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# SENATE COMMITTEE ON REVENUE AND TAXATION

Senator Jerry McNerney, Chair  
2025 - 2026 Regular

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**Bill No:** SB 1415  
**Author:** Arreguín  
**Version:** 2/20/26  
**Consultant:** Grinnell

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**Tax Levy:** Yes  
**Fiscal:** Yes

## ***REAL PROPERTY TAX: WELFARE EXEMPTION: MODERATE-INCOME HOUSING***

*Creates 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.*

### **Background**

**Welfare exemption.** The California Constitution provides that all property is taxable and shall be assessed as a percentage of fair market value. The Constitution 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. The Legislature enacted this exemption, which is commonly known as the “welfare exemption.” The welfare exemption has a similar policy rationale as tax-exempt status for charitable groups: revenues paid in tax to the government divert needed resources away from the organization’s good works.

To qualify for the welfare exemption, the organization’s primary purpose must be either religious, hospital, scientific, or charitable. Whether its operations are for one of these purposes is determined by its activities. A qualifying organization’s property may be exempted fully or partially from property taxes, depending on how much of the property is used for qualifying purposes and activities. Assessors can require specified information as part of a welfare exemption claim, which can vary based on the category of the exemption. State law also requires a property owner claiming an exemption to annually supply an affidavit to the assessor with any information required by the Board of Equalization (BOE).

The welfare exemption also applies 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. The exemption also provides that the units designated for use by lower-income households must be continuously available to or occupied by lower-income households. The exemption can include property used for rental housing when the housing is financed by tax-exempt mortgage revenue bonds; general obligation bonds; federal, state, or local grants; or federal Low Income Housing Tax Credits (LIHTCs). For projects with both low-income and market-rate units, the owner can claim a partial exemption equal to the percentage of the value of the number of units serving lower-income households.

To receive a welfare exemption, both the organization and the use of the property must be approved. Nonprofit organizations must apply to BOE for an Organizational Clearance Certificate (OCC) using form BOE-277 and provide the specified requisite documentation.

While a nonprofit organization may possess a valid OCC, once they form a limited partnership, the partnership itself must then apply for a supplemental OCC and supply additional information.

Once BOE has certified the OCC and supplemental OCC, the nonprofit must also file a claim for a welfare exemption with the county assessor, using BOE-267. Assessors generally verify that each property meets all of the following conditions:

- **Government assistance:** The property owner receives low-income housing tax credits or government financing on the property.
- **Use restriction:** 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).
- **Rents charged:** The rents charged to lower-income household occupants do not exceed the rent prescribed by the deed restrictions or regulatory agreement.
- **Property tax savings:** 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.
- **Occupancy:** While there is generally no minimum percentage of units that must be occupied by lower-income households, the exemption only extends to the units serving lower-income households.
- **Limited partnership:** 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.

Assessors can still deny an exemption claim based on non-qualifying use of the property, even if BOE has issued an OCC and supplemental OCC. Assessors may do so when rent levels or tenant household incomes are higher than the prescribed limits set forth in regulatory agreements or by statutory. Property owners must file an annual claim listing the household income of the tenants for each exempt unit, which is based on information provided to the property owner by tenant-completed worksheets. For many years, affordable housing developers have been frustrated that the claim process is slow and cumbersome in some counties, and that obtaining income information from tenants necessary to maintain the exemption each year is intrusive and difficult.

**California's housing crisis.** California has highest housing costs in the nation, with the average home value in California at \$775,000, about twice as expensive as the typical mid-tier home.<sup>1</sup> To keep up with demand, the Department of Housing and Community Development (HCD) estimates that California must plan for the development of more than 2.5 million homes over the next eight years, and no less than one million of those homes must meet the needs of lower-income households (more than 640,000 very-low-income and 385,000 low-income units are needed). For decades, not enough housing has been constructed to meet demand, resulting in a severe undersupply of housing.

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<sup>1</sup> <https://lao.ca.gov/LAOEconTax/Article/Detail/793>

According to the California Housing Partnership Corporation, California funded upwards of 23,000 new affordable homes in 2025, yet the state is only funding 20% of what is needed to meet its goals. California spends nearly twice as much supporting homeowners than renters and only 20% of renter resources are permanent compared to 97% of the support for homeowners. Median rent in California has increased 44% since 2000, while median renter household income has only increased 11% (adjusted for inflation). Renters need to earn 2.8 times the state minimum wage to afford average asking rent in California, which increased by 1.8% from last year.

In California, affordable housing developers specialize in using subsidies – usually state LIHTCs, but also other forms of state or local assistance – to construct projects with affordable units. While these projects are eligible for the welfare exemption, market-rate developers who provide units affordable to tenants of moderate income are not. These units likely provide lower returns than market rate ones. Seeking to encourage market-rate developers to construct and make available moderate-income housing to complement the existing network of nonprofit developers who build subsidized LIHTC projects, the author wants to allow a similar welfare exemption for units affordable to tenants of moderate income.

### **Proposed Law**

Senate Bill 1415 creates an alternate welfare exemption from property tax equal to the percentage that the number of units serving low- and moderate-income households represents out of the total number of residential units. SB 1415 applies many of the same requirements as the exemption in current law for units serving low- or very-low-income units, including:

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

To implement its exemption, SB 1415 adds modified requirements on property owners to qualify:

- 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.
- The initial rent charged upon occupancy of each exempt unit is below fair market for that unit type for that geographic submarket, as determined by a market study conducted by the property owner in "general conformance" with California Tax Credit Allocation

Committee guidelines. The study must be conducted when the first exempt unit is leased, and updated every five years. The property owner cannot increase this rent amount more than the percent set by HCD limits.

- The initial rent charged upon occupancy for each unit designated for low- or moderate-income housing pursuant must be at least 10% below the fair market rent for the unit type in comparable properties within the geographic submarket in which the property is located, but only if the fair market rent determined by the market study is less than or equal to the rent deemed affordable to moderate-income households.

Additionally, SB 1415 applies similar treatment to units exempt under its provisions as to units exempt as affordable for tenants of low- or very-low-income. Specifically, a tenant's income can grow from 120% of Average Medium Income (AMI) to 200% of AMI while continuing to qualify the owner for an exemption; income can increase up from 80% to 140% when LIHTCs are used (AB 1193, Gloria, 2017) or a Community Land Trust owns the property (AB 1206, Bennett, 2022), or to 100% for other owners (AB 84, Ward, 2023).

SB 1415 applies commencing on the January 1, 2026, lien date, and only to units newly constructed or converted on or after that date, but ends after 20 years. The measure also defines "low and moderate income households" by reference to the Health and Safety Code. The bill also includes a severability clause.

### **State Revenue Impact**

A revenue estimate for SB 1415 from the Board of Equalization is pending. However, BOE's revenue estimate for a similar bill (SB 336, Wiener, 2025) states: "The expansion of the welfare tax by SB 336 to include new moderate-income rental units would result in annual revenue estimate loss in the range of \$93 million to \$151 million."

### **Comments**

1. **Purpose of the bill.** According to the author, "SB 1415 expands the welfare tax exemption for new low-income affordable rental housing units at or below 80% of Area Median Income (AMI) to include moderate-income rental units up to 120% of AMI for a period of 20 years. The bill provides desperately needed financial support for "missing middle" housing for moderate income Californians such as teachers, firefighters, police officers, nurses, and construction workers. Unlike low-income housing projects, those serving moderate-income households (up to 120% of AMI) do not benefit from the welfare tax exemption or most sources of public subsidy, even though such projects fall well below the rent levels market-rate housing projects command in many California jurisdictions. This dynamic creates a "barbell effect" in housing delivery; many California jurisdictions build both low-income affordable and market-rate housing at higher rates than it does middle income housing. SB 1415 will help address this issue by providing a partial property tax exemption which will allow moderate income units to pencil, leading to an increase of this essential housing stock."

2. **Moderate too.** Clearly, California's housing crisis is dire, with low production levels exacerbated by growing income and wealth disparities. For the most part, the state's efforts to directly finance or encourage housing are directed towards persons of low-, very-low-, and extremely-low-income, defined as those who make less than 80% of AMI. Most notably, the current welfare exemption from property tax applies only to units restricted to low-income persons. Given that the units are rent-restricted, the exemption tries to compensate property

owners for reserving units that by definition generate lower rental revenues than market rate units, with the tradeoff of potentially lower property tax revenues for schools and local agencies. SB 1415 would allow a new welfare exemption for rental housing units occupied by or available to moderate-income (120% of AMI) persons as well. With rents at this level, property owners should have a higher ability to pay property taxes than owners of projects with units reserved as low-income. So why should the public subsidize this form of housing at the cost of less revenue for public services? SB 1415 supporters argue that rents are exorbitantly high in many parts of California, and little to no housing is being constructed for those of moderate income, so the bill's exemption could be the difference between new workforce housing and no development at all. Any new development or substantial rehabilitation will generally increase property tax revenues on aggregate, and only restricted units qualify owners for exemptions. Supporters add that government funding for housing for low- and very-low-income housing vastly exceed that for "missing middle" housing, and SB 1415's property tax savings may be worth it for developers to charge less than market rate rents.

3. Community benefit? The welfare exemption has two explicit Constitutional requirements: The property must be owned by charitable organizations, and must be used exclusively for exempt purposes. The welfare exemption applies to many forms of properties, but generally requires the activity on the property to "benefit the community as a whole or an unascertainable and indefinite portion thereof" (*Stockton Civic Theatre v. Board of Supervisors*, 66 Cal.2d. 13, 1967). However, it is unclear whether newly constructed rental housing units made affordable to those earning up to 119% of AMI is charitable or provides a community benefit; Californians with less income paying imputed property taxes through rents or directly when owning a home will subsidize the construction of units occupied by more affluent persons. However, SB 1415 follows other precedents: The state offers a welfare exemption from property tax for vacant land that is subsequently improved for sale by a Community Land Trust, and for properties that house elderly or disabled persons and their families, which applies when those families are of low- to moderate-income.

4. Buying up. The current welfare exemption from property tax for rental units available to or occupied by tenants of very-low- or low-income generally requires some form of public subsidy to qualify for the exemption. SB 1415 does not contain a similar requirement because projects with units affordable to those of moderate income are usually not eligible for traditional forms of public assistance. However, SB 1415 does not preclude those forms of assistance as a condition of its exemption. Why would a property owner choose lower rents paid by very-low- or low-income tenants if they can receive the same property tax exemption and higher rents from units leased to moderate-income tenants instead?

5. Upward mobility. SB 1415 applies similar treatment to units exempt under its provisions that apply to units exempt for low-income tenants. Specifically, a tenant's income can grow from 120% of AMI to 200% of AMI while continuing to qualify the owner for an exemption. While this provision is consistent with precedent by allowing household income to grow for an exempt unit, without which a property owner would have to evict a tenant to maintain the exemption, a person of moderate income in the City and County of San Francisco can make in excess of \$200,000 annually, depending on household size. Should a tenant with scant, if any, economic hardship still qualify a property owner for the same exemption as someone who has no income?

6. Still nonprofits. SB 1415 expands the welfare exemption from property tax to property owners who charge higher rents than those currently eligible for the exemption. With that said, it does not change the Constitutional requirement to claim the welfare exemption, which is that it is

“owned and held in trust by corporations or other entities (1) that are organized and operating for [charitable] purposes, (2) that are nonprofit, and (3) no part of whose net earnings inures to the benefit of any private shareholder or individual.” While the exemption for affordable rental housing allows different corporate forms than current exemptions, BOE can only grant a supplemental OCC when the nonprofit corporation, or eligible limited liability company, and all general partners of the limited partnership certify that the limited partnership agreement provides sufficient management authority and duties to qualify the nonprofit corporation or eligible limited liability company as the managing general partner of the limited partnership.

7. The rent I pay. The current welfare exemption from property tax for affordable rental housing requires property owners to certify and ensure rents charged to lower-income households do not exceed those set in the Health and Safety Code or those prescribed by deed restrictions or regulatory agreements that are attached to the public subsidy that qualifies the housing for the exemption. SB 1415 provides that the initial rent of any unit exempt under the bill not exceed the fair market rent for the unit type in the comparable properties within the geographic subregion in which the property is located, with growth capped by a specified percentage. However, the initial rent is determined by a study conducted by the developer. While the measure does require the study to be conducted in accordance with California Tax Credit Allocation Commission guidelines, should developers be able to determine the rent that qualifies them for a publicly-subsidized exemption? Is the assessor or another party responsible for ensuring the rents set in the study are determined correctly?

8. Mandate. The California Constitution requires the state to reimburse local governments for the costs of new or expanded state mandated local programs. Because SB 1415 changes the way assessors value real property, Legislative Counsel says that this bill imposes a new state mandate. The measure also provides that the state shall not reimburse local agencies for property tax revenue losses, instead stating that, should the Commission on State Mandates determine that the bill imposes a reimbursable mandate, reimbursement must be made pursuant to existing statutory provisions.

9. Related legislation. Last year, the Committee approved SB 336 (Wiener), very similar to this bill, but the measure died on the Senate Appropriations Committee’s Suspense File. In 2024, the Committee approved SB 1227 (Wiener), which, 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. That measure also died on the Senate Appropriations Committee’s Suspense File.

### **Support and Opposition** (5/1/26)

Support: Mayor Daniel Lurie, City and County of San Francisco  
California YIMBY  
Circulate Planning & Policy  
Housing Accelerator Fund  
Housing Action Coalition  
LeadingAge California  
Related California Affordable  
San Diego Housing Commission  
San Francisco Bay Area Planning and Urban Research Association

Opposition: California Assessors' Association

California Association of Realtors  
California Teachers Association

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