March 29, 2002

Hon. Bill Lockyer
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Tricia Knight
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Elections Code 9005, we have reviewed the proposed initiative entitled "Jarvis-Simon Homeowners and Renters Relief Act: Version 2" (File number SA2002RF0012).

MAJOR PROVISIONS OF THE INITIATIVE

This measure amends the California Constitution and state law to expand the taxpayer benefits of the homeowners' exemption and renters' credit.

Provisions Increasing the Homeowners' Exemption

The Constitution grants a $7,000 property tax exemption on the assessed value of owner-occupied dwellings and requires the state to reimburse local governments for the resulting reduction in property tax revenues. Since the average statewide property tax rate is 1.067 percent of assessed value, the exemption reduces the typical homeowner's taxes by about $75 annually. Over 5 million homeowners currently claim the exemption. The cost to the state for reimbursing local governments is expected to be $410 million in 2002-03. This amount increases slightly each year—which reflects the growth in the number of homeowners claiming the exemption.

This measure would amend the Constitution to increase the amount of the homeowners' exemption from $7,000 to $50,000. For the typical homeowner, the value of the homeowners' exemption, therefore, would increase to about $534—an increased benefit of about $459. In addition, the measure would increase the amount of the exemption annually for the rate of inflation.

Provisions Expanding the Renters' Credit

Under current law, the renters' credit provides an annual tax credit to designated Californians who rent their principal place of residence. Up to the amount of their personal income tax liability, single renters with annual incomes of less than about $28,000 can claim a renters' credit of $60, and married couples and heads of households with incomes of less than about $56,000 can claim a credit of $120. As a result of the program, the state receives lower income tax payments of about $100 million annually.

This measure would expand the renters' credit, beginning in the 2005 tax year, by:

- Eliminating the income thresholds for eligibility.
- Increasing the maximum amount of the credit to $266 for single renters and $532 for married and heads of household renters.
- Increasing the amounts of the credit annually for the rate of inflation.

The amount of the credit claimed would continue to be limited to the filer's income tax liability. (Due to its wording, it is unclear whether the measure would affect the existing renters' credit prior to the 2005 tax year. For the purposes of this analysis, we have assumed the existing renters' credit would not be affected prior to 2005.)

FISCAL EFFECT

Increased State Costs for Homeowners' Exemption

The measure would increase the homeowners' exemption from $7,000 to $50,000. The state's costs to reimburse local governments for lost property taxes would increase at a similar rate—from $410 million to about $3 billion. Thus, the measure would increase state costs by about $2.6 billion. In addition, this amount in the future would increase at a faster rate than under current law, due to the annual increase in the exemption for the rate of inflation.

Lost State Personal Income Tax Revenues

By eliminating the income thresholds on the renters' credit, many more renters would claim the renters' credit. In addition, each existing claimant with additional tax liability would receive an increased benefit from the credit. The combination of these two factors would result in reduced income tax receipts by the state of about $900 million annually. This amount would increase annually thereafter—as a result of new renters claiming the credit and the credit amounts increasing each year for inflation.

The increased homeowners' exemption would decrease the amount of property taxes paid by homeowners. Consequently, for those homeowners who itemize their income tax deductions, eligible deductions would decline. This would increase personal income tax collections in the range of $125 million annually. This amount would partially offset the revenue losses from the expanded renters' credit.

SUMMARY

The initiative would have the following major fiscal effects:

- Increased state costs of reimbursing local governments for the homeowners' exemption of about $2.6 billion annually.
- Decreased state income tax revenues of about $775 million annually.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

B. Timothy Gage
Director of Finance