PROPOSITION

5 CHANGES REQUIREMENTS FOR CERTAIN PROPERTY OWNERS TO TRANSFER THEIR PROPERTY TAX BASE TO REPLACEMENT PROPERTY. INITIATIVE CONSTITUTIONAL AMENDMENT AND STATUTE.

OFFICIAL TITLE AND SUMMARY

PREPARED BY THE ATTORNEY GENERAL

The text of this measure can be found on the Secretary of State's website at *http://voterguide.sos.ca.gov.*

- Removes the following current requirements for homeowners who are over 55 years old or severely disabled to transfer their property tax base to a replacement residence: that replacement property be of equal or lesser value, replacement residence be in specific county, and the transfer occur only once.
- Removes similar replacement-value and location requirements on transfers for contaminated or disaster-destroyed property.
- Requires adjustments to the replacement property's tax base, based on the new property's value.

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

- Schools and other local governments each probably would lose over $100 million in annual property tax revenue in the first few years, growing over time to about $1 billion per year (in today's dollars). Similar increase in state costs to backfill school property tax losses.

ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

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. Property taxes are a major revenue source for local governments, raising over $60 billion per year.

Calculating a Property Owner's Tax Bill. Each property owner's annual property tax bill is equal to the taxable value of his or her property multiplied by the 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 by up to 2 percent. This continues until the property is sold and again is taxed at its purchase price.

Movers Often Face Increased Property Tax Bills. The market value of most homes (what they could be sold for) grows faster than 2 percent annually. This means the taxable value of most homes is less than their market value. Because of this, when a homeowner buys a different home, the purchase price of the new home often exceeds the taxable value of the buyer's prior home (even when the homes have similar market values). This leads to a higher property tax bill for the home buyer.

ANALYSIS BY THE LEGISLATIVE ANALYST CONTINUED

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 homeowners as "eligible homeowners.") When moving within the same county, an eligible homeowner can transfer the taxable value of his or her existing home to a different home if the market value of the new home is the same or less than the existing home. Also, a county government may allow eligible homeowners to transfer their taxable values to homes in the county from homes in different counties. Ten counties allow these transfers. Except in limited cases, homeowners who are over 55 or severely disabled can transfer their taxable value once in their lifetime. The nearby box ("What Happens Under Current Law?") has an example of how these rules work.

Other Taxes on Home Purchases. Cities and counties collect taxes on the transfer of homes and other real estate. Statewide, transfer taxes raise around $1 billion for cities and counties.

Counties Administer the Property Tax. County assessors determine the taxable value of property. Statewide, county spending for assessors' offices totals around $600 million each year.

California Taxes Personal Income. The state collects a personal income tax on income earned within the state. Taxable income can include profits from selling a home. The personal income tax raises over $80 billion each year.

PROPOSAL

Expands Special Rules for Eligible Homeowners. The measure amends the State Constitution to expand the special rules that give property tax savings to eligible homeowners when they buy a different home. Beginning January 1, 2019, the measure:

What Happens Under Current Law?

A 55 year old couple purchased their home 30 years ago for $110,000. Their home's taxable value is now $200,000 ($110,000 increased by 2 percent each year for 30 years). Their yearly property tax bill is $2,200 (1.1 percent of the taxable value). Their home now could be sold for $600,000. The couple is considering moving to one of two different homes.

- ***More Expensive Home.*** The first option is to move to a home that costs $700,000. This move is not eligible for the special rules because the new home is more expensive than the existing home. If the couple made this move, the taxable value of their new home would be $700,000 (the home's purchase price). Their yearly property tax bill would increase to $7,700.
- ***Less Expensive Home.*** The second option is to move to a home that costs $450,000. In this case, the special rules would apply. Their new home's taxable value would be $200,000 (the same as their old home). Their yearly property tax bill would remain $2,200.

- ***Allows Moves Anywhere in the State.*** Eligible homeowners could transfer the taxable value of their existing home to another home anywhere in the state.
- ***Allows the Purchase of a More Expensive Home.*** Eligible homeowners could transfer the taxable value of their existing home (with some adjustment) to a more expensive home. The taxable value transferred from the existing home to the new home is adjusted upward. The new home's taxable value is greater than the prior home's taxable value but less than the new home's market value. An example is shown in the nearby box ("What Happens Under Proposition 5?").
- ***Reduces Taxes for Newly-Purchased Homes That Are Less Expensive.*** When an eligible homeowner moves to a less expensive home, the taxable value transferred from the existing home to the new home is adjusted downward. An example is shown in the nearby box ("What Happens Under Proposition 5?").
- ***Removes Limits on How Many Times a Homeowner Can Use the Special Rules.*** There is no limit on the number of times an eligible homeowner can transfer their taxable value.

What Happens Under Proposition 5?

Using the same couple from the earlier example, their current home has a taxable value of $200,000 and a market value of $600,000. If they move, the taxable value of their new home would be:

- ***More Expensive Home.*** If the couple buys the home for $700,000, the new home's taxable value would be $300,000 (as shown below). Their yearly property tax bill would be $3,300. This is more than they paid at their prior home ($2,200) but much less than they would pay under current law ($7,700).

$$\underbrace{\textbf{\$300,000}}_{\text{New home's taxable value}} = \underbrace{\textbf{\$200,000}}_{\text{Prior home's taxable value}} + \underbrace{\textbf{\$100,000}}_{\text{\$700,000 New home's market value} \; - \; \text{\$600,000 Prior home's market value}}$$

- ***Less Expensive Home.*** If the couple buys the home for $450,000, the new home's taxable value would be $150,000 (as shown below). Their yearly property tax bill would be $1,650. This is less than what they paid at their prior home and what they would pay under current law ($2,200).

$$\underbrace{\textbf{\$150,000}}_{\text{New home's taxable value}} = \underbrace{\textbf{\$200,000}}_{\text{Prior home's taxable value}} \times \underbrace{\textbf{75\%}}_{\text{\$450,000 New home's market value} \; \div \; \text{\$600,000 Prior home's market value}}$$

FISCAL EFFECTS

Reduced Property Tax Revenues to Local Governments. The measure could have multiple effects on property tax revenue:

- ***Reduced Taxes From People Who Would Have Moved Anyway.*** Right now, about 85,000 homeowners who are over 55 move to different houses each year without receiving a property tax break. Most of these movers end up paying higher property taxes. Under the measure, their property taxes would be much lower. This would reduce property tax revenue.
- ***Potentially Higher Taxes From Higher Home Prices and More Home Building.*** The measure would cause more people to sell their homes and buy different homes because it gives

them a tax break to do so. The number of movers could increase by a few tens of thousands. More people being interested in buying and selling homes would have some effect on home prices and home building. Increases in home prices and home building would lead to more property tax revenue.

The revenue losses from people who would have moved anyway would be bigger than the gains from higher home prices and home building. This means the measure would reduce property taxes for local governments. In the first few years, schools and other local governments each probably would lose over $100 million per year. Over time, these losses would grow, resulting in schools and other local governments each losing about $1 billion per year (in today's dollars).

More State Spending for Schools. Current law requires the state to provide more funding to most schools to cover their property tax losses. As a result, state costs for schools would increase by **over $100 million** per year in the first few years. Over time, these increased state costs for schools would grow to **about $1 billion** per year in today's dollars. (This is less than 1 percent of the state budget.)

Increase in Property Transfer Tax Revenues. As the measure would increase home sales, it also would increase property transfer taxes collected by cities and counties. This revenue increase likely would be in the tens of millions of dollars per year.

Increase in Income Tax Revenues. Because the measure would increase the number of homes sold each year, it likely would increase the number of taxpayers required to pay income taxes on the profits from the sale of their homes. This probably would increase state income tax revenues by tens of millions of dollars per year.

Higher Administrative Costs for Counties. County assessors would need to create a process to calculate the taxable value of homes covered by this measure. This would result in one-time costs for county assessors in the **tens of millions of dollars** or more, with somewhat smaller ongoing cost increases.

Visit *http://www.sos.ca.gov/campaign-lobbying/cal-access-resources/measure-contributions/2018-ballot-measure-contribution-totals/* for a list of committees primarily formed to support or oppose this measure. Visit *http://www.fppc.ca.gov/transparency/top-contributors/nov-18-gen.html* to access the committee's top 10 contributors.

If you desire a copy of the full text of the state measure, please call the Secretary of State at (800) 345-VOTE (8683) or you can email *vigfeedback@sos.ca.gov* and a copy will be mailed at no cost to you.

★ ARGUMENT IN FAVOR OF PROPOSITION 5 ★

PROP. 5 GIVES ALL SENIORS (55+) AND SEVERELY DISABLED THE RIGHT TO MOVE WITHOUT PENALTY

PROP. 5, the Property Tax Fairness Initiative, eliminates the "moving penalty" that exists today in order to protect seniors (55+) and severely disabled people who want to move to safer, more practical homes or closer to their families. PROP. 5 limits the property tax penalties they could face if they purchase another home in any county of the state.

PROP. 5 ELIMINATES MOVING CHALLENGES FOR SENIORS (55+)

Millions of California seniors live in homes that are inadequate for their needs—whether too big, too many stairs, or simply too far away from their family and loved ones. Under PROP. 5, senior homeowners (age 55+) would be able to transfer their home's current taxable value, no matter where in the state they might choose to move.

PROP. 5 EMPOWERS RETIREES LIVING ON FIXED INCOMES

Most retirees live on a fixed income, often from a pension and/or Social Security. PROP. 5 eliminates the possibility of a 100%, 200%, or even 300% increase in property taxes that retired teachers, firefighters, police, and other retirees often have to pay if they want to sell their current home to buy another one somewhere else in California.

PROP. 5 PROTECTS AGAINST PROPERTY TAX BASE "MOVING PENALTY"

Under current California law, property taxes are capped at a small percentage of the value of the property when purchased. This becomes known as the property's "tax base." In addition, there is a limit on how much property taxes can increase annually. Seniors and the severely disabled are often on fixed incomes and can't afford large property tax increases. But if they choose to move to a new home, their "tax base" will often increase dramatically due to the rise in home prices over the past several decades. PROP. 5 protects these Californians from this "moving penalty" by allowing them to keep a lower, fairer tax base.

PROP. 5 EXTENDS THE BENEFITS OF PROP. 13, BRINGS TAX STABILITY AND PEACE OF MIND

PROP. 5 eliminates the "moving penalty" that exists today that is contributing to the housing shortage in California. Just as Prop. 13 (1978) prevented millions of seniors from being taxed out of their homes, PROP. 5 will help millions more today. PROP. 5 will help alleviate the housing shortage and will bring tax stability and peace of mind for millions of middle-class and working-class families throughout California.

PROP. 5 EMPOWERS SEVERELY DISABLED PEOPLE TRAPPED IN INADEQUATE HOMES

Many severely disabled people in California live in homes that are no longer safe or practical for them, but they cannot afford to move because their property taxes could skyrocket if they buy a new home elsewhere in California. This could happen even if they move to a less expensive home. Under PROP. 5, severely disabled homeowners would be able to move to more suitable homes without being subjected to the "moving penalty."

PENNY LILBURN, Executive Director
Highland Senior Center

KYLE MILES, Commander
AMVETS Department of California

SUSAN CHANDLER, President
Californians for Disability Rights, Inc.

★ REBUTTAL TO ARGUMENT IN FAVOR OF PROPOSITION 5 ★

PROP. 5 DOES NOTHING TO HELP MOST LOW-INCOME SENIORS BUT DOES HELP CORPORATE REAL ESTATE INTERESTS WHO ARE FUNDING IT.

Real estate interests behind Prop. 5 are trying to scare seniors with lies. Current law *already* allows seniors and severely disabled taxpayers to keep a property tax break when they move. Prop. 5 is different—it's a new tax break for the highest incomes who keep buying bigger, more expensive homes after 55.

"How dare real estate interests use seniors and people with disabilities as pawns to sell more, expensive homes," said Gary Passmore, President of Congress of California Seniors. "Seniors can already retire on their home equity without any 'moving penalty.' They made that up. Vote NO on Prop. 5!"

Prop. 5 puts fire protection, health care, and our schools at risk because it drains upwards of $1 BILLION from cities and counties.

Younger Californians struggle to purchase their first homes. Many seniors, people with disabilities, and families cannot afford a safe apartment. It's wrong for the real estate interests behind this measure to make housing even MORE EXPENSIVE.

"As a retired teacher, I'm worried about paying my mortgage and holding on to some of my retirement to help my kids. Prop. 5 isn't going to help me at all, and they shouldn't say it will," said retired elementary school teacher Melinda Dart.

Prop. 5 is opposed by teachers, nurses, firefighters, and housing and senior advocates because it's a scam. Please join us in voting NO on 5.

NAN BRASMER, President
California Alliance for Retired Americans

HELEN L. HUTCHISON, President
League of Women Voters of California

TIM GAGE, Former Director
California Department of Finance

★ ARGUMENT AGAINST PROPOSITION 5 ★

VOTE NO ON PROP. 5

We urge a NO on Prop. 5 for one simple reason. We have a terrible affordable-housing crisis in California, and Prop. 5 will do NOTHING to make this crisis better.

What Prop. 5 will do:

- Prop. 5 will further raise the cost of housing.
- Prop. 5 will lead to hundreds of millions of dollars and potentially $1 billion in local revenue losses to our public schools.
- Prop. 5 will cost local services, including fire, police, and health care, up to $1 billion in revenue losses.
- Prop. 5 gives a huge tax break to wealthy Californians.
- Prop. 5 gives a huge windfall to the real estate industry, the ONLY sponsor of the initiative.

We urge a No on Prop. 5 because of what it does NOT do:

- It does NOT build any new housing.
- It does NOT help first-time homebuyers.
- It does NOT bring down the cost of rent.
- It does NOT address homelessness.

Housing advocates are clear: "Prop. 5 does nothing for affordable housing, and will even make the current situation worse," says Shamus Roller of the National Housing Law Project, a champion for affordable housing.

For the last 30 years, older homeowners who move to a smaller and less expensive house have been able to bring their current property tax with them, an encouragement to leave a larger and more expensive home to a younger family. These homeowners can do this *once* in their lifetime. This was an extension of Prop. 13.

But Prop. 5 changes this equation. If it's passed, a homeowner over 55 can use their tax break to keep buying more expensive houses, over and over, anywhere in California. Meanwhile, younger, first-time home buyers with less income will face higher housing prices, and renters will have an even harder time becoming homeowners.

The nonpartisan California Legislative Analyst says Prop. 5 will cause massive revenue losses at the local level. That's why firefighters, teachers, and nurses all say No on Prop. 5. This initiative will result in reductions to critical public services including fire protection, police protection, and health care. Public school funding comes primarily from local property taxes. Prop. 5 means less local revenue for our public schools.

"Fighting the wildfires that have plagued our communities in the past few years requires more—not less—local resources. We just can't afford Prop. 5," says Brian Rice, President of California Professional Firefighters.

The real estate interests who cynically paid to put Prop. 5 on the ballot have decided to pit some homeowners against others. Why? You'll have to ask them. But we think it must have something to do with their profits.

We can't afford Prop. 5. Please join us in voting No.

Learn more at *www.noprop5.com*

CAROL KIM, Board Member
Middle Class Taxpayers Association

SHAMUS ROLLER, Executive Director
National Housing Law Project

GARY PASSMORE, President
Congress of California Seniors

★ REBUTTAL TO ARGUMENT AGAINST PROPOSITION 5 ★

PROP. 5 HELPS CALIFORNIANS WHO WANT THE OPPORTUNITY TO MOVE

Prop. 5, the *Property Tax Fairness Initiative*, eliminates the "moving penalty" that currently hurts millions of seniors (55+) and severely disabled Californians who feel trapped in a home they no longer want or that is not right for their needs.

Prop. 5 allows these older Californians to sell their current home and purchase a new primary residence—without facing this property tax "moving penalty." Prop. 5 frees up desperately needed housing for other families, including first-time homebuyers and renters.

PROP. 5 DOES NOT RAISE THE COST OF HOUSING

Nothing in this initiative raises the cost of housing.

PROP. 5 DOES NOT TAKE FUNDING AWAY FROM PUBLIC SAFETY

Nothing in this initiative takes funding away from fire departments, police, or healthcare.

PROP. 5 DOES NOT TAKE FUNDING AWAY FROM PUBLIC SCHOOLS

Nothing in this initiative takes funding away from public schools.

CALIFORNIA'S LEADING ECONOMISTS SAY PROP. 5 WILL INCREASE STATE REVENUES

An economic review of Prop. 5 conducted by two of the top economists in the state concluded that allowing seniors, the severely disabled, and disaster victims to move would likely increase tax revenues and provide more funds for vital public services.

If seniors can move to a new primary residence that better fits their needs (such as downsizing after children move away), their old homes will generate more tax revenue once sold to new buyers.

MARILYN MARKHAM, Board Member
California Senior Advocates League

TOM CAMPBELL, Ph.D., Professor of Economics

MICHAEL C. GENEST, Former Director
California Department of Finance