**California State PTA**

**PROPOSITION 19**

**Study Committee Report**

**July 24, 2020**

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| **BALLOT TITLE and SUMMARY:**  **Changes Certain Property Tax Rules. Legislative Constitutional Amendment.**   * Permits homeowners who are over 55, severely disabled, or whose homes were destroyed by wildfire or disaster, to transfer their primary residence’s property tax base value to a replacement residence of any value, anywhere in the state. * Limits tax benefits for certain transfers of real property between family members. * Expands tax benefits for transfers of family farms. * Allocates most resulting state revenues and savings (if any) to fire protection services and reimbursing local governments for taxation-related changes. |

This proposed constitutional amendment, passed by the legislature in June, amends the State Constitution to make various changes related to how property tax obligations are determined for certain residential and farm properties. This summary draws both from the analysis of the measure done by the Legislative Analyst and Director of Finance and information based on the Legislation, which was passed as ACA 11, the [Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disaster Act.](http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201920200ACA11)

The provisions of this measure would affect different property owners and localities somewhat differently. The Legislative Analyst’s Office summary says: “For the state overall, local property tax revenues could increase by tens of millions of dollars per year initially, with that amount likely growing over time to a few hundred million dollars per year.” Property taxes are an important and relatively stable source of funding for both local governments and school districts. State income taxes could also increase somewhat.

California State PTA has numerous authorities that support both increased funding to support children and families, and greater funding stability. Therefore, the California State PTA has convened a study committee consisting of Heidi Brewington, Marilyn Cachola Lucey, Mary Perry, Carol Kocivar, and Barbara Inatsugu for the purpose of recommending whether the organization should take a position on this initiative.

**BACKGROUND** (Based on Summary of the [Legislative Analyst)](https://elections.cdn.sos.ca.gov/statewide-elections/2020-general/prop-19-leg-analysis.pdf)

California local governments levy property taxes based on the taxable value of property. When a person or business buys a property in California, the taxable value of that property is based on the purchase price. That rate is 1.1 percent of the purchase price of the property. In subsequent years, inflation adjustments are allowed but only up to 2 percent of the taxable value.

A homeowner’s property tax bill thus increases when they sell one property and purchase another. This occurs even when the homes have similar market values. This increase in property taxes has discouraged some homeowners from selling their properties, particularly if they have lived in the same place for several decades and would otherwise consider a move within the state of California.

**Existing Law**

**Special Rules for Some Homeowners.**

Currently some homeowners are exempt from these property tax rules. Homeowners who are over 55 or severely disabled, or whose property has been impacted by a natural disaster or contamination, can transfer the taxable value of their existing home to a different home if the market value of the new home is the same or less than the existing home. Ten counties allow these transfers. Homeowners who are over 55 or severely disabled can only transfer their taxable value once in their lifetime, except in limited circumstances.

**Inherited Property is Protected from Increased Taxable Value.**

Special rules also exclude from reassessment certain property transfers between parents and children. These rules also apply to grandparents and grandchildren if the grandchildren’s parents are deceased. Property can be transferred before and after the death of the parent or grandparent. The rules apply to all types of property including primary residences, vacation homes, and business properties. There is a cap of $1 million in aggregate taxable value of all inherited properties that were not used as the parent’s primary residence.

**California Taxes Personal Income**.

The state collects a personal income tax on income earned within the state. Taxable income can include profits from selling real estate. Personal income taxes are put into the state’s General Fund, the growth of which is one basis for increases in state funding for K-14 education under the provisions of Proposition 98.

**WHAT THE MEASURE PROPOSES TO DO**

The measure proposes to change some of the current rules regarding the three types of property transfers described above, including:

* Expands the rules for certain homeowners to allow them to move and transfer the assessed value of their old home to a new home.
* For inherited properties, the home must be used as the primary residence or be farm property to maintain the current assessed value.
* Creates the California Fire Response Fund and the County Revenue Protection Fund. The Fire Response Fund supports state fire operations and provides grants to local fire districts. The County Revenue Protection fund would be used to reimburse counties who have a net loss of property tax revenue based on the measure’s provisions.

**Expands Special Rules for Eligible Homeowners.**

This would authorize an owner of a primary residence who is over 55 years of age, severely disabled, or a victim of a wildfire or natural disaster to transfer their primary residences property tax base value to a replacement residence.

* It can be located anywhere in the state, regardless of the location or value of the replacement primary residence,
* It must be purchased or newly constructed as that person’s principal residence within two (2) years of the sale of the original primary residence.
* Eligible homeowners could transfer their taxable value up to three times in their lifetime--not just once.
* To use the special rules, homeowners would need to file an application with their county assessor.

**Changes from existing law**

Eligible homeowners could transfer the taxable value of their existing home to another home anywhere in the state--not just the current 10 counties.

Eligible homeowners could transfer the taxable value of their existing home (with some adjustment) to a more expensive home--not just to one with the same or less value. The taxable value transferred from the existing home to the new home is adjusted upward--it is not the same taxable value as the prior home. The new home’s taxable value is greater than the prior home’s taxable value but less than the new home’s market value.

*Example:*

Mr. and Mrs. Smith are over 55 and they sell a home with a market value of $600,000 and a taxable value of $200,000. They buy a home for $700,000. Their new taxable value will be $300,000, the original $200,000 plus the $100,000 higher market value of their new home ($700,000 minus $600,000).

**Narrows the Special Rules for Inherited Properties.**

The inheritance exclusion would apply **only to properties used as the inheritor’s primary residence or for farming--not other uses.** Inherited property used for any other purpose —such as rental homes or business properties—would be reassessed to market value.

If the inherited property is used as a primary residence or for farming, the assessor would exclude only the first $1 million of value that would be added upon reassessment.

*Example:*

Ms. Jones inherits and moves into her parents’ home, which has a taxable value of $500,000. Its market value is $2 million. If the home were reassessed at market value, its taxable value would increase by $1.5 million. Instead, under this measure, $1 million of that increase would be excluded so the taxable value would be $1 million

The calculation: ($500,000 (original taxable value) + $500,000 ($1.5 million [gap between original taxable value and market value] - $1 million [inheritance exclusion]).

The taxable value of an inherited property would increase each year at the same rate as the price of a typical California home.

**Creates the California Fire Response Fund and the County Revenue Protection Fund**

Any additional revenues or savings to the state are allocated to the California Fire Response Fund and the County Revenue Protection Fund as follows:

* 75% to the California Fire Response Fund
* 15% to the County Revenue Protection Fund to reimburse counties with “negative gain.”

Funds in the **California Fire Response Fund** must be used to expand fire suppression staffing in underfunded special districts that provide fire suppression staffing, and must not supplant existing state or local funds

1. Allocates 20% to the Department of Forestry and Fire Protection to fund fire suppression staffing.

1. Sends 80% to the Special District Fire Response Fund, a subaccount, for districts that provide fire protection services

**FISCAL IMPACT SUMMARY**

The Legislative Analyst’s Office [analysis](https://elections.cdn.sos.ca.gov/statewide-elections/2020-general/prop-19-leg-analysis.pdf), released on July 21, 2020, provides some general observations about the fiscal impact of the measure’s provisions. The narrowed rules for inherited properties would lead to higher property taxes. However, the expanded rules for eligible homeowners are expected to reduce property taxes overall. The LAO predicts that those reductions would likely be offset to some degree by an increase in home sales. More home sales would increase money going to both state and local governments from a number of other taxes collected on the sale of a home.

The LAO analysis estimates the net financial impacts of the measure for state and local governments, as follows:

* “Overall, More Property Taxes for Local Governments and Schools. Some parts of the measure would increase property taxes. Other parts would decrease them. Overall… in the first few years, local governments could gain tens of millions of dollars per year. Over time, these revenue gains could grow to a few hundred million dollars per year. Schools could receive similar property tax gains.”
* “Possible Reduction in State Costs for Schools in Some Years. In limited situations, total school funding from property taxes and state taxes could be about the same in some years despite schools’ property tax gains. This is because existing state law [under the provisions of Proposition 98[[1]](#footnote-1)] could cause state funding for schools to decrease by about the same amount as their property tax gains. If this happens, the state would get cost savings in those years … at a similar amount to school property tax gains. The measure says most of these savings would have to be spent on fire protection.”

The LAO analysis also says that the measure would increase costs for counties because they would need to hire new staff and make computer upgrades to carry out the measure.

**Impact on State General Fund**

The measure creates two new funds, one for fire response and one for local revenue protection. There are two primary sources of revenue for these funds: (1) increased state income taxes (presumably capital gains from the sale of more properties) and (2) reduced General Fund spending on Proposition 98 as described above. These sources remain part of General Fund revenues for purposes of the Proposition 98 calculations, even though they are placed in dedicated special funds for other purposes.

**Impact on Local Revenue**

Counties are likely to be affected in differing ways by the measure. Overall, most cities and counties would likely receive considerably increased revenues, which could support services for children. For those locales where there is a net loss of property tax revenues, the revenue protection fund would offset net property tax losses for both school and non-school local agencies. Every three years, any leftover money in the fund would be sent back to the State General Fund.

Unlike county governments which would in many cases see increases in local property tax revenues, the measure would be fiscally neutral for the majority of school districts due to the way the state allocates entitlements to districts. The exception would be basic aid districts who get more in local property taxes than the state would provide. For areas where property taxes have a net decrease, those districts would be defined as “eligible local agencies” and receive their proportionate share of state reimbursement funding from the “County Revenue Protection Fund” in the same manner as cities and counties.

**CAPTA AUTHORITIES**

**General Principle #5:**

Establishment of and adherence to fiscal responsibility in government, with concern for fair taxation, but keeping priorities for the needs of all children and youth foremost.

**General Principle #7:**

Strong and broadly based tax structures at state and local levels.

**Legislative Plank #2:**

“To secure financing for public education that will be sufficient to provide optimum educational opportunity for all students, including state aid to school districts for building purposes as well as state funds to cover excess costs of all programs by the Legislature.”

**Legislative Plank #11:**

To prevent, control or eliminate hazards to the health, safety and well-being of all children and youth.

**Legislative Plank #20:**

To support the needs of vulnerable children in all aspects of their lives.

**Resolutions**:

**Improving and Stabilizing Education Funding,” Adopted by Convention Delegates April 2018**

RESOLVED, That the California State PTA, and its units, councils and districts collaborate with and encourage other organizations and the voters of the state of California to research and support increased, stable revenue sources in the state of California

“**State Tax Reform.” Adopted 1991, reviewed 2013**

**(excerpt)**

RESOLVED, That the California State PTA vigorously seek and support legislation and/or necessary ballot measures to fundamentally restructure the state tax system to ensure a broadly based, equitable system of taxation that generates adequate revenues to fund education and all other services needed by the children, youth and families of California....

“**Post Proposition 13 Funding of Public Education.” Adopted 1979, reviewed 2010 (excerpt)**

RESOLVED, That the California State PTA urge the Legislature and the Governor to enact an ongoing method of financing public schools such that the sources will be dependable, long-range, and adequate to provide optimum educational opportunity for all elementary and secondary students, with allowance for inflation and a mechanism for funding state, federal and court mandates; be it further …

**WHAT DO PROPONENTS AND OPPONENTS SAY?**

This measure was placed on the ballot by the Legislature via a bill (ACA 11) by San Mateo Assemblymember Kevin Mullin, and is co- sponsored by the California Association of Realtors and is the result of a compromise between the Legislature and a previous measure that the California Association of Realtors recently pulled from the November 2020 ballot.

**Proponents Say:**

In a letter supporting ACA 11, the California Professional Firefighters stated, in part, the following:

“ACA 11 is a compromise measure to replace a measure qualified for the November ballot, ensuring that funding for fire protection and local government revenues are protected, and allowing for flexibility and reform in California’s property tax formulas, while leaving the protections of Proposition 13 intact. This measure contains several provisions intended to increase the stock of available housing and provide protections to vulnerable Californians in the housing market, while creating protected funding for underfunded fire districts throughout the state and ensuring that counties and local governments receive equal and equitable funding through the provisions.”

In support of this constitutional amendment, the author of this measure noted: ([*Assembly Floor Analysis*](http://leginfo.legislature.ca.gov/faces/billAnalysisClient.xhtml?bill_id=201920200ACA11)*, dated June 25, 2020)*

* ACA 11 seeks to provide much needed housing relief for our state's most vulnerable populations, while also creating a stable revenue source for both Special Districts that provide fire protection and local governments to improve services to their communities.
* ACA 11 continues to protect seniors, persons with disabilities, families, and victims of wildfire by limiting property tax increases on primary residences, as originally intended under Propositions 60 and 90, and Propositions 58 and 193. ACA 11 also expands these protections to include wildfire victims and removes unfair location restrictions from Propositions 60 and 90. Removing these restrictions will allow our most vulnerable residents to move closer to family or medical care, to a senior or retirement community, or to replace a damaged home anywhere within California.
* ACA 11 also protects the Constitutional right of parents and grandparents to pass the family home to their children, ensuring that their heirs can afford to move into that home as their primary residence.
* Out-of-state investors, non-California residents, and trust fund heirs have used Propositions 58 and 193 on vacation homes, investment property, and beachfront rentals. By closing these unintended loopholes, the state will be able to generate hundreds of millions of dollars for local governments to fund fire protection, emergency services, and other critical local programs to support the homeless and provide mental health services or to help fund the development of new affordable housing projects throughout California.
* California's persistent housing shortage, which places an upward pressure on housing costs, has created an unprecedented affordability crisis for California's working families. The state has the 49th lowest ratio of housing units per resident and our state's vacancy rate in 2019 was just 4.4%. Home purchase prices and rents statewide continue to rise faster than wages, which results in housing costs making up a greater percentage of a family's monthly budget. ACA 11 will open up tens of thousands of new housing opportunities throughout California for renters and first-time homeowners. As a result of increased demand, ACA 11 will spur housing construction at all income levels to accommodate the demand for housing statewide.
* By ending a tax benefit for converting inherited properties into rental properties, ACA 11 could help ameliorate the state's affordable housing crisis by ending the significant incentive to hold these properties off the home sales market.

**List of Supporters includes** (Verified 6/24/20)

California Association of Realtors (co-source)

California Professional Firefighters (co-source)

California Business Properties Association

California Business Roundtable

California Farm Bureau Federation

[**Opponents Say:**](https://www.car.org/en/aboutus/mediacenter/news/ballotinitiativeupdate)

Opposition is led by Protect Prop 13, a project of the Howard Jarvis Taxpayer Association. On July 05, 2020, Jon Coupal of the Howard Jarvis Taxpayers Association [stated](https://www.hjta.org/california-commentary/proposition-19-is-latest-assault-on-taxpayers/) on the organization’s website that “*The assaults on California property owners and taxpayers never stop. And once again the California Legislature has advanced a massive tax increase at the last possible moment when they thought no one was paying attention.*”

In a letter opposing ACA 11, the Howard Jarvis Taxpayers Association stated, in part:

“ACA 11, if approved by the voters on the November 2020 ballot, would limit the ability of parents to transfer their Proposition 13 tax base to their children unless the child decides to live in the home as their primary residence. The measure also eliminates a $1 million property tax exemption for parent to child transfers beyond the primary residence, which could include investment property or commercial buildings. Either of these situations could result in a potentially significant property tax increase of California property owners.”

([*Assembly Floor Analysis*](http://leginfo.legislature.ca.gov/faces/billAnalysisClient.xhtml?bill_id=201920200ACA11)*, dated June 25, 2020)*

In reviewing Proposition 19 (ACA 11), the League of Women Voters of California noted:

* In other words, current law restricts base year value transfers to replacement properties of equal or lesser value. ACA 11/Prop 19 would constitutionally eliminate that restriction, extending an already powerful tax benefit that primarily benefits to those who have already accrued housing wealth. ACA 11/Prop 19 does not set any restriction on a taxpayer’s income or their housing value to apply its expanded benefits.
* A special rule once promoted as allowing the elderly to downscale in now being extended so that those who already above average wealth can get a tax break when they buy a more valuable home.
* The provisions on inherited property represent the partial elimination of current special treatment and, taken alone, would be a welcome reform.
* The analysis of ACA 11 prepared for the Senate Elections and Constitutional Amendments Committee points out that the information to calculate the gains and savings to the state is really impossible to attain. In the same way, counties will not have the kind of information they would need to compute gains that result from changes in assessment on inherited property. The Committee analysis also notes that there are several provisions of ACA 11 that are ambiguous and would benefit from further clarity and cites seven examples on page 12 of their analysis, but no amendments were made to try to resolve the ambiguities.
* Additionally, the Committee notes that ACA 11 implements the provisions related to the allocation of additional revenues or savings to the state to the Fire Funds by “Requiring the Director of Finance to calculate additional revenues and net savings to the state …during the preceding fiscal year each September 1 between 2022 and 2017 using the best data or available estimates if data is not available.
* Proposition 19 is a Constitutional amendment. It does not have language authorizing amendment or correction by the legislature in the case of unintended consequences from structural ambiguities. There is no sunset clause, no requirement for periodic review and/or reauthorization. It would be amendable only by another vote of the people to amend the Constitution.

**OPPOSITION: (Verified 6/24/20)**

Bob Dutton, San Bernardino County Assessor Clerk-Recorder

Howard Jarvis Taxpayers Association

Tom Bordonaro, Jr., San Luis Obispo County Assessor

**CAMPAIGN FINANCE AS OF DATE OF STUDY**

(See Attachment A)

**DISCUSSION/ANALYSIS**

This initiative makes it easier for people who are over 55, severely disabled, or whose homes were destroyed by wildfire or disaster to sell their homes and move to any county in California. The tax proceeds from these sales (i) creates a fund to provide fire protection and (ii) generates more local property taxes to improve services in local communities. It has minimal impact on school funding.

It also closes tax loopholes on inherited property by requiring that inherited property must be used as the primary residence or be farm property to maintain the current assessed value.

These provisions will allow seniors to down-size their homes and move closer to families and medical services, thus freeing up larger homes for families. It would also allow some seniors who have above average wealth because of the appreciation of their primary residence to get a reduced property assessment when they move to a more expensive home. The restriction on residential use of inherited property will also free up more housing stock.

California State PTA has authorities that support the well-being of children, youth and families. Because this provides millions of dollars in additional funding for local community services, which could be used, for example, to support health services, recreation, libraries, social services and other programs, the PTA has authority to support this measure. The creation of additional housing for families as well as fire protection also improves the lives of children, youth and families and thus falls within PTA authority.

Since this is a constitutional amendment and the language can only be changed by a future ballot measure (another Constitutional Amendment), not by the legislature, the precise language in the measure is important. The staff analysis in the Senate Committee on Elections and Constitutional Amendments Committee identified a number of ambiguous provisions in the measure that would benefit from further clarity, but were not resolved before adoption.

Furthermore, in taking a position on a measure, the PTA looks at many factors, including what other measures are on the ballot and the capacity of the PTA to assist in a campaign.

This year, California Proposition 15, the “Tax on Commercial and Industrial Properties for Education and Local Government Funding” Initiative (Also known as Schools and Communities First) is also on the ballot. The PTA was involved in the creation of this initiative and is committed to assisting this campaign throughout the state. This initiative raises substantially more funding for schools and communities than Proposition 19. Because both ballot measures affect property taxes, PTA support of both initiatives can create confusion as our members are called upon to speak on ballot measures.

**COMMITTEE RECOMMENDATION**

For the above reasons, we recommend a NEUTRAL POSITION on this measure.

**ATTACHMENT A**

**CAMPAIGN FINANCE FILINGS AS OF DATE OF STUDY**

Through March 31, 2020, the **Homeownership for Families and Tax Savings for Seniors** [PAC](https://ballotpedia.org/Political_action_committee), a committee associated with the California Association of Realtors, was registered to support the ballot initiative. The committee had raised $12.08 million, with the California Association of Realtors Issues Mobilization PAC providing $10.70 million since 2019. The committee had spent $9.83 million.[[9]](https://ballotpedia.org/California_Property_Tax_Transfers_and_Exemptions_Initiative_(2020)#cite_note-finance-9)

Through March 31, 2020, the **Protect Prop. 13, a Project of the Howard Jarvis Taxpayers Association** PACs were registered to oppose the ballot initiative. Protect Prop. 13 was also registered to oppose the [California Tax on Commercial and Industrial Properties for Education and Local Government Funding Initiative](https://ballotpedia.org/California_Proposition_15,_Tax_on_Commercial_and_Industrial_Properties_for_Education_and_Local_Government_Funding_Initiative_(2020)). The PAC had raised $1.52 million and expended 504,757.[[9]](https://ballotpedia.org/California_Property_Tax_Transfers_and_Exemptions_Initiative_(2020)#cite_note-finance-9)

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|  | **Cash Contributions** | **In-Kind Contributions** | **Total Contributions** | **Cash Expenditures** | **Total Expenditures** |
| Support | $12,076,476.40 | $0.00 | **$12,076,476.40** | $9,831,979.77 | $9,831,979.77 |
| Oppose | $1,520,326.51 | $0.00 | **$1,520,326.51** | $504,757.25 | $504,757.25 |

### **Support**

The following table includes contribution and expenditure totals for the committee in support of the ballot initiative through March 31, 2020.[[9]](https://ballotpedia.org/California_Property_Tax_Transfers_and_Exemptions_Initiative_(2020)#cite_note-finance-9)

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| --- | --- | --- | --- | --- | --- |
| **Committees in support of California Property Tax Transfers and Exemptions Initiative (2020)** | | | | | |
| **Committee** | **Cash Contributions** | **In-Kind Contributions** | **Total Contributions** | **Cash Expenditures** | **Total Expenditures** |
| Homeownership for Families and Tax Savings for Seniors | $12,076,476.40 | $0.00 | $12,076,476.40 | $9,831,979.77 | $9,831,979.77 |
| **Total** | **$12,076,476.40** | **$0.00** | **$12,076,476.40** | **$9,831,979.77** | **$9,831,979.77** |

#### **Donors:** The following was the top donor to the support committee.[[9]](https://ballotpedia.org/California_Property_Tax_Transfers_and_Exemptions_Initiative_(2020)#cite_note-finance-9)

|  |  |  |  |
| --- | --- | --- | --- |
| **Donor** | **Cash Contributions** | **In-Kind Contributions** | **Total Contributions** |
| California Association of Realtors Issues Mobilization PAC | $10,700,000.00 | $0.00 | $10,700,000.00 |
| National Association of Realtors | $800,000.00 | $0.00 | $800,000.00 |

### **Opposition**

The following table includes contribution and expenditure totals for the committee in opposition to the ballot initiative through March 31, 2020.[[9]](https://ballotpedia.org/California_Property_Tax_Transfers_and_Exemptions_Initiative_(2020)#cite_note-finance-9)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Committees in opposition to California Property Tax Transfers and Exemptions Initiative (2020)** | | | | | |
| **Committee** | **Cash Contributions** | **In-Kind Contributions** | **Total Contributions** | **Cash Expenditures** | **Total Expenditures** |
| Protect Prop. 13 | $1,520,326.51 | $0.00 | $1,520,326.51 | $504,757.25 | $504,757.25 |
| **Total** | **$1,520,326.51** | **$0.00** | **$1,520,326.51** | **$504,757.25** | **$504,757.25** |

#### **Donors:** The following was the top donor to the opposition committee.[[9]](https://ballotpedia.org/California_Property_Tax_Transfers_and_Exemptions_Initiative_(2020)#cite_note-finance-9)

|  |  |  |  |
| --- | --- | --- | --- |
| **Donor** | **Cash Contributions** | **In-Kind Contributions** | **Total Contributions** |
| Michael Koss | $10,000.00 | $0.00 | $10,000.00 |

1. *During Proposition 98 Test 1 years, this will result in a net increase in the amount of funding dedicated to K–14 education; Test 1 is forecast to be operative over the next several years. During Test 2 and 3 years, the increased property taxes that flow to K–14 districts will generate savings for the state—and not increase funding for districts.* [↑](#footnote-ref-1)