

## **Proposition 13**

### **Property Tax: New Construction Exclusion: Seismic Retrofitting.**

#### **Background**

Local property taxes are based on each property's assessed value. When a property is purchased, it is generally given an assessed value equal to its purchase price. As long as a property has the same owner and there is no new construction on the property, its assessed value generally remains the same, except for a small annual increase for inflation. New construction generally causes a reassessment if it adds a building, adds space, converts a building to a new use, or renovates the building to make it like new. The property's assessed value is increased to reflect the value added by the new construction. In contrast, the assessed value is not increased for normal maintenance and repair, such as replacing a leaky roof.

Currently, there are several specific exclusions in the State Constitution from the new construction rule. Among them are two separate provisions regarding earthquake safety modifications on existing buildings. The first one excludes earthquake safety upgrades on "unreinforced masonry buildings" (such as those made of brick or cement blocks) that are required by local ordinances. Such upgrades are excluded from reassessments for a period of 15 years. The second excludes from reassessment other earthquake safety modifications to any type of building and has no time limit. Both exclusions apply only until the property is sold.

#### **Proposal**

This constitutional amendment deletes both of the existing exclusions and replaces them with a single exclusion for all earthquake safety upgrades. The exclusion would not be time-limited and would last until the property is sold. This amendment has the practical effect of removing the 15-year limit to the exclusion for safety upgrades on unreinforced masonry buildings.

#### **Fiscal Effects**

This measure would allow properties with masonry buildings currently receiving an exclusion from reassessment of 15 years for earthquake upgrades to extend this exclusion. It would also allow any properties with future masonry upgrades to receive exclusions with no time limits. This would reduce local property tax revenues to the extent that properties are no longer reassessed at higher values after 15 years. Many county assessors, however, have indicated that they either: (1) do not track the number of years that unreinforced masonry upgrades have received an exclusion or (2) classify these upgrades as maintenance or repair. In addition, many properties sell before the 15-year period is up, which triggers a reassessment of the entire property. For these reasons, the loss to local property taxes as a result of this measure is probably minor.

**Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact**

- Minor reduction in local property tax revenues related to the assessment of earthquake upgrades.

**Yes/No Statement**

A **YES** vote on this measure means: Earthquake safety improvements made to unreinforced masonry (such as brick) buildings would not result in higher property taxes until the building is sold.

A **NO** vote on this measure means: Earthquake safety improvements made to unreinforced masonry buildings would continue to be excluded from property taxes but for only up to 15 years.