

1978

## Taxation - Rehabilitated Property

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## Official Title and Summary Prepared by the Attorney General

**TAXATION—REHABILITATED PROPERTY—LEGISLATIVE CONSTITUTIONAL AMENDMENT.** Adds Constitution, article XIII, section 44, to give Legislature power to exempt from taxation all or portion of full value of a qualified rehabilitated residential dwelling, as defined by Legislature, for five fiscal years following rehabilitation of such dwelling. Exemption shall be amount equal to full value of such rehabilitation up to maximum amount specified by Legislature, and shall be applied only to that portion of full value attributable to such rehabilitation which exceeds full value of dwelling before rehabilitation. Financial impact: Would cause minor increase in state costs. Net effect of exemption on local revenues cannot be predicted.

## FINAL VOTE CAST BY LEGISLATURE ON SCA 29 (PROPOSITION 10)

Assembly—Ayes, 70	Senate—Ayes, 27
Noes, 2	Noes, 0

## Analysis by Legislative Analyst

**Background:**

There is no provision in the California Constitution that allows the Legislature to exempt from local property taxation the increased value of a residential dwelling that results from rehabilitation.

**Proposal:**

This proposal would authorize the Legislature to exempt from property taxes all or a portion of the *increase* in value resulting directly from the rehabilitation of certain residential dwellings. The exemption would be for the five fiscal years following rehabilitation. The Legislature would be permitted to define which rehabilitated residential dwellings would be eligible for this exemption and to establish a maximum dollar limit on the exemption.

**Fiscal Effect:**

By itself, this proposal would not have any fiscal effect because it only authorizes the Legislature to enact an exemption. However, legislation has been enacted (Chapter 1183, Statutes of 1977) granting an exemption of up to \$15,000 of full market value (\$3,750 of assessed value) for five years, and this legislation will become operative if this amendment is approved by the voters. Dwellings eligible for the exemption under Chapter 1183 are defined as any residential structure of one or more dwelling units which is in an area designated by a governmental agency as a target area for: (1) federal community development block grants, (2) local

neighborhood improvement programs, (3) state neighborhood preservation programs, or (4) historic preservation programs. Rehabilitation is defined in Chapter 1183 as repairs or improvements which will make such dwellings decent, safe and sanitary and which are necessary in order for such dwellings to meet state and local building and housing standards.

Given enactment of Chapter 1183, this proposal would cause a minor increase in state costs because the state would have to reimburse local governments for the administrative costs associated with administering the tax exemption program. The legislation provides that the state will *not* reimburse local governments for revenue losses, if any, resulting from the exemption.

The rehabilitation value added as a result of this proposition, if any, would be tax exempt for five years. At the end of five years it would become taxable and would increase local government revenues.

Any value added as a result of rehabilitation which qualifies for this exemption but which would have taken place without this proposal would also be tax exempt for five years. This would result in a tax loss to local governments. At the end of the five years this value would become taxable and this tax loss would stop.

How much rehabilitation would occur with or without this proposal is unknown and, therefore, the net effect of the exemption on local revenues cannot be predicted.

## Text of Proposed Law

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This amendment proposed by Senate Constitutional Amendment No. 29 (Statutes of 1977, Resolution Chapter 99) expressly adds a section to the Constitution; therefore, provisions proposed to be added are printed in *italic type* to indicate that they are new.

### **PROPOSED AMENDMENT TO ARTICLE XIII**

*SEC. 44. The Legislature may exempt from taxation all or a portion of the full value of a qualified rehabilitated residential dwelling, as defined by the Legislature, for the five fiscal years following the rehabilitation of such dwelling. Such exemption shall be an amount equal to the full value of such rehabilitation up to the maximum amount specified by the Legislature, and shall be applied only to that portion of the full value attributable to such rehabilitation which exceeds the full value of the dwelling before rehabilitation.*

**Apply for Your Absentee Ballot Early**

## Argument in Favor of Proposition 10

Have you decided not to repair or renovate your home or apartment because you fear the result will be a tax increase?

People are often discouraged from improving or renovating their property because of the fear that the assessor will increase the taxes on their homes. That fear is one of the main reasons that people are reluctant to make needed repairs or improvements. The result of the present tax system is that residences are not properly maintained and neighborhoods decline. We don't believe that people ought to be penalized for fixing up their homes.

Your "yes" vote on Proposition 10 will prevent automatic increases in property taxes due to basic repairs and renovations made to homes and apartments in neighborhoods designated by local government. Major areas have already been designated under existing housing rehabilitation programs.

In 1977, the Legislature passed implementing legislation which provides for the tax exemption. Your vote will make the exemption a reality.

Proposition 10 will allow the Legislature to change the present property tax system for rehabilitated properties and will hopefully remove one barrier to decent housing that homeowners now face. Proposition 10 will also apply to apartments so that it will be easier for landlords to repair their properties and so that renters will be able to live in better housing.

The new taxing method authorized by Proposition 10 will work like this:

If your local government designates your neighborhood as a neighborhood rehabilitation area, you will be able to get this exemption. In these neighborhoods, the owner of the building will not be taxed for the value of basic improvements for five years. This means that up to \$15,000 of the value of the property will not be taxed for five years. For a \$40,000 house, improvements valued at \$10,000 would result in property tax savings over five years of approximately \$1,400.

There is a growing housing crisis in this state and we need to save every piece of housing stock we have. We must encourage as much upkeep and repair of existing residences as possible. This will not happen unless property owners can be reassured that they will not be penalized through higher taxes for money they spend fixing up their homes.

Your "yes" vote on Proposition 10 will help take this burden from property owners and will encourage the revitalization of our neighborhoods.

**MILTON MARKS**  
*Member of the Senate, 5th District*

**PAT RUSSELL**  
*Councilwoman, City of Los Angeles*

**JOHN F. HENNING**  
*Executive Secretary/Treasurer,  
California Labor Federation AFL-CIO*

## Rebuttal to Argument in Favor of Proposition 10

The proponents of this measure say, "If your local government designates your neighborhood as a neighborhood rehabilitation area, you will be able to get this exemption."

This means that the exemption will *only* be available where *government* has made a decision. The decision to improve, repair or refurbish should not have to depend on what some bureaucrat decides needs to be done.

Individual citizens should be deciding when to repair or refurbish. The decision to do so will be encouraged if overall taxes are reduced. This reduction will come about if we adopt Proposition 13 on this ballot so that property taxes will not exceed 1% of the fair market value of real property.

**WILLIAM E. DANNEMEYER**  
*Member of the Assembly, 69th District*

## Argument Against Proposition 10

Every American, with any kind of a conscience, irrespective of status, wants a decent home for all of our people. The real question is, will this proposed exemption from tax for the value of an improvement, for not more than \$15,000, for five years, help achieve this objective? I don't think so, for the reason that this proposal is attacking a symptom, not the basic cause of the failure of many Californians to improve their residences.

The cost factors which enter into determining the price of housing are: land, materials, labor, government regulations, taxes and credit. All of these factors have increased in the course of the past 30 years.

California residents pay the third highest amount for *State* and *Local* taxes per capita (\$964) in the nation. We rank #4 in *Local* property taxes per capita among the States of the Union (\$415). In 1952, the State collected \$4.36 in State taxes for each \$100 of personal income. In 1978, this figure is proposed to almost double, to \$8.52 for each \$100 of personal income.

The point is this. Tax increases and government regulations continue to eat away at more and more of what we earn. For all levels of government, local, county, state and federal, government taxes about 45% of all that we earn. This level of taxation is slowly but surely strangulating our economic system and deterring people from risking new ventures.

The answer is not to adopt a band aid approach for what appears to be a good objective, but to reduce all

taxes at the local level. This would be achieved through Proposition 13, also on the primary ballot. A 1% limitation on local property taxes will have the beneficial effect of permitting all people, young and old alike, to continue to own their own homes. The way things are going now, local property taxes are driving people out of their residences after working all their lives to pay for them. The tax structure should serve as an inducement for families to own their own homes, not be driven out of them.

If we set up a special exemption for refurbishing a home, we will need more bureaucrats to administer the new program and monitor it.

The growth of government employees in the past twenty-six years is staggering. In 1950, there were 5.7 million of these bureaucrats. Ten years later, there were 7.9 million. In 1970, there were 11.35 million, and in 1975, 13.03 million. For every four workers in the private sector, there is one public employee working for federal, state or local government.

We don't need an exemption from too high property taxes to induce people to fix up their homes. What we do need is a reduction in real property taxes in general. This will permit the taxpayer to decide where he wants to spend his money, rather than permit that decision to be made by government for him.

**WILLIAM E. DANNEMEYER**  
*Member of the Assembly, 69th District*

## Rebuttal to Argument Against Proposition 10

A tax exemption for the rehabilitation of homes and apartments will be needed whether or not any of the other ballot propositions pass. Consider Proposition 10 on its own merits. Don't be misled by the argument against Proposition 10.

The uncertainty is too great. Proposition 10 will provide tax relief for people who want to improve their homes, apartments and neighborhoods.

Our objective is a simple one—the property tax system should not penalize those people who wish to fix up their homes. Passage of Proposition 10 will encourage people to repair and rehabilitate their homes and apartments. It will help homeowners and renters.

This measure was placed on the ballot by the Legislature and was supported by Democrats and

Republicans. It passed both houses of the Legislature by overwhelming votes because it will reduce taxes. It was supported by business, labor and neighborhood improvement organizations.

Don't take chances—California needs the kind of property tax relief which will help stem the tide of decay in our residential neighborhoods.

We urge you to vote "yes" on Proposition 10.

**MILTON MARKS**  
*State Senator, 5th District*

**PAT RUSSELL**  
*Councilwoman, City of Los Angeles*

**JOHN F. HENNING**  
*Executive Secretary/Treasurer,  
California Labor Federation AFL-CIO*