

Date of Hearing: May 11, 2022

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Chris Holden, Chair

AB 1933 (Friedman) – As Amended April 20, 2022

Policy Committee:	Revenue and Taxation	Vote:	9 - 0
	Housing and Community Development		8 - 0

Urgency: No State Mandated Local Program: Yes Reimbursable: Yes

SUMMARY:

This bill expands, for lien dates beginning January 1, 2023, and before January 1, 2028, the property tax welfare exemption to nonprofit corporations organized for the specific and primary purpose of building and rehabilitating single-family or multi-family residential units, if the units are subject to recorded agreements to be affordable, owner-occupied and sold only to low-income families that are first-time homebuyers. Specifically, this bill:

- 1) Extends the exemption to cover the period when there is no unit on the property because the allowable unit is in the course of construction and requires the nonprofit claiming the exemption to sign an affidavit under penalty of perjury affirming to the county assessor that the property is for future construction of the allowable unit.
- 2) Declares the objective of the exemption and requires the State Board of Equalization (BOE) to annually collect and report to the Legislature, beginning June 1, 2025, data from county assessors, provided by nonprofits claiming the exemption, quantifying the number of tax-exempt units created and the value of the exemption.
- 3) Specifies that the state shall not reimburse any local agency for lost property tax revenues.

FISCAL EFFECT:

- 1) Initial annual property tax revenue loss of an unknown amount, but likely in excess of \$300,000 (General Fund (GF) costs of approximately \$150,000). Although property tax is a local government revenue source, reductions in property tax revenues, in turn, increase GF Proposition 98 spending by up to roughly 50 percent (the exact amount depends on the specific amount of the annual Proposition 98 guarantee).

Revenue loss depends on how many nonprofits would claim the welfare exemption and the number, length of construction and taxable value of units built. For example, this bill's sponsor shared information with BOE about 11 housing development projects in Los Angeles County built since 2005, for which the sponsor paid \$130,575 in property taxes, which would be exempt under this bill.

However, over time, annual property tax revenue gain is likely, since built units would be sold to homebuyers subject to property tax. For example, this bill's sponsor estimates the sample of 11 housing development projects has resulted in \$233,785 in property tax revenue, for a net gain of \$103,210.

- 2) Minor and absorbable costs to BOE to update claims forms and informational materials, and report specified data to the Legislature.
- 3) By requiring county recorders to receive new affordability agreements and county assessors to receive affidavits from specified nonprofits claiming the welfare exemption and report data to BOE, this bill likely imposes a state-mandated local program with costs of an unknown amount to the state. Although recorders and assessors could potentially charge fees to cover costs, to the extent the Commission on State Mandates determines the provisions of this bill create a new program or impose a higher level of service on counties, a county could claim reimbursement of those costs.

COMMENTS:

- 1) **Purpose.** According to the author, incentivizing nonprofits to build single-family homes will help address California's annual housing deficit of 180,000 homes, leading to more houses, stable families and safer communities. The author notes, "AB 1933 is also a measure that will pay for itself over time as the homeowners begin to pay property taxes, and the non-profit can use the exemption to build even more units." This bill is sponsored by Heritage Housing Partners and supported by the Los Angeles County Office of the Assessor and other housing organizations.
- 2) **Welfare Exemption.** The California Constitution authorizes the Legislature to exempt from taxation property used exclusively for religious, hospital or charitable purposes. This "welfare exemption" extends to low-income housing developments operated by non-profit organizations, if financed with tax-exempt bonds, government loans, grants or the Low-Income Housing Tax Credit. The benefit is equal to the percentage of the value of the property that is representative of the percentage of units serving lower-income households.

Existing law extends the welfare exemption to property owned and operated by a nonprofit corporation, if the property is used for the rehabilitation or construction of housing sold to a low-income homebuyer and financed with a zero-interest rate loan. This specific application of the welfare exemption relates to the affordability model utilized by Habitat for Humanity. This bill extends the welfare exemption to nonprofits selling housing to homebuyers paying interest on a conventional mortgage, if the home unit is subject to a 45-year recorded agreement that the unit will be owner-occupied, sold at an affordable housing cost and purchased by low-income first-time homebuyers with an initial down payment of 5% or less of the unit's market value.

- 3) **Scope of this Bill?** As noted in the Assembly Revenue and Taxation Committee's analysis of this bill, unlike previous legislation that extended the welfare exemption to community land trust property that does not yet include a residence, "this bill fails to address the circumstance in which a nonprofit corporation does not expeditiously construct or rehabilitate housing...after what period [should] the nonprofit no longer be entitled to this bill's exemption?" Additionally, this bill allows a prorated exemption for portions of a mixed-used development that otherwise qualify for the exemption. However, "this bill does not specify how the exemption should be applied to the underlying land....[should] the county assessor have to prorate the land's exemption and offer escape assessments on the portions of the property that do not qualify for the exemption?" Lastly, this bill subjects a nonprofit claiming the exemption to an annual independent audit to ensure a unit's buyers meet the requirements of the exemption. Although the nonprofit must make the audit

available upon request to the local government with jurisdiction over the property and the Department of Housing and Community Development (HCD), it is unclear whether this requirement would be self-enforced or whether it is incumbent on the local government or HCD to commission the audit. It is also unclear what the consequences may be if the nonprofit is not audited.

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