



Proposition 19

CHANGES CERTAIN PROPERTY TAX RULES. LEGISLATIVE CONSTITUTIONAL AMENDMENT

ANALYSIS OF MEASURE

Background

Local Governments Tax Property. California cities, counties, schools, and special districts (such as a fire protection district) collect property taxes from property owners based on the value of their property. Property taxes raise around \$65 billion each year for these local governments.

How Is a Property Tax Bill Calculated? 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 new owner takes over a property, its taxable value typically is its purchase price. Each year after that, the property's taxable value is adjusted for inflation by up to 2 percent. When a property changes ownership again, its taxable value is reset to its new purchase price.

Property Taxes Increase When a Property Changes Ownership. The taxable value of most properties is less than what they could be sold for. This is because the price most properties could sell for grows faster than 2 percent per year. Because of this, when a property changes ownership its taxable value often resets to a higher amount. This leads to a higher property tax bill for that property. This means people who move usually end up paying higher property taxes for their new home than they paid for their old home.

Special Rules for Some Homeowners. In some cases, special rules allow existing homeowners to move to a different home without paying higher property taxes. These special rules apply to homeowners who are over 55 or severely disabled or whose property has been impacted by a natural disaster or contamination. We refer to these people as "eligible homeowners." An eligible homeowner can move within the same county and keep paying the same amount of property taxes if their new home is not more expensive than their existing home. Also, certain counties allow these rules to apply when an eligible homeowner moves to their county from another county. Homeowners who are over 55 or severely disabled generally can use these special rules only once in their lifetime. This limit does apply to properties impacted by a natural disaster or contamination.

Special Rules for Inherited Properties. Special rules also allow properties to pass between parents and children without an increase in the property tax bill. These rules also apply to grandparents and grandchildren if the grandchildren's parents are deceased. We call properties passed between parents and children or grandparents and grandchildren "inherited property." The rules apply to a parent's or grandparent's home and a limited amount of other types of property.

Counties Manage the Property Tax. County assessors determine the taxable value of property. County tax collectors bill property owners. County auditors distribute tax revenue to local governments. Statewide, counties spend about \$800 million each year on these activities.

Schools Funding Comes From Both Local Property Taxes and State Taxes. Schools receive funding from both local property taxes and state taxes. State law says that schools must receive a minimum amount of total funding from these two sources.

Proposal

The measure makes changes to the special rules for eligible homeowners and inherited properties.

Expanded Special Rules for Eligible Homeowners. Starting April 1, 2021, the measure expands the special rules for eligible homeowners. Specifically, the measure:

- **Allows Moves Anywhere in the State.** Eligible homeowners could keep their lower property tax bill when moving to another home anywhere in the state.
- **Allows the Purchase of a More Expensive Home.** Eligible homeowners could use the special rules to move to a more expensive home. Their property tax bill would still go up but not by as much as it would be for other homebuyers.
- **Increases Number of Times a Homeowner Can Use the Special Rules.** Homeowners who are over 55 or severely disabled could use the special rules three times in their lifetime.

Narrows the Special Rules for Inherited Properties. Starting February 16, 2021, the measure narrows the special rules for inherited properties. Specifically, the measure:

- **Ends Special Rules for Properties Not Used as a Home or for Farming.** The special rules would apply only to two kinds of inherited property. First, the rules would apply to properties used as a primary home by the child or grandchild. Second, the rules would apply to farms. Properties used for other purposes could no longer use the special rules.
- **Requires Tax Bill to Go Up for High Value Inherited Homes and Farms.** The property tax bill for an inherited home or farm would go up if the price the property could be sold for exceeds the property's taxable value by more than \$1 million (adjusted for inflation every two years). In this case, the tax bill would go up but not as much as it would if the property were sold to someone else.

Dedicates Certain Money for Fire Protection. The measure could make new funding available to the state. We discuss this new funding in the next section. The measure requires that most of the new funds be spent on fire protection. In addition, the measure requires that a smaller part of the new funds be given to certain local governments.

Fiscal Effects

Increased Property Taxes From Narrowed Rules for Inherited Properties. Narrowing the special rules for inherited properties would lead to higher property taxes for some inherited properties. This would increase property taxes for local governments and schools.

Reduced Property Taxes From Expanded Rules for Eligible Homeowners. Expanding the special rules for eligible homeowners could change property tax collections in a few ways. Most importantly, more homeowners could get property tax savings when moving from one home to another. This would reduce property taxes for local governments and schools.

Overall, More Property Taxes for Local Governments and Schools. Some parts of the measure would increase property taxes. Other parts would decrease them. Overall, property taxes for local governments and schools probably would increase. In the first few years, local governments could gain tens of millions of dollars per year. Over time, these revenue gains could grow to a few hundred million dollars per year. Schools could receive similar property tax gains.

Possible Reduction in State Costs for Schools in Some Years. In limited situations, total school funding from property taxes and state taxes could be about the same in some years despite schools' property tax gains. This is because existing state law could cause state funding for schools to decrease by about the same amount as their property tax gains. If this happens, the state would get cost savings in those years. These savings would be a similar amount to school property tax gains. The measure says most of these savings would have to be spent on fire protection.

Other Smaller Changes in Tax Collections. The measure allows more people to buy and sell homes without facing an increased property tax bill. Because of this, the measure probably would increase the number of homes sold each year. This would increase money going to the state and local governments from a number of other taxes collected on the sale of a home. These increases could be in the tens of millions of dollars per year. The measure says most of this increase in state tax revenue would have to be spent on fire protection.

Higher Costs for Counties. Counties probably would need to hire new staff and make computer upgrades to carry out the measure. This would increase costs for counties by **tens of millions of dollars per year**.

YES/NO STATEMENT

A **YES** vote on this measure means: All homeowners who are over 55 (or who meet other qualifications) would be eligible for property tax savings when they move. Only inherited properties used as primary homes or farms would be eligible for property tax savings.

A **NO** vote on this measure means: Some homeowners who are over 55 (or who meet other qualifications) would continue to be eligible for property tax savings when they move. All inherited properties would continue to be eligible for property tax savings.

SUMMARY OF LEGISLATIVE ANALYST'S ESTIMATE OF NET STATE AND LOCAL GOVERNMENT FISCAL IMPACT

- Local governments could gain tens of millions of dollars of property tax revenue per year. These gains could grow over time to a few hundred million dollars per year.
- Schools could gain tens of millions of dollars of property tax revenue per year. These gains could grow over time to a few hundred million dollars per year.
- Revenue from other taxes could increase by tens of millions of dollars per year for both the state and local governments. Most of this new state revenue would be spent on fire protection.

BALLOT LABEL

Fiscal Impact: Local governments could gain tens of millions of dollars of property tax revenue per year, probably growing over time to a few hundred million dollars per year. Schools could receive similar property tax gains.