

May 15, 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 religious properties (A.G. File No. 12-0012).

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: the county, cities, special districts, K-12 schools, and community colleges.

Real property includes land, buildings, and other structures. Personal property includes boats, airplanes, manufacturing equipment, and other mobile property. Household items and personal effects, although personal property, are generally not taxed.

The taxable value of real property (its assessed value) is the purchase price of the property. Each year thereafter, it grows by up to 2 percent. Personal property, on the other hand, is assessed at market value (taking into account depreciation) regardless of its purchase price.

Exemptions From the Property Tax

The State Constitution exempts certain properties from the property tax, including those used for nonprofit charitable, hospital, scientific, educational, and religious purposes.

Religious Property Is Exempt From the Property Tax. Parochial schools are also exempt. Some churches own other property that is not used for religious services, such as administrative offices, clergy residences, community centers, disaster relief shelters, and bingo halls. These properties are exempt under a separate property tax exemption, the same law that also exempts nonprofit private schools, charities, and hospitals.

The assessed value of exempt religious property in 2010-11 was approximately \$17 billion. In addition, the assessed value of property owned by churches but not used for religious services was several billion dollars.

PROPOSAL

This measure would amend the Constitution to remove the property tax exemption for churches and other religious property. The measure would take effect in 2013.

Church Property Used for Worship Would No Longer Be Exempt From the Property Tax. Property used for other religious services, including reading rooms, clergy residencies, and church parking lots, would also not be exempt.

Some Church-Owned Property Could Retain Property Tax Exemption. Church property used for educational or charitable purposes may be eligible under the state's property tax exemption that applies to nonprofit education and charitable organizations. Whether these properties qualify would be subject to interpretation by state and county officials.

FISCAL EFFECTS

Increased Property Tax Revenue for Local Governments. As a result of this measure, local governments likely would receive approximately \$225 million annually beginning in 2013-14. This amount could vary depending on the assessed value of religious property that would qualify for the charitable or educational exemption.

General Fund Revenue Savings. In most cases, local property taxes distributed to schools and community colleges offset state General Fund spending for education. Under current property tax allocation law, approximately 40 percent of local property tax revenue is distributed to schools and community colleges each year. Therefore, the measure would result in General Fund savings of roughly \$100 million annually.

SUMMARY OF FISCAL EFFECTS

The measure would have the following fiscal effects:

- Annual local government revenue increase of roughly \$225 million from property taxes levied on religious property.
- State General Fund savings in most years of roughly \$100 million from increased local property tax revenues for school and community college districts.

Sincerely,

Mac Taylor
Legislative Analyst

Ana J. Matosantos
Director of Finance