

**Proposition 72**  
**SCA 9 (Resolution Chapter 1, Statutes of 2018), Glazer.**  
**Property tax: new construction exclusion: Rainwater capture system.**

**Yes/No Statement**

A **YES** vote on this measure means: Installing a system to collect and store rainwater on a property could *not* result in a higher property tax bill.

A **NO** vote on this measure means: Installing a system to collect and store rainwater on a property could result in a higher property tax bill.

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

- Probably minor reduction in annual property tax revenues to local governments.

**Ballot Label**

**Fiscal Impact:** Probably minor reduction in annual property tax revenues to local governments.

**BACKGROUND**

*California's Water Supplies Can Be Limited in Some Years.* California has an extensive water system to deliver water from the northern part of the state—where it is more plentiful—to farms and cities in other parts of the state. Water typically is delivered to houses and other buildings through local public water systems. The amount of water available through these water systems can vary widely from year to year. In years with less rain and snow, it can be difficult to provide enough water for all of the state's farms, residents, and businesses. In response, the state and local governments have looked for other ways to provide water to those who want it.

***Rainwater Capture Systems Collect Water for Use on Site.*** Rainwater capture systems are one way to create additional supplies of water. A rainwater capture system collects and stores rainwater that falls on the roof of a building. The system uses pipes to direct water from roofs and gutters to large storage tanks. Stored water can be used for things like watering plants or flushing toilets. As a result, these systems reduce somewhat the demand for water from local water systems. Rainwater capture systems installed on homes typically cost a few hundred dollars to several thousand dollars. Systems installed on business properties or apartments typically cost several thousand dollars to hundreds of thousands of dollars.

***Local Governments Levy Taxes on Property Owners.*** California local governments—cities, counties, schools, and special districts—levy property taxes on property owners based on the value of their property. A property includes land plus any buildings or other improvements on the land. Property taxes are a major revenue source for local governments, raising over \$60 billion per year statewide.

***Calculating a Property Owner's Tax Bill.*** Each property owner's annual property tax bill is equal to the taxable value of their property multiplied by their property tax rate. The typical property owner's property tax rate is 1.1 percent. In the year a property is purchased, its taxable value is its purchase price. Each year after that the property's taxable value is adjusted for inflation (up to 2 percent). This continues until the property is sold and again is taxed at its purchase price.

***Property Improvements Trigger a Higher Tax Bill.*** When a property owner makes an improvement to his or her property, the county assessor typically updates the property's taxable value to reflect the improvement. The county assessor first determines the value of the improvement. The improvement's value is based on the cost of building the improvement and

how much it increases the price the property could be sold for. The county assessor then adds the value of the improvement to the property's prior taxable value to determine the property's new taxable value.

***Certain Improvements Do Not Increase Tax Payments.*** Past measures approved by voters require that county assessors not count the value of certain types of property improvements toward a property's taxable value. Such improvements include solar panels, fire sprinklers, and certain upgrades for earthquake safety.

## **PROPOSAL**

***Rainwater Capture Systems Not Counted Toward Taxable Value.*** This measure, which amends the State Constitution, allows the Legislature to exclude the value of a newly constructed rainwater capture system from a property's taxable value. Earlier this year, the Legislature passed a law to carry out this measure should it be approved by voters. Under this law, any systems installed between January 1, 2019 and December 31, 2028 would not raise property tax bills. These property tax savings would apply until the property is sold. If a developer installs a system on a new building, the first buyer of the building may claim the property tax savings for the system.

***An Example.*** Here is an example of the property tax savings provided by this measure. Suppose a home has a taxable value of \$400,000 and the homeowner's annual tax bill is \$4,400 (\$400,000 multiplied by 1.1 percent). The homeowner pays \$5,000 to have a rainwater capture system installed. Without this measure, the county assessor would increase the home's taxable value to \$405,000. The homeowner's annual tax bill would increase to \$4,455 (\$405,000 multiplied by 1.1 percent). With the measure, the home's taxable value and tax bill would not

change. The homeowner's annual tax bill would still be \$4,400, \$55 lower than if the measure were not in place.

## **FISCAL EFFECTS**

*Likely Minor Reduction in Property Tax Revenues.* This measure would result in lower property tax payments for property owners who install rainwater capture systems on existing buildings or who purchase new buildings that include these systems. Lower property tax payments would mean lower revenues for local governments. Statewide, these property tax revenue losses probably would be minor, not exceeding a few million dollars per year. This is because properties with new rainwater capture systems probably will pay a very small share of all property tax payments in coming years.