SENATE COMMITTEE ON APPROPRIATIONS
Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

AB 1294 (Haney) - Real property tax: welfare exemption: moderate-income housing

Version: June 15, 2026
Policy Vote: HOUSING 10 - 0, REV. & TAX. 3 - 0
Urgency: No
Mandate: Yes
Hearing Date: August 10, 2026
Consultant: Robert Ingenito

Bill Summary: AB 1294 would create an alternate welfare exemption equal to the percentage that the number of units serving low- and moderate-income households represents out of the total number of residential units, for certain counties, as specified.

Fiscal Impact:

- The Board of Equalization (BOE) indicates that this bill would reduce annual property tax revenues in the range of $18 million to $26 million (See Staff Comments). Reductions in local property tax revenues, in turn, can 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 administrative costs to implement the provisions of the bill.

- By changing the duties of local tax officials, 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, local agencies could claim reimbursement of those costs. The magnitude is unknown (General Fund).

Background: The California Constitution generally requires all property to be taxed based on its fair market value but authorizes the Legislature to exempt property used exclusively for charitable purposes when owned and operated by qualifying nonprofit organizations. The Legislature implemented this authority through the welfare exemption, which provides property tax relief to organizations engaged in religious, hospital, scientific, or charitable activities. The exemption is based on the policy rationale that taxing charitable organizations may divert resources away from activities that provide public benefits.

To qualify for the welfare exemption, both the organization and the use of the property must meet statutory requirements. Eligibility is based on the organization's actual activities, and the exemption may apply fully or partially depending on the extent to which the property is used for qualifying purposes.

Existing law extends the welfare exemption to certain affordable rental housing projects that satisfy specified affordability and ownership requirements. Eligible projects generally must be subject to enforceable affordability restrictions, such as recorded deed restrictions or regulatory agreements, and must maintain units that are continuously available to or occupied by lower-income households.

The exemption may apply to affordable housing projects financed through various public assistance programs, including federal Low Income Housing Tax Credits (LIHTCs), government grants, and bond financing. For mixed-income projects, the exemption is limited to the portion of the property attributable to affordable units serving lower-income households.

The welfare exemption requires approval from both BOE and the county assessor. Nonprofit organizations must first obtain an Organizational Clearance Certificate from BOE, and property owners must subsequently file annual exemption claims with county assessors. Assessors are responsible for verifying that the property continues to satisfy statutory requirements, including applicable affordability restrictions, rent limits, and income eligibility requirements. Although BOE approval establishes an organization's eligibility, county assessors retain authority to deny an exemption if the property does not meet statutory requirements.

California's affordable housing production system relies heavily on nonprofit developers that use LIHTCs and other public subsidies to finance affordable housing projects. These projects generally qualify for the welfare exemption because they provide housing to lower-income households under legally enforceable affordability restrictions.

Proposed Law: This bill, among other things, would do the following:

- Create an alternative welfare exemption from property taxation for specified residential properties. The exemption would be equal to the percentage of residential units serving low- and moderate-income households (as defined) compared to the total number of residential units within the property.

- Apply requirements similar to the existing welfare exemption for affordable housing serving low- and very-low-income households. Specifically, the property would be required to be owned and operated by an eligible charitable organization, including qualifying nonprofit corporations, limited liability companies, or limited partnerships in which the managing general partner is an eligible nonprofit entity. The organization would also be required to satisfy existing constitutional requirements for claiming the welfare exemption. Additionally, the property owner would be required to certify that the property tax savings would be used to preserve affordability or reduce rents for units serving low- and moderate-income households.

- Establish additional eligibility requirements for the new exemption. Specifically, the property owner would be required to certify that the project is subject to an enforceable and verifiable affordability restriction, such as an agreement with a public agency or recorded deed restriction. The restriction would be required to ensure that units designated for low- and moderate-income households remain available to, or occupied by, qualifying households for at least 55 years. For properties owned by limited partnerships with eligible nonprofit managing general partners, the affordability restriction would be required to be contained in an enforceable agreement with a public agency or a recorded deed restriction.

- Provide that the initial rent charged for each exempt unit would be required to be below fair market rent for the applicable unit type and geographic area, as specified.

- Provide similar treatment to the existing welfare exemption for affordable housing by allowing units to remain eligible for the exemption if tenant income increases above the original eligibility threshold, provided the tenant's income does not exceed 140 percent of area median income (AMI).

- Apply beginning with the January 1, 2027 lien date and would apply only to newly constructed or converted units placed into service on or after that date and before January 1, 2030. The exemption would terminate after 15 years. The measure would be limited to qualifying properties located in Alameda and Sacramento Counties and the City and County of San Francisco.

Related Legislation:

- SB 1227 (Wiener, 2024), among other provisions, would have allowed a welfare exemption for rental housing units occupied by or available to those of moderate income within a specified area in the City and County of San Francisco. The bill was held under submission on the Suspense File of this Committee.

- SB 336 (Wiener, 2025) was largely similar to this bill, but had statewide application. The bill was held under submission on the Suspense File of this Committee.

- SB 1415 (Arreguin), was large identical to SB 336. The bill was held under submission on the Suspense File of this Committee.

Staff Comments: As noted above, BOE estimates that this bill could reduce local property tax revenues by $18 million to $26 million annually, depending on the extent to which eligible moderate-income rental housing is constructed in the bill's three-county pilot area. The estimate is based on Regional Housing Needs Allocation (RHNA) production targets, historical rental housing development trends, average construction costs, and assumed property tax assessments. Because actual housing production has historically fallen below RHNA targets, the BOE indicates that the lower end of the estimated revenue loss may be more representative if completion rates remain consistent with recent experience.

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