, when a property changes ownership or new construction occurs it 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 5-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 5-year anniversary of the fire approaches. AB 556 seeks to provide Camp 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.”

ASSEMBLY FLOOR: 80-0, 5/31/23

AYES: Addis, Aguiar-Curry, Alanis, Alvarez, Arambula, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Juan Carrillo, Wendy Carrillo, Cervantes, Chen, Connolly, Megan Dahle, Davies, Dixon, Essayli, Flora, Mike Fong, Vince Fong, Friedman, Gabriel, Gallagher, Garcia, Gipson, Grayson, Haney, Hart, Holden, Hoover, Irwin, Jackson, Jones-Sawyer, Kalra, Lackey, Lee, Low, Lowenthal, Maienschein, Mathis, McCarty, McKinnor, Muratsuchi, Stephanie Nguyen, Ortega, Pacheco, Papan, Jim Patterson, Joe

Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Reyes, Luz Rivas, Robert Rivas, Rodriguez, Blanca Rubio, Sanchez, Santiago, Schiavo, Soria, Ta, Ting, Valencia, Villapudua, Waldron, Wallis, Ward, Weber, Wicks, Wilson, Wood, Zbur, Rendon

Prepared by: Colin Grinnell / GOV. & F. / (916) 651-4119
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