SENATE RULES COMMITTEE AB 1294

Office of Senate Floor Analyses

(916) 651-4171

THIRD READING

Bill No: AB 1294

Author: Haney (D), et al.

Amended: 8/21/26 in Senate

Vote: 21

SENATE HOUSING COMMITTEE: 10-0, 7/1/25

AYES: Wahab, Arreguín, Cabaldon, Caballero, Cortese, Durazo, Gonzalez, Grayson, Ochoa Bogh, Padilla

NO VOTE RECORDED: Seyarto

SENATE REVENUE AND TAXATION COMMITTEE: 3-0, 8/5/26

AYES: McNerney, Ashby, Grayson

NO VOTE RECORDED: Alvarado-Gil, Becker

ASSEMBLY FLOOR: 78-0, 6/2/25 - See last page for vote

SUBJECT: Real property tax: welfare exemption: moderate-income housing

SOURCE: San Francisco Mayor Daniel Lurie

DIGEST: This bill creates an alternate welfare exemption from property tax for rental housing equal to the value of units serving low- and moderate-income households in the Counties of Alameda and Sacramento, and the City & County of San Francisco.

Senate Floor Amendments of 8/21/26 (1) Delete an option whereby the property owner can set rents according to a market study they perform when determining initial rents that qualify the property for an exemption, (2) Make conforming changes, (3) Add legislative findings and declarations necessary to comply with Section 41 of the Revenue & Taxation Code, and (4) Resolve conflicts with AB 2089 (Ward).

ANALYSIS:

Existing law:

1) Provides that all property is taxable unless explicitly exempted by the Constitution or federal law (California Constitution, Article XIII, Section One).

2) Allows the Legislature to exempt property used exclusively for charitable purposes so long as it is owned by non-profit entities organized and operated for charitable purposes, such as universities, hospitals, and libraries (California Constitution, Article XIII, Section Four), commonly known as the "welfare exemption."

3) Permits the welfare exemption to apply to property used for rental housing, if it meets several requirements, including that there is an enforceable and verifiable agreement with a public agency, a recorded deed restriction, or other legal document that restricts the project's usage.

4) Requires exempt units qualifying owners for the exemption to be continuously available to or occupied by lower-income households.

5) Permits property owners to claim a partial exemption equal to the percentage of the value of the number of units serving lower-income households for projects with both low-income and market-rate units.

6) Requires both the organization and the use of the property to be approved to be eligible for a welfare exemption, specifically:

   a) Nonprofit organizations must apply to the Board of Equalization (BOE) for an Organizational Clearance Certificate (OCC) and provide the specified requisite documentation.

   b) Once BOE has approved the organization and issued an OCC, the nonprofit must also file a claim for a welfare exemption with the county assessor.

7) Directs Assessors to verify that each property meets all of the following conditions:

   a) The property owner receives low-income housing tax credits or government financing on the property.

   b) The property is subject to a recorded deed restriction, regulatory agreement, or other legal document restricting its use for low-income housing purposes at specified rents (80% of Area Median Income).

   c) The rents charged to lower-income occupants do not exceed the rent prescribed by the deed restrictions or regulatory agreement.

d) The owner certifies that the funds otherwise spent to pay taxes are instead used to maintain the affordability for, or reduce rents of units occupied by, the lower-income households.

e) In the case of housing owned by a limited partnership in which the managing general partner is an eligible nonprofit organization or an eligible limited liability company, use and rent restrictions must be contained in an enforceable and verifiable agreement with a public agency or in a recorded deed restriction to which the limited partnership certifies.

8) Allows an assessor to deny an exemption claim based on non-qualifying use of the property, even if BOE has issued an OCC.

9) Requires property owners to annually file a claim with the assessor to receive the exemption, which in addition to any other information required by the assessor to verify the claim, must be accompanied by an affidavit stating the number of units serving low-income households, including vacant units, and a list of qualified households.

10) Under federal and state law, allows taxpayers who provide project capital to low-income rental housing projects to claim Low-Income Housing Tax Credits (LIHTCs), which under state law taxpayers can apply against the Personal Income Tax, Corporation Tax, and Gross Premiums Tax.

11) Under federal law, states that a low-income unit can continue to be treated as a low-income unit, and therefore qualify investors to claim an LIHTC, if the occupant's income initially met the income limitation and the unit continues to be rent-restricted.

12) Under federal law, provides that if an occupant's income exceeds 140% of federal law's income limitations, then the next available unit of a comparable or smaller size must be rented to a low-income tenant; if not, the unit occupied by the household over the 140% threshold ceases to be treated as a low-income unit.

13) Under state law, provides that a unit that is eligible for and receives an LIHTC can continue to be treated as occupied by a lower income household, which can then continue to qualify the owner for the exemption (AB 1193, Gloria, Chapter 756, Statutes of 2017), if:

a) The occupants were lower-income households on the lien date in the fiscal year in which their occupancy of the unit commenced; and

b) The unit continues to be rent restricted, notwithstanding an increase in the income of the occupants of the unit to 140% of area median income, adjusted for family size.

This bill:

1) Creates an alternate welfare exemption from property tax equal to the value that the units serving low- and moderate-income households represents out of the total number of residential units.

2) Applies many of the same requirements as the exemption in current law for units serving low- or very-low-income units, including:

   a) The property is owned and operated by religious, hospital, scientific, or charitable funds, foundations, limited liability companies, or corporations, including limited partnerships in which the managing partner is an eligible nonprofit corporation or eligible limited liability company.

   b) The organization meets the requirements in the Constitution for an organization to claim the welfare exemption.

   c) The property owner certifies that the funds that would have been necessary to pay property taxes are used to maintain the affordability of, or reduce rents otherwise necessary for, the units occupied by low- and moderate-income households.

3) Adds modified requirements on property owners to qualify for the exemption, including:

   a) The property owner certifies that there is an enforceable and verifiable agreement with a public agency, a recorded deed restriction, or other legal document that restricts the applicable project's usage and that provides that the units designated for use by low- and moderate-income households are continuously available to, or occupied by, low- and moderate-income households, for a period of not less than 55 years. When the property owner is a limited partnership in which the managing general partner is a nonprofit corporation, the restriction must be contained in an enforceable and verifiable agreement with a public agency or in a recorded deed restriction.

   b) The initial rent charged upon occupancy of each exempt unit is below fair market for that unit type for that geographic submarket according to the U.S. Department of Housing and Urban Development's (HUD's) Small Area Fair Market Rent for the applicable ZIP Code. The property owner cannot increase this rent amount more than the percent AMI increased in the county in which the property is located, as published in the last two California Department of Housing and Community Development State Income Limits, while the tenants qualifying the owner for the exemption remain in occupancy of the unit.

c) The initial rent charged upon occupancy for each unit designated for low- or moderate-income housing must be at least 10% below the HUD's Small Area Fair Market Rent

4) Allows a tenant's income to grow from 120% of Average Medium Income (AMI) to 140% of AMI while continuing to qualify the owner for an exemption, consistent with treatment for LIHTCs projects.

5) Applies commencing on the January 1, 2027 lien date, and only to units newly constructed or converted on or after that date and before January 1, 2030, but ends after 15 years.

6) Applies solely to property located in the Counties of Alameda and Sacramento, or the City and County of San Francisco.

7) Defines several terms, including "low and moderate income households" by reference to the Health and Safety Code; however, the measure provides that if the terms of federal, state or local financing conflict with that definition, those terms prevail.

8) Deems occupied units that are temporarily vacant due to tenant turnover or repairs.

9) Includes a severability clause.

10) Makes legislative findings and declarations to comply with Section 41 of the Revenue & Taxation Code.

11) Includes provisions to resolve conflicts with AB 2089 (Ward).

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

According to the Senate Appropriations Committee:

- 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).

SUPPORT: (Verified 8/21/26)

Mayor Daniel Lurie, City and County of San Francisco (Source)
Downtown Sacramento Partnership
San Francisco Bay Area Planning and Urban Research Association

OPPOSITION: (Verified 8/21/26)

Christina Wynn, Sacramento County Assessor
California Assessors' Association
California Association of Realtors

ARGUMENTS IN SUPPORT: According to the author, "California's housing crisis is forcing teachers, nurses, firefighters, construction workers, and other working Californians out of the communities they serve. While we have programs that support low-income housing, we continue to underbuild housing for middle-income residents who earn too much to qualify for affordable housing but cannot afford market-rate rents. AB 1294 creates a pilot program in Alameda, Sacramento, and San Francisco counties to encourage the construction of rental housing for households earning up to 120% of Area Median Income. By providing a partial property tax exemption, the bill helps make these projects financially feasible and expands housing options for working families. We need housing for the people who keep California running."

ARGUMENTS IN OPPOSITION: According to the California Association of Realtors, "The welfare exemption is ultimately a taxpayer-funded subsidy, which should be cautiously utilized. Extending the exemption for households earning up to 120% of area median income is unnecessary as moderate-income rental housing already benefits from existing government incentives, density bonuses and other streamlining, and does not require a welfare exemption to be built. New development, whether exempt or not, generates increased demand for local services including fire, public safety, roads, water, and sanitation. Restricting property taxes for such resources should be done only when necessary, which is not the case for constructing moderate-income homes. Further, if new moderate-income units are property-tax subsidized, surrounding property owners, including those who are also moderate-income, will be shouldering a disproportionate share of the property tax burden for increased service need."

ASSEMBLY FLOOR: 78-0, 6/2/25
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
NO VOTE RECORDED: Sanchez

Prepared by: Colin Grinnell / REV. & TAX. / (916) 651-4117
8/24/26 11:24:42

****** END ******