

March 6, 2012

Hon. Kamala D. Harris
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Ashley Johansson
Initiative Coordinator

Dear Attorney General Harris:

Pursuant to Elections Code Section 9005, we have reviewed the proposed constitutional initiative concerning property tax exemptions for severely disabled veterans (A.G. File No. 12-0002).

BACKGROUND

Local Property Tax

The local property tax is a 1 percent tax levied on the assessed value of real and personal property. County officials collect property tax revenues and allocate them to local governments: cities, counties, special districts, K-12 schools, and community colleges.

Real property includes land, buildings, and other structures affixed to the land. Personal property includes boats, airplanes, business equipment, and other property not affixed to real property. Household items and personal effects, although personal property, generally are exempt from taxation.

Most real property is assessed for tax purposes based on its acquisition value—typically its purchase price—adjusted each year by up to 2 percent to account for inflation. For personal property, assessed value is based on the current market value of the property regardless of its acquisition value.

Veterans With Service-Related Disabilities

Disability Ratings. The U.S. Department of Veterans Affairs (VA) classifies all service-related injuries on a scale of 0 percent to 100 percent disability. Disabled veterans may receive cash benefits based on their disability rating. Under existing state law, veterans with service-related 100 percent disability ratings are eligible to receive the state’s partial property tax exemption.

Special Monthly Compensation. The VA grants certain severely disabled veterans funds that are known as “special monthly compensation.” Veterans receiving special monthly compensation typically require benefits and assistance at a level greater than that provided to veterans with a

disability rating of 100 percent. In other words, special monthly compensation recipients tend to be among the most severely disabled veterans.

Veterans' Property Tax Exemptions

The State Constitution currently allows the Legislature to exempt some or all of the assessed value of residences owned by veterans, including those with service-related disabilities. The current property tax exemptions for veterans include:

- ***Standard Veterans' Exemption.*** This is a \$4,000 exemption on the assessed value of real or personal property owned by veterans that were honorably discharged. A surviving spouse or parents may claim the exemption. The exemption, however, is unavailable to veterans who own property valued at \$5,000 or more. Because of the property value limitation, few veteran homeowners are eligible to claim the standard exemption.
- ***Disabled Veterans' Exemption.*** This is a \$119,285 exemption from the assessed value of a disabled veteran's principal residence. In order to qualify for the exemption, a veteran must have severe service-related injuries. Qualified veterans include those with service-related (1) loss of vision in both eyes, (2) loss of the use of two or more limbs, or (3) 100 percent disability rating by the VA. Unmarried surviving spouses are eligible for this exemption.
- ***Low-Income Disabled Veterans' Exemption.*** This is an expanded exemption for low-income veterans that otherwise qualify for the disabled veterans' exemption discussed above. Disabled veterans with household incomes below \$53,566 are eligible for a \$178,929 exemption on the assessed value of their residence. Unmarried surviving spouses also are eligible for this exemption, provided they meet the income eligibility requirement.

Veterans' Exemption Does Not Apply to Local Add-On Property Taxes. Local governments are allowed—under Proposition 13—to collect property taxes in addition to the 1 percent cap in order to finance voter-approved indebtedness or to fund local government services that directly benefit property owners. The veteran exemptions discussed above do not provide assessed value exemptions from these additional property tax levies.

Approximately 30,000 Veterans Claim Property Tax Relief. In 2010-11, property tax exemptions for veterans reduced total assessed value by about \$3 billion, thereby reducing veterans' property tax payments by roughly \$30 million. According to data compiled by the State Board of Equalization, 28,980 veterans received property tax exemptions in 2010-11.

PROPOSAL

This measure would amend the Constitution to permit or require (1) a property tax exemption for veterans who are eligible under an additional severe disability category created by the measure and (2) add "brain syndrome" as an eligible disability. While the manner in which this measure would be interpreted is uncertain, it could be construed to permit or require greater property tax relief than is available under current law to some of the most severely disabled veterans. Specifically, this measure may permit or require a total or partial exemption from property taxes for the principal residences of additional disabled veterans. These additional

disabled veterans include those who receive special monthly compensation from the VA and are blind, have lost the use of two or more limbs, or have brain syndrome. (Federal veteran disability standards appear to indicate that qualification for special monthly compensation necessitates having traumatic brain injury in conjunction with one or more other severe service-related disabilities. Therefore, veterans with traumatic brain injury alone or in conjunction with one or more minor disabilities may not be eligible for additional property tax relief under this measure.)

FISCAL EFFECTS

Potential Minor Reduction in Property Tax Revenue for Local Governments. The number of eligible veterans under the measure is likely to be very small compared to the total number of homeowners in the state. Accordingly, this measure may result in a small decrease in property tax revenues for local governments because eligible veterans would no longer be subject to the 1 percent countywide property tax, in whole or in part.

Potential Minor Increase in State Spending for K-14 Education. Proposition 98 guarantees a minimum funding level for K-12 education and community colleges. Local property tax revenues are used, in part, to fund these education programs. In many cases, the state must pay more to schools and community colleges when local property taxes distributed to school districts decline. Accordingly, under this measure, the state may be required to increase its spending for K-14 education by a minor amount.

Summary of Fiscal Effects

This measure would have the following fiscal effects:

- Potential minor reduction in property tax revenues for local governments as a result of increased property tax exemptions for certain veterans with severe service-related disabilities.
- Potential minor increase in state spending on K-12 schools and community colleges as a result of the small property tax decline.

Sincerely,

Mac Taylor
Legislative Analyst

Ana J. Matosantos
Director of Finance